

# **OAO Severstal and subsidiaries**

Consolidated financial statements  
for the years ended December 31, 2012, 2011 and 2010

**OA0 Severstal and subsidiaries**  
**Consolidated financial statements**  
**Years ended December 31, 2012, 2011 and 2010**

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## **Auditors' Report**

To the Shareholders and Board of Directors

OA O Severstal

We have audited the accompanying consolidated financial statements of OA O Severstal (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2012, 2011 and 2010, and the consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for 2012, 2011 and 2010, 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: OA O Severstal

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

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

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

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a 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 2012, 2011 and 2010, and its financial performance and its cash flows for 2012, 2011 and 2010 in accordance with International Financial Reporting Standards.



Mr. Altukhov K.V., Director, power of attorney dated 1 October 2010 No. 24/10

ZAO KPMG

4 March 2013

Moscow, Russian Federation

# OAO Severstal and subsidiaries

## Consolidated income statements

**Years ended December 31, 2012, 2011 and 2010**

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

	Note	Year ended December 31,		
		2012	2011	2010
<b>Revenue</b>				
Revenue - third parties		13,915,605	15,573,090	12,756,783
Revenue - related parties	10	188,101	239,310	62,335
	4	14,103,706	15,812,400	12,819,118
Cost of sales		(10,785,292)	(10,903,222)	(8,716,766)
<b>Gross profit</b>				
General and administrative expenses		(754,613)	(725,043)	(585,043)
Distribution expenses		(1,048,395)	(1,101,191)	(990,727)
Other taxes and contributions		(134,266)	(145,854)	(136,572)
Share of associates' and joint ventures' profit		1,993	7,319	20,361
Loss on remeasurement and disposal of financial investments	6	(6,581)	(4,652)	(146,322)
Loss on disposal of property, plant and equipment and intangible assets		(25,962)	(20,939)	(42,790)
Net other operating income/(expenses)		20,243	(1,461)	(15,953)
<b>Profit from operations</b>				
(Impairment)/reversal of impairment of non-current assets	7	(54,117)	438	(80,130)
Net other non-operating expenses	8	(70,536)	(65,381)	(43,599)
<b>Profit before financing and taxation</b>				
Interest income		68,169	49,681	100,595
Interest expense		(440,938)	(436,141)	(617,785)
Foreign exchange differences		163,510	(36,980)	109,736
<b>Profit before income tax</b>				
Income tax expense	9	(263,485)	(466,012)	(427,306)
<b>Profit from continuing operations</b>				
Profit/(loss) from discontinued operations	27	46,363	210,773	(1,761,396)
<b>Profit/(loss) for the period</b>				
		819,799	2,173,735	(514,579)
Attributable to:				
shareholders of OAO Severstal		761,962	2,034,833	(574,914)
non-controlling interests		57,837	138,902	60,335
Basic weighted average number of shares outstanding during the period (millions of shares)	26	839.8	1,005.2	1,005.2
Basic earnings/(loss) per share (US dollars)		0.91	2.02	(0.57)
Basic earnings per share - continuing operations (US dollars)		0.87	1.89	1.22
Basic earnings/(loss) per share - discontinued operations (US dollars)		0.04	0.13	(1.79)
Diluted weighted average number of shares outstanding during the period (millions of shares)	26	846.4	1,005.2	1,005.2
Diluted earnings/(loss) per share (US dollars)		0.91	2.02	(0.57)
Diluted earnings per share - continuing operations (US dollars)		0.88	1.89	1.22
Diluted earnings/(loss) per share - discontinued operations (US dollars)		0.03	0.13	(1.79)

These consolidated financial statements were approved by the Board of Directors on February 28, 2013.

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, 2012, 2011 and 2010

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

	Year ended December 31,		
	2012	2011	2010
<b>Profit/(loss) for the period</b>	819,799	2,173,735	(514,579)
<b>Other comprehensive income/(loss)</b>			
Foreign exchange differences	276,553	(407,245)	(242,832)
Changes in fair value of cash flow hedges	2,303	1,109	-
Deferred tax on changes in fair value of cash flow hedges	(405)	(120)	-
Changes in fair value of available-for-sale financial assets	4,503	(20,158)	50,876
Deferred tax on changes in fair value of available-for-sale financial assets	(380)	4,850	(7,626)
Actuarial losses	(32,645)	(8,884)	(14,886)
Reclassification of the Gold segment's reserves to profit/(loss) from discontinued operations (Note 27)	(76,089)	-	-
<b>Other comprehensive income/(loss) for the period, net of tax</b>	173,840	(430,448)	(214,468)
<b>Total comprehensive income/(loss) for the period</b>	993,639	1,743,287	(729,047)
Attributable to:			
shareholders of OAO Severstal	921,155	1,628,462	(801,730)
non-controlling interests	72,484	114,825	72,683

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

# OAO Severstal and subsidiaries

## Consolidated statements of financial position

December 31, 2012, 2011 and 2010

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

	Note	December 31, 2012	December 31, 2011	December 31, 2010
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	12	1,726,275	1,863,538	2,012,662
Short-term bank deposits	13	-	-	12,690
Short-term financial investments	14	23,778	10,500	27,463
Trade accounts receivable	15	1,040,567	1,219,961	967,837
Accounts receivable from related parties	11	15,468	27,349	12,359
Restricted financial assets		-	-	41,313
Inventories	16	2,352,898	2,519,154	2,369,134
VAT recoverable		214,419	193,885	279,626
Income tax recoverable		21,169	90,916	39,578
Other current assets	17	302,120	327,163	298,183
Assets held for sale	27	-	2,677,310	3,509,882
<b>Total current assets</b>		<u>5,696,694</u>	<u>8,929,776</u>	<u>9,570,727</u>
<b>Non-current assets:</b>				
Long-term financial investments	18	108,060	182,262	204,542
Investments in associates and joint ventures	19	316,503	301,315	158,564
Property, plant and equipment	20	8,462,711	7,463,394	7,299,849
Intangible assets	21	820,935	770,454	1,930,942
Restricted financial assets		32,970	22,638	61,714
Deferred tax assets	9	100,796	99,651	103,777
Other non-current assets		168,546	140,301	78,266
<b>Total non-current assets</b>		<u>10,010,521</u>	<u>8,980,015</u>	<u>9,837,654</u>
<b>Total assets</b>		<u><u>15,707,215</u></u>	<u><u>17,909,791</u></u>	<u><u>19,408,381</u></u>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities:</b>				
Trade accounts payable		1,057,621	1,115,110	897,389
Accounts payable to related parties	11	36,234	1,583,031	16,717
Short-term debt finance	22	1,382,128	1,185,467	1,423,551
Income taxes payable		16,604	28,086	41,230
Other taxes and social security payable		152,590	141,353	156,078
Dividends payable		86,538	111,208	17,131
Other current liabilities	23	637,947	655,420	554,577
Liabilities related to assets held for sale	27	-	550,123	3,272,354
<b>Total current liabilities</b>		<u>3,369,662</u>	<u>5,369,798</u>	<u>6,379,027</u>
<b>Non-current liabilities:</b>				
Long-term debt finance	22	4,327,412	4,790,631	4,722,926
Deferred tax liabilities	9	338,078	287,126	515,071
Retirement benefit liabilities	24	201,552	161,734	164,555
Other non-current liabilities	25	255,268	233,179	277,149
<b>Total non-current liabilities</b>		<u>5,122,310</u>	<u>5,472,670</u>	<u>5,679,701</u>
<b>Equity:</b>				
Share capital	26	2,752,728	3,311,288	3,311,288
Treasury shares		(235,657)	(1,586,293)	(26,303)
Additional capital		315,922	1,165,530	1,165,530
Foreign exchange differences		(411,658)	(642,228)	(297,219)
Retained earnings		4,767,325	4,386,461	2,805,232
Other reserves		5,800	44,738	76,411
<b>Total equity attributable to shareholders of OAO Severstal</b>		<u>7,194,460</u>	<u>6,679,496</u>	<u>7,034,939</u>
<b>Non-controlling interests</b>		<u>20,783</u>	<u>387,827</u>	<u>314,714</u>
<b>Total equity</b>		<u>7,215,243</u>	<u>7,067,323</u>	<u>7,349,653</u>
<b>Total equity and liabilities</b>		<u><u>15,707,215</u></u>	<u><u>17,909,791</u></u>	<u><u>19,408,381</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, 2012, 2011 and 2010**

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

	Year ended December 31,		
	2012	2011	2010
<b>Operating activities:</b>			
Profit before financing and taxation	1,246,180	2,852,414	2,081,577
Adjustments to reconcile profit to cash generated from operations:			
Depreciation and amortization	726,045	646,821	615,979
Impairment/(reversal of impairment) of non-current assets (Note 7)	54,117	(438)	80,130
Movements in provision for inventories, receivables and other provisions	128,333	34,295	9,684
Loss on disposal of property, plant and equipment and intangible assets	25,962	20,939	42,790
Gain on disposal of subsidiaries and associates (Note 28)	(9,873)	(21,033)	-
Loss on remeasurement and disposal of financial investments (Note 6)	6,581	4,652	146,322
Share of associates' and joint ventures' results less dividends from associates and joint ventures	6,839	16,176	(8,661)
Changes in operating assets and liabilities:			
Trade accounts receivable	228,989	(280,836)	(156,036)
Amounts receivable from related parties	1,340	(59,578)	15,001
VAT recoverable	(39,866)	42,708	(48,884)
Inventories	153,922	(535,842)	(431,073)
Trade accounts payable	(155,580)	272,951	130,238
Amounts payable to related parties	(198)	11,290	197
Other taxes and social security payable	7,841	22,882	22,611
Other non-current liabilities	(8,342)	3,335	(621)
Assets held for sale	-	7,242	(3,378)
Net other changes in operating assets and liabilities	2,035	94,406	(94,695)
<b>Cash generated from operations</b>	<b>2,374,325</b>	<b>3,132,384</b>	<b>2,401,181</b>
Interest paid	(424,322)	(441,295)	(551,884)
Income tax paid	(191,391)	(514,150)	(309,983)
Net cash from operating activities - continuing operations	1,758,612	2,176,939	1,539,314
Net cash (used in)/from operating activities - discontinued operations	(8,253)	402,496	(280,140)
<b>Net cash from operating activities</b>	<b>1,750,359</b>	<b>2,579,435</b>	<b>1,259,174</b>
<b>Investing activities:</b>			
Additions to property, plant and equipment	(1,336,450)	(1,609,493)	(1,011,870)
Additions to intangible assets	(111,729)	(106,722)	(63,552)
Net decrease/(increase) in short-term bank deposits	-	13,150	(46,661)
Additions to financial investments and associates	(103,920)	(40,619)	(211,125)
Net cash outflow on acquisitions of subsidiaries (Note 28)	-	-	(7,535)
Net cash inflow from disposals of subsidiaries (Note 28)	-	96,994	118,647
Proceeds from disposal of property, plant and equipment	8,762	16,722	5,910
Proceeds from disposal of financial investments	364,262	7,892	169,430
Interest received	105,825	44,236	96,889
Dividends received	13,742	28,435	-
Cash used in investing activities - continuing operations	(1,059,508)	(1,549,405)	(949,867)
Cash used in investing activities - discontinued operations	(42,518)	(352,115)	(549,399)
<b>Cash used in investing activities</b>	<b>(1,102,026)</b>	<b>(1,901,520)</b>	<b>(1,499,266)</b>
<b>Financing activities:</b>			
Proceeds from debt finance	2,825,787	2,000,414	3,478,424
Repayment of debt finance	(3,098,195)	(2,010,250)	(3,218,308)
Repayments under lease obligations	(4,542)	(8,020)	(4,323)
Dividends paid	(344,396)	(380,162)	(130,068)
Repurchase of issued shares	(19,874)	-	-
Acquisitions of non-controlling interests	(193,883)	(3,020)	(113,297)
Disposal of non-controlling interests	-	-	5,744
Contributions from non-controlling interests	-	13,610	-
Cash (used in)/from financing activities - continuing operations	(835,103)	(387,428)	18,172
Cash used in financing activities - discontinued operations	-	(151,626)	(306,053)
<b>Cash used in financing activities</b>	<b>(835,103)</b>	<b>(539,054)</b>	<b>(287,881)</b>
Effect of exchange rates on cash and cash equivalents	7,339	(70,852)	(104,719)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(179,431)</b>	<b>68,009</b>	<b>(632,692)</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)	(208,022)
<b>Cash and cash equivalents at beginning of the period</b>	<b>1,863,538</b>	<b>2,012,662</b>	<b>2,853,376</b>
<b>Cash and cash equivalents at end of the period</b>	<b>1,726,275</b>	<b>1,863,538</b>	<b>2,012,662</b>

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, 2012, 2011 and 2010

*(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	Foreign exchange differences	Retained earnings	Other reserves	Total		
Balances at December 31, 2009	3,311,288	(26,303)	1,165,530	(52,478)	3,436,270	43,600	7,877,907	498,432	8,376,339
Loss for the period	-	-	-	-	(574,914)	-	(574,914)	60,335	(514,579)
Foreign exchange differences	-	-	-	(244,741)	-	-	(244,741)	1,909	(242,832)
Other comprehensive (loss)/income	-	-	-	-	(14,886)	37,242	22,356	13,634	35,990
Deferred tax on other comprehensive (loss)/income	-	-	-	-	-	(4,431)	(4,431)	(3,195)	(7,626)
Total comprehensive (loss)/income for the period	-	-	-	(244,741)	(589,800)	32,811	(801,730)	72,683	(729,047)
Dividends	-	-	-	-	(140,963)	-	(140,963)	-	(140,963)
Effect of acquisitions and disposals without a change in control	-	-	-	-	99,725	-	99,725	(550,796)	(451,071)
Effect of acquisitions and disposals with a change in control	-	-	-	-	-	-	-	294,395	294,395
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
Foreign exchange differences	-	-	-	(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 27)	-	(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
Foreign exchange differences	-	-	-	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 26)	-	(20,480)	-	-	-	-	(20,480)	-	(20,480)
Cancellation of shares (Note 26)	(558,560)	1,474,965	(916,405)	-	-	-	-	-	-
Issue of convertible bonds (Note 22)	-	-	66,797	-	-	-	66,797	-	66,797
Gold segment separation (Note 27)	-	(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

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, 2012, 2011 and 2010

(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 28.

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, 2012 he controlled indirectly 79.17% of Severstal's share capital (at December 31, 2011 - 82.94%; at December 31, 2010 - 77.98% and had an option to purchase another 4.96%).

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* (formerly Steel 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 Limited located in the USA.
- *Gold* (discontinued, Note 27) – 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* (formerly 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* (formerly Severstal North America) – 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 (formerly the Esmark group of companies) in the Midwest region of the USA, Severstal Warren LLC (formerly WCI Steel Inc) 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 classified as held for sale and discontinued operations as at December 31, 2010 and disposed in 2011 (Note 27).
- *Lucchini* (discontinued, Note 27) – 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.

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## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (Amounts expressed in thousands of US dollars, except as otherwise stated)

A segmental analysis of the consolidated statements of financial position and consolidated income statements is given in Note 29.

### *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 instruments 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.

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## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (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

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## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (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.

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## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (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 most 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 of amended and revised Standards and Interpretations**

A number of amendments to Standards and Interpretations were adopted for the year ended December 31, 2012, and have been applied in these consolidated financial statements.

<b>Standards and Interpretations</b>	<b>Effective for annual periods beginning on or after</b>
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 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 present financial statements in accordance with IFRSs after a period when its functional currency was subject to severe

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## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (Amounts expressed in thousands of US dollars, except as otherwise stated)

hyperinflation. Amended IFRS 1 did not have a significant effect on the Group's consolidated 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 financial statements.

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

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

	<b>Year ended December 31, 2012</b>
Increase in property, plant and equipment	47,406
Decrease in cost of sales	47,406

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## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### *New accounting pronouncements*

A number of new Standards and amendments to Standards were not yet effective for the year ended December 31, 2012, and have not been applied in these consolidated financial statements.

<u>Standards</u>	<u>Effective for annual periods beginning on or after</u>
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, January 1, 2014
IAS 28 (Amended) "Investments in associates and joint ventures"	January 1, 2013
IAS 32 (Amended) "Financial instruments: presentation"	January 1, 2013, January 1, 2014
IAS 34 (Amended) "Interim Financial Reporting"	January 1, 2013
IFRS 1 (Amended) "First-time adoption of international financial reporting standards"	January 1, 2013
IFRS 7 (Amended) "Financial instruments: disclosure"	January 1, 2013
IFRS 9 (Amended) "Financial instruments"	January 1, 2015
IFRS 10 (Amended) "Consolidated financial statements"	January 1, 2013, January 1, 2014
IFRS 11 (Amended) "Joint arrangements"	January 1, 2013
IFRS 12 (Amended) "Disclosure of interests in other entities"	January 1, 2013, January 1, 2014
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 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



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effective for annual periods beginning on or after 1 January 2013 and requires retrospective application.

IFRS 12 *Disclosure 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.

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## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (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. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The non-controlling interests represent the non-controlling shareholders' proportion of the net identifiable assets of the subsidiaries, including the non-controlling shareholders' share of fair value adjustments on acquisitions. The non-controlling interests are presented in the statement of financial position within equity, separately from the parent's shareholders' equity.

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 capital. The cash consideration for such acquisitions is recognized as a liability to or a reduction of

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## **Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010**

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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 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.

### ***Interests in joint ventures***

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Where a Group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in its financial statements and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on the accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting whereby an interest in jointly controlled entities is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's

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share of net assets of the joint venture. The income statement reflects the Group's share of the results of operations of the joint venture.

Unrealized gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the joint venture; 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 acquire. It is recognized in the income statement at the date of the acquisition.

### **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.

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### 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 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.

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#### 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.

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

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### 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 major components of the other intangible assets include capitalized favorable contracts and 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.

### 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.

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### *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, cash 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.

### *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.



# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (Amounts expressed in thousands of US dollars, except as otherwise stated)

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.

### ***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

# OAQ Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (Amounts expressed in thousands of US dollars, except as otherwise stated)

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.

#### *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.

# OAQ Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### *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.

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

# OAQ Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (Amounts expressed in thousands of US dollars, except as otherwise stated)

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 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.

# OAQ Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

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.

## **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, securities operations 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.

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### **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. 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.

### **v. Interest expense**

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

### **w. Gain on remeasurement and disposal of financial investments**

Gain 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.

### **x. 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.

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### y. 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.

### z. 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.

Inter-segment pricing is determined on an arm's length basis.

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

### aa. 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, 2012, 2011 and 2010 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### 4. Revenue

Revenue by product was as follows:

	Year ended December 31,		
	2012	2011	2010
Hot-rolled strip and plate	4,541,333	5,002,608	3,964,534
Galvanized and other metallic coated sheet	2,022,553	1,998,091	1,532,821
Cold-rolled sheet	1,406,266	1,655,157	1,587,051
Metalware products	967,628	964,353	832,397
Shipping and handling costs billed to customers	875,889	876,119	677,955
Coal and coking coal concentrate	697,424	843,197	686,179
Pellets and iron ore	668,060	725,764	383,727
Large diameter pipes	562,266	1,006,714	961,348
Long products	547,235	595,173	470,015
Other tubes and pipes, formed shapes	482,746	511,805	347,834
Semi-finished products	459,993	769,474	635,134
Colour-coated sheet	428,642	305,777	288,147
Scrap	17,315	76,849	98,222
Others	426,356	481,319	353,754
	<u>14,103,706</u>	<u>15,812,400</u>	<u>12,819,118</u>

Revenue by delivery destination was as follows:

	Year ended December 31,		
	2012	2011	2010
Russian Federation	6,412,704	7,476,438	5,811,686
North America	4,138,335	3,912,225	3,131,834
Europe	1,959,044	2,506,408	1,979,612
China and Central Asia	571,728	735,692	469,246
Central and South America	458,281	335,059	422,484
The Middle East	329,467	446,919	437,766
South-East Asia	135,948	273,322	454,799
Africa	98,199	126,337	111,691
	<u>14,103,706</u>	<u>15,812,400</u>	<u>12,819,118</u>

### 5. Staff costs

Employment costs were as follows:

	Year ended December 31,		
	2012	2011	2010
Wages and salaries	(1,586,361)	(1,455,418)	(1,237,287)
Social security costs	(479,263)	(427,759)	(217,946)
Retirement benefit service costs	(4,856)	(4,107)	(5,152)
	<u>(2,070,480)</u>	<u>(1,887,284)</u>	<u>(1,460,385)</u>

Key management's remuneration for the year ended December 31, 2012, consisting of salaries and bonuses, totalled US\$ 38.1 million (2011: US\$ 43.0 million; 2010: US\$ 33.4 million). Additionally, in 2012, provision for their long-term incentive programmes was accrued in the amount of US\$ 16.1 million (2011: US\$ 34.2 million; 2010: US\$ 19.4 million). This provision is subject to further adjustments, depending on a range of the Group's and its industry peers' financial indicators.



# OAO Severstal and subsidiaries

**Notes to the consolidated financial statements  
for the years ended December 31, 2012, 2011 and 2010**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

## 6. Loss on remeasurement and disposal of financial investments

	Year ended December 31,		
	2012	2011	2010
<b>Held-for-trading securities</b>			
(Loss)/gain on disposal	-	(111)	481
Remeasurement to fair value	(559)	-	-
<b>Held-to-maturity securities, deposits and loans</b>			
Loss on disposal	(21,615)	(32,866)	(13,982)
Reversal of impairment/(impairment) (Note 30)	1,851	(835)	(133,969)
<b>Available-for-sale financial assets</b>			
Net gain/(loss) on disposal transferred from equity	-	725	(5,042)
Dividend income	13,742	28,435	6,190
	<u>(6,581)</u>	<u>(4,652)</u>	<u>(146,322)</u>

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

	Year ended December 31,		
	2012	2011	2010
Impairment of goodwill	(48,655)	-	-
(Impairment)/reversal of impairment of property, plant and equipment	(5,462)	438	(54,077)
Impairment of intangible assets	-	-	(26,053)
	<u>(54,117)</u>	<u>438</u>	<u>(80,130)</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:

	Year ended December 31,		
	2012	2011	2010
Russia	n/a	n/a	5.4 - 7.0
USA	0.3 - 3.0	2.1 - 2.3	1.3 - 2.8
Italy	n/a	1.9 - 2.5	1.5 - 2.0

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

- 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,		
	2012	2011	2010
Severstal Resources:			
USA	14.7	17.0	18.0
Severstal Russian Steel:			
Russia*	n/a	n/a	13.3
Italy*	n/a	17.3	16.9
Severstal International	n/a	n/a	16.5 - 19.6

\*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*

#### *2010*

As a result of value in use calculation no impairment loss was recognized in 2010.

The carrying amount of goodwill allocated to the cash-generating unit was US\$ 111.7 million as of December 31, 2010.

The following assumptions were used in the impairment test:

- the forecast extraction volumes increase by 5% in 2011 and remain constant at the 2011 level thereafter;
- the coking coal concentrate prices are forecast to remain generally constant;
- the forecast steam coal prices increase on average by 4% p.a. during the five-year forecast period, increase by 2% in 2016 and remain constant at the 2016 level thereafter;
- operating costs are forecast to decrease by 3% in 2011 and remain constant at the 2011 level thereafter;
- pre-tax discount rate of 18.0% (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\$ 18.5 million;
- a 10% decrease in future planned revenues causes the carrying amount of the cash-generating unit to exceed its recoverable amount by US\$ 210.1 million.

## OAQ Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (Amounts expressed in thousands of US dollars, except as otherwise stated)

Specific impairment loss in the amount of US\$ 5.7 million was recognized in 2010 and was allocated to intangible assets.

#### 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).

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).

## **OAo Severstal and subsidiaries**

### **Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010** *(Amounts expressed in thousands of US dollars, except as otherwise stated)*

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.

#### *Other units*

##### *2010*

The impairment loss was recognized in 2010 in the amount of US\$ 9.1 million in relation to specific items of property, plant and equipment and intangible assets.

##### *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.

#### ***Severstal Russian Steel segment***

##### *Neva-Metall*

##### *2010*

As a result of value in use calculation no impairment loss was recognized in 2010.

The carrying amount of goodwill allocated to cash-generating unit was US\$ 10.6 million as of December 31, 2010.

The following specific assumptions were used in the impairment test:

- cash flow projections are based on financial forecasts approved by management covering a five-year period;
- volumes are assumed to increase on average by 10% p.a. during the forecast period and remain constant at the 2015 level thereafter;
- the forecast sales prices increase by 8% in 2011, increase on average by 5% p.a. in 2012 to 2015 and increase on average by 1.8% p.a. thereafter;
- operating costs are forecast to increase by 19% in 2011, increase on average by 5% p.a. in 2012 to 2015 and increase on average by 1.8% p.a. thereafter;
- pre-tax discount rate of 13.3% (in US\$ terms).

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

##### *2010*

As a result of value in use calculation no impairment loss was recognized in 2010.

The carrying amount of goodwill allocated to the cash-generating unit was US\$ 31.4 million as of December 31, 2010.

## OA0 Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (Amounts expressed in thousands of US dollars, except as otherwise stated)

The following assumptions were used in the impairment test:

- the forecast sales volumes decrease by 7% in 2011, increase on average by 4% p.a. in 2012 to 2015 and remain constant thereafter;
- forecast sales prices decrease on average by 4% p.a. in 2011 to 2012 and then increase on average by 2% p.a. in 2013 to 2015 and increase on average by 1.8% p.a. thereafter;
- operating costs are forecast to decrease by 8% in 2011, increase on average by 1% p.a. in 2012 to 2015 and increase on average by 1.8% p.a. thereafter;
- pre-tax discount rate of 16.9% (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\$ 5.1 million;
- a 10% decrease in future planned revenues causes the carrying amount of the cash-generating unit to exceed its recoverable amount by US\$ 72.1 million.

#### 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.

#### Other units

#### 2010

The impairment loss related to other cash-generating units within the segment was recognized in the amount of US\$ 21.1 million in 2010 and was allocated to specific items of property, plant and equipment in the amount of US\$ 10.7 million and intangible assets in the amount of US\$ 10.4 million.

## OA0 Severstal and subsidiaries

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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 and was allocated to specific items of property, plant and equipment.

2012

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

### *Severstal International segment*

2010

An impairment loss was recognized in the amount of US\$ 44.2 million in 2010 and was allocated to specific items of property, plant and equipment in the amount of US\$ 34.1 million and intangible assets in the amount of US\$ 10.1 million.

### **8. Net other non-operating expenses**

	<b>Year ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Social expenditure	(31,995)	(43,314)	(29,067)
Charitable donations	(47,423)	(39,504)	(15,542)
Gain on disposal of subsidiaries and associates (Note 28)	9,873	21,033	-
Depreciation of infrastructure assets	(3,405)	(1,776)	(1,783)
Other	2,414	(1,820)	2,793
	<u>(70,536)</u>	<u>(65,381)</u>	<u>(43,599)</u>

# OAO Severstal and subsidiaries

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## 9. Taxation

The following is an analysis of the income tax expense:

	Year ended December 31,		
	2012	2011	2010
Current tax charge	(226,811)	(481,303)	(383,054)
Corrections to prior year's current tax charge	3,325	(4,806)	27,132
Deferred tax (expense)/benefit	(39,999)	20,097	(71,384)
Income tax expense	<u>(263,485)</u>	<u>(466,012)</u>	<u>(427,306)</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,		
	2012	2011	2010
Profit before income tax	1,036,921	2,428,974	1,674,123
Tax charge at Russian statutory rate	(207,384)	(485,795)	(334,825)
Profits taxed at different rates	54,709	4,287	83,758
Corrections to prior years' current tax charge	3,325	(4,806)	27,132
Non-tax deductible expenses, net	(48,656)	(41,550)	(56,147)
Tax-loss carry forwards expired	(1,057)	(4,638)	-
Changes in non-recognized deferred tax assets	(73,361)	71,572	(151,874)
Reassessment of deferred tax liabilities	8,939	(5,082)	4,650
Income tax expense	<u>(263,485)</u>	<u>(466,012)</u>	<u>(427,306)</u>

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,		
	2012	2011	2010
Deferred tax assets:			
Tax-loss carry forwards	187,088	276,782	300,717
Property, plant and equipment	5,973	8,839	51,954
Intangible assets	262	281	495
Inventory	46,650	35,030	29,965
Accounts receivable	65,198	38,373	18,683
Provisions	134,284	117,206	73,366
Financial investments	94,087	93,734	37,705
Other	73,268	52,742	114,624
Gross deferred tax assets	<u>606,810</u>	<u>622,987</u>	<u>627,509</u>
Less offsetting with deferred tax liabilities	(506,014)	(523,336)	(523,732)
Recognized deferred tax assets	<u>100,796</u>	<u>99,651</u>	<u>103,777</u>

## OAO Severstal and subsidiaries

**Notes to the consolidated financial statements  
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	December 31,		
	2012	2011	2010
Deferred tax liabilities:			
Property, plant and equipment	(615,756)	(555,062)	(560,735)
Provisions	(4,072)	(7,812)	(3,570)
Intangible assets	(143,862)	(138,536)	(382,392)
Inventory	(19,469)	(17,290)	(23,842)
Investments in joint ventures and associates	(29,521)	(36,817)	(38,164)
Accounts receivable	(2,286)	(249)	(62)
Financial liabilities	(7,152)	(6,988)	(24,875)
Other	(21,974)	(47,708)	(5,163)
Gross deferred tax liabilities	<u>(844,092)</u>	<u>(810,462)</u>	<u>(1,038,803)</u>
Less offsetting with deferred tax assets	506,014	523,336	523,732
Recognized deferred tax liabilities	<u>(338,078)</u>	<u>(287,126)</u>	<u>(515,071)</u>
Net deferred tax liability	<u>(237,282)</u>	<u>(187,475)</u>	<u>(411,294)</u>

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

	Year ended December 31,		
	2012	2011	2010
Opening balance	(187,475)	(411,294)	(155,155)
Recognized in income statement	(39,999)	8,515	(76,938)
Recognized in other comprehensive income	(785)	4,730	(7,626)
Business combinations	-	-	(120,139)
Reclassified to liabilities related to assets held for sale	-	198,118	(51,690)
Foreign exchange differences	(9,023)	12,456	254
Closing balance	<u>(237,282)</u>	<u>(187,475)</u>	<u>(411,294)</u>

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,		
	2012	2011	2010
In the following year	-	-	0.1
Between one and five years	86.8	-	67.9
Between five and ten years	116.0	49.9	127.0
Between ten and twenty years	2,216.4	2,014.3	1,836.4
No expiry	-	-	85.5
	<u>2,419.2</u>	<u>2,064.2</u>	<u>2,116.9</u>

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\$ 6,336.6 million at December 31, 2012 (December 31, 2011: US\$ 5,066.2 million; December 31, 2010: US\$ 4,603.4 million).



# OAO Severstal and subsidiaries

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## 10. Related party transactions

	Year ended December 31,		
	2012	2011	2010
Revenue - related parties:			
Revenue - associates	86,041	147,345	30,194
Revenue - joint ventures	60,443	48,235	859
Revenue - other related parties	41,617	43,730	31,282
Interest income from related parties:			
Interest income from joint ventures	3,245	3,240	-
Interest income from other related parties	31,022	23,350	33,153
	222,368	265,900	95,488
Purchases from related parties:			
Purchases from associates:			
Non-capital expenditures	75,459	74,717	60,586
Purchases from joint ventures:			
Non-capital expenditures	252,390	254,504	92,739
Purchases from other related parties:			
Non-capital expenditures	38,808	33,657	20,266
Capital expenditures	153	874	6,862
Interest expense	53	68	3,533
	366,863	363,820	183,986

# OAO Severstal and subsidiaries

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## 11. Related party balances

	December 31,		
	2012	2011	2010
<b>Joint ventures' balances</b>			
Short-term trade accounts receivable	4,557	8,048	-
Long-term loans	53,550	35,821	34,792
Long-term promissory notes	19,900	-	-
Short-term trade accounts payable	21,886	26,284	7,959
<b>Associates' balances</b>			
Short-term trade accounts receivable	5,136	10,040	3,046
Long-term loans	5,446	3,965	3,915
Long-term trade accounts receivable	-	8,859	-
Short-term trade accounts payable	11,392	8,760	6,510
<b>Other related party balances</b>			
Cash and cash equivalents at related party bank and pension fund	561,946	689,388	669,643
Short-term deposits with related party bank and pension fund	-	-	12,627
Accounts receivable from other related parties:			
Trade accounts receivable	4,852	3,040	2,603
Advances paid	625	5,506	5,870
Other receivables	298	715	840
Short-term loans	1,027	1,741	487
Short-term promissory notes	2,407	207	4,146
Long-term loans	-	2,490	-
Available-for-sale financial assets	812	5,434	7,653
	10,021	19,133	21,599
Short-term trade accounts payable to other related parties:			
Trade accounts payable	1,909	705	556
Advances received	433	208	-
Liability related to Gold segment separation (Note 27)	-	1,546,951	-
Other accounts payable	614	123	1,692
	2,956	1,547,987	2,248
Debt financing includes the following balances with other related parties:			
Short-term debt financing	-	19	-
Long-term debt financing	4,391	4,104	4,315
	4,391	4,123	4,315

The amounts outstanding are expected to be settled in cash, except liability related to Gold segment separation. 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 2012 (from nil to 15% per annum in 2011 and 2010) and were given to finance working capital and investments.

## OAO Severstal and subsidiaries

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### 12. Cash and cash equivalents

	December 31,		
	2012	2011	2010
Petty cash	374	368	412
Cash at bank	586,216	813,417	1,043,239
Short-term deposits with maturity of less than 3 months	1,139,685	1,049,753	969,011
	1,726,275	1,863,538	2,012,662

### 13. Short-term bank deposits

Short-term bank deposits totaled US\$ nil at December 31, 2012 (December 31, 2011: US\$ nil, December 31, 2010: US\$ 12.7 million) and consisted of deposits with an original maturity of more than three months but remaining period to maturity of less than one year.

### 14. Short-term financial investments

	December 31,		
	2012	2011	2010
Available-for-sale financial assets	12,970	16	-
Held-to-maturity securities	5,797	3,619	5,232
Loans	4,981	2,772	3,881
Held-for-trading securities	30	4,093	18,350
	23,778	10,500	27,463

### 15. Trade accounts receivable

	December 31,		
	2012	2011	2010
Customers	1,092,309	1,277,898	1,033,179
Allowance for doubtful debts	(51,742)	(57,937)	(65,342)
	1,040,567	1,219,961	967,837

### 16. Inventories

	December 31,		
	2012	2011	2010
Raw materials and supplies	1,107,363	1,201,155	1,157,403
Finished goods	746,310	780,984	691,778
Work-in-progress	499,225	537,015	519,953
	2,352,898	2,519,154	2,369,134

Of the above amounts US\$ 36.8 million (December 31, 2011: US\$ 24.2 million, December 31, 2010: US\$ 709.3 million) were stated at net realizable value.

During the year ended December 31, 2012, the Group recognized a US\$ 48.5 million release and a US\$ 163.3 million allowance to reduce the carrying amount to a net realizable value (2011: US\$ 70.8 million and US\$ 68.9 million, respectively; 2010: US\$ 44.8 million and US\$ 42.5 million, respectively).

## OAO Severstal and subsidiaries

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### 17. Other current assets

	December 31,		
	2012	2011	2010
Advances paid and prepayments	135,846	247,250	248,180
Derivative financial assets	34,808	-	-
Other taxes and social security prepaid	16,431	10,159	8,826
Other assets	115,035	69,754	41,177
	<u>302,120</u>	<u>327,163</u>	<u>298,183</u>

### 18. Long-term financial investments

	December 31,		
	2012	2011	2010
Loans	59,079	146,621	38,935
Available-for-sale financial assets	26,870	32,347	155,477
Held-to-maturity securities and deposits	22,111	3,294	10,130
	<u>108,060</u>	<u>182,262</u>	<u>204,542</u>

### 19. 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 28.

	December 31,		
	2012	2011	2010
<b>Associates</b>			
SPG Mineracao SA	43,123	42,290	-
Iron Mineral Beneficiation Services (Proprietary) Ltd	39,711	17,169	7,177
ZAO Air Liquide Severstal	26,971	21,858	17,878
Intex Resources ASA	-	12,264	14,609
Other	-	1,429	693
<b>Joint ventures</b>			
Mountain State Carbon LLC	83,832	102,135	-
Spartan Steel Coating LLC	44,297	46,810	47,507
Gestamp-Severstal-Kaluga LLC	17,379	16,316	18,032
Double Eagle Steel Coating Company	15,166	14,269	18,476
Gestamp Severstal Vsevolozhsk LLC	14,976	13,868	14,907
Severstal-Gonvarri-Kaluga LLC	13,794	8,918	10,015
Todlem S.L.	12,252	3,605	3,723
Other	5,002	384	5,547
	<u>316,503</u>	<u>301,315</u>	<u>158,564</u>

## OAO Severstal and subsidiaries

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The following is summarized financial information in respect of associates:

	<b>December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Current assets	975,467	1,586,019	107,385
Non-current assets	157,020	187,242	121,949
Short-term liabilities	1,225,608	1,500,621	20,212
Long-term liabilities	69,539	165,916	62,558
Equity	(162,660)	106,724	146,564
	<b>Year ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Revenue	1,301,393	2,746,807	67,647
Net (loss)/income	(215,633)	136,265	8,178

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:

	<b>December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Current assets	215,391	236,649	119,923
Non-current assets	517,010	478,223	347,489
Short-term liabilities	124,392	147,122	84,228
Long-term liabilities	159,014	114,210	111,484
Equity	448,995	453,540	271,700
	<b>Year ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Revenue	546,587	609,852	91,749
Net (loss)/income	(12,100)	19,785	6,095

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 (Amounts expressed in thousands of US dollars, except as otherwise stated)

### 20. Property, plant and equipment

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction- in-progress	Total
<b>Cost:</b>						
December 31, 2009	2,841,832	9,708,310	518,978	106,784	1,737,792	14,913,696
Reclassifications	(18,926)	163,680	(175,453)	(811)	31,510	-
Additions	-	-	-	-	1,229,687	1,229,687
Business combinations	4,621	117,088	5,453	-	6,899	134,061
Disposals	(20,215)	(99,457)	(5,833)	(5,071)	(14,609)	(145,185)
Business de-combinations	(22,409)	(42,310)	-	-	-	(64,719)
Reclassified to assets held for sale	(693,951)	(3,397,658)	(102,788)	(172)	(319,585)	(4,514,154)
Transfers from/(to) other assets	-	-	15,511	-	(26,706)	(11,195)
Transfers	117,307	330,463	26,814	5,874	(480,458)	-
Foreign exchange differences	(47,894)	(133,004)	(1,248)	(998)	(16,786)	(199,930)
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)	-
Foreign exchange differences	(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)	-
Foreign exchange differences	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

Of the above amounts of additions to construction-in-progress US\$ 34.7 million (2011: US\$ 62.1 million, 2010: US\$ 42.3 million) is interest capitalized.

The Group applied the weighted average capitalization rate of 8.3% (2011: 7.3%) to determine the amount of borrowing costs eligible for capitalization for the year ended December 31, 2012.

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	<u>Land and buildings</u>	<u>Plant and machinery</u>	<u>Other productive assets</u>	<u>Infrastructure assets</u>	<u>Construction- in-progress</u>	<u>Total</u>
<b>Depreciation and impairment:</b>						
December 31, 2009	920,184	4,077,077	261,880	63,312	105,763	5,428,216
Reclassifications	6,740	73,465	(79,064)	(1,141)	-	-
Depreciation expense	95,759	604,997	58,338	1,783	-	760,877
Disposals	(9,369)	(74,230)	(4,281)	(1,887)	(11,337)	(101,104)
Reclassified to assets held for sale	(225,023)	(1,602,879)	(100,593)	(51)	(33,411)	(1,961,957)
Business de-combinations	(15,949)	(32,337)	-	-	-	(48,286)
Transfers	1,488	3,725	140	81	(5,434)	-
Impairment/(reversal of impairment) of assets	5,298	(14,494)	33,307	(22)	17,310	41,399
Foreign exchange differences	(11,710)	(62,560)	(2,057)	1,121	(1,527)	(76,733)
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
Foreign exchange differences	(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
Foreign exchange differences	40,191	159,948	7,375	3,906	2,062	213,482
December 31, 2012	<u>835,052</u>	<u>3,682,501</u>	<u>219,337</u>	<u>69,686</u>	<u>44,425</u>	<u>4,851,001</u>
<b>Net book values:</b>						
December 31, 2010	<u>1,392,947</u>	<u>3,674,348</u>	<u>113,764</u>	<u>42,410</u>	<u>2,076,380</u>	<u>7,299,849</u>
December 31, 2011	<u>1,448,569</u>	<u>4,087,263</u>	<u>199,243</u>	<u>35,850</u>	<u>1,692,469</u>	<u>7,463,394</u>
December 31, 2012	<u>1,523,090</u>	<u>4,745,470</u>	<u>257,356</u>	<u>50,464</u>	<u>1,886,331</u>	<u>8,462,711</u>

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, 2012, 2011 and 2010

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

### 21. Intangible assets

	<u>Goodwill</u>	<u>Mineral rights</u>	<u>Software</u>	<u>Evaluation and exploration assets</u>	<u>Other intangible assets</u>	<u>Total</u>
<b>Cost:</b>						
December 31, 2009	703,139	642,426	91,657	308,944	298,918	2,045,084
Additions	-	4,753	33,075	64,798	33,336	135,962
Business combinations	7,542	660,251	-	14,961	456	683,210
Transfers from other assets	-	-	7,422	-	903	8,325
Disposals	-	(19,985)	-	-	(3,404)	(23,389)
Business de-combinations	-	-	-	-	(13,676)	(13,676)
Reclassified to assets held for sale	(70,943)	-	(45,210)	-	(118,435)	(234,588)
Foreign exchange differences	(3,516)	(7,440)	(384)	(2,135)	(193)	(13,668)
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)
Foreign exchange differences	(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
Foreign exchange differences	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
<b>Amortization and impairment:</b>						
December 31, 2009	460,311	69,798	19,067	-	126,704	675,880
Amortization expense	-	77,680	7,143	-	24,551	109,374
Impairment	-	-	-	982	26,204	27,186
Disposals	-	(2,312)	-	(29)	(4)	(2,345)
Business de-combinations	-	-	-	-	(13,044)	(13,044)
Reclassified to assets held for sale	(70,943)	-	(10,328)	-	(57,293)	(138,564)
Foreign exchange differences	(1,043)	(337)	(215)	3	(577)	(2,169)
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)
Foreign exchange differences	(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
Foreign exchange differences	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
<b>Net book values:</b>						
December 31, 2010	247,897	1,135,176	70,893	385,612	91,364	1,930,942
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



# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

### 22. Debt finance

	December 31,		
	2012	2011	2010
Eurobonds 2013	543,552	543,552	543,552
Eurobonds 2014	375,000	375,000	375,000
Eurobonds 2016	500,000	500,000	-
Eurobonds 2017	1,000,000	1,000,000	1,000,000
Convertible bonds 2017	475,000	-	-
Eurobonds 2022	750,000	-	-
Ruble bonds 2012	-	465,895	492,176
Ruble bonds 2013	493,865	465,895	492,176
Severstal Columbus bonds	525,000	525,000	525,000
Other issued notes and bonds	-	1,783	150,427
Bank financing	991,393	2,017,230	2,474,183
Factoring of receivables	9,632	-	-
Other financing	60,195	44,124	68,896
Accrued interest	110,664	110,675	106,629
Discounting	(71,061)	-	-
Unamortized balance of transaction costs	(53,700)	(73,056)	(81,562)
	<u>5,709,540</u>	<u>5,976,098</u>	<u>6,146,477</u>

Total debt is denominated in the following currencies:

US Dollars	4,743,206	4,285,094	4,192,629
Rubles	518,002	1,048,915	1,092,543
Euro	448,332	642,089	827,305
Other currencies	-	-	34,000
	<u>5,709,540</u>	<u>5,976,098</u>	<u>6,146,477</u>

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

Less than one year	1,382,128	1,185,467	1,423,551
Between one and five years	3,070,645	3,256,897	3,096,833
After more than five years	1,256,767	1,533,734	1,626,093
	<u>5,709,540</u>	<u>5,976,098</u>	<u>6,146,477</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, 2012 the amount outstanding under this facility was US\$ 375.0 million.

In July 2008, the Group issued US\$ 1,250.0 million US dollar-denominated bonds maturing in 2013. Bonds bear an interest rate of 9.75% per annum which is payable semi-annually in January and July each year. As at December 31, 2012 the amount outstanding under this facility was US\$ 543.6 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

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

10.25% per annum, which is payable semi-annually in February and August each year, beginning in August 2010. As at December 31, 2012 the amount outstanding under this facility was US\$ 525.0 million.

In February 2010, the Group issued ruble-denominated bonds in an aggregate principal amount of US\$ 498.0 million maturing in 2013. These bonds bear an interest rate of 9.75% per annum, which is payable semi-annually in February and August each year, beginning in August 2010. As at December 31, 2012 the amount outstanding under this facility was US\$ 493.9 million.

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. As at December 31, 2012 the amount outstanding under this facility was US\$ 1.0 billion. 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.

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, 2012 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, 2012 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 will be used for general corporate purposes, including refinancing of debt maturing in 2013. As at December 31, 2012 the amount outstanding under this facility was US\$ 750.0 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, 2012 the amount outstanding under this facility was US\$ 349.2 million.

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

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

- US\$ 2,716.6 million (December 31, 2011: US\$ 2,677.9 million; December 31, 2010: US\$ 2,255.0 million) of the net book value of plant and equipment;
- US\$ 1,058.6 million (December 31, 2011: US\$ 1,280.8 million; December 31, 2010: US\$ 892.3 million) of current assets and revenues from export contracts;
- US\$ nil (December 31, 2011: US\$ 5.7 million; December 31, 2010: US\$ 112.0 million) of investments to available-for-sale financial assets;
- all Group's investment in Mountain State Carbon LLC, Spartan Steel Coating LLC and Double Eagle Steel Coating Company, the Group's joint ventures, at December 31, 2012 and 2011;
- all Group's ownership in Societe Des Mines de Taparko and Guinor Gold Corporation, 50% of Group's ownership in Mountain State Carbon LLC, the Group's subsidiaries, and investments in Spartan Steel Coating LLC and Double Eagle Steel Coating Company, the Group's joint ventures, at December 31, 2010.

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, 2012, 2011 and 2010.

At the reporting date the Group had US\$ 150.0 million (December, 31, 2011: nil; December, 31, 2010: nil) of unused short-term credit lines and US\$ 772.1 million (December 31, 2011: US\$ 393.4 million; December 31, 2010: US\$ 350.0 million) of unused long-term credit lines available to it.

### 23. Other current liabilities

	December 31,		
	2012	2011	2010
Amounts payable to employees	279,831	229,245	189,944
Advances received	207,304	269,094	210,314
Provisions (Note 25)	41,261	64,269	29,161
Accrued expenses	17,620	24,302	23,786
Derivative financial liabilities	10,341	13,242	5,713
Decommissioning liability (Note 25)	7,195	12,403	-
Retirement benefit liability (Note 24)	4,917	8,942	17,127
Lease liabilities	2,109	6,112	7,965
Deferred income	1,592	1,393	61
Other payables	65,777	26,418	70,506
	<u>637,947</u>	<u>655,420</u>	<u>554,577</u>

## OAO Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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#### 24. 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,		
	2012	2011	2010
Current portion	4,917	8,942	17,127
Non-current portion	201,552	161,734	164,555
	206,469	170,676	181,682

The Group's weighted average duration of the defined benefit obligations equaled to 16 years as at December 31, 2012.

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

	December 31,		
	2012	2011	2010
Discount rates:			
Russia	6.6% to 7.0%	8.3% to 8.4%	7.3% to 7.8%
USA	3.5%	4.3%	4.8%
Future rates of benefit increase:			
Russia	4.7% to 5.3%	4.7%	5.2% to 6.3%
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,				
	2012	2011	2010	2009	2008
Present value of the defined benefit obligation	273,059	230,517	237,109	1,008,654	987,418
Fair value of the plan assets	(66,590)	(59,841)	(55,427)	(220,940)	(208,122)
Retirement benefit liability	206,469	170,676	181,682	787,714	779,296

The movements in the defined benefit obligation were as follows:

	Year ended December 31,		
	2012	2011	2010
Opening balance	230,517	237,109	1,008,654
Reclassified to liabilities related to assets held for sale	-	-	(787,660)
Benefits paid	(23,876)	(23,820)	(55,486)
Interest cost	16,940	17,210	48,551
Service cost	4,856	4,107	20,984
Actuarial losses*	33,998	7,475	14,416
Foreign exchange differences	10,624	(11,564)	(12,350)
Closing balance	273,059	230,517	237,109

\* 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, 2012, 2011 and 2010

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

The movements in the plan assets were as follows:

	Year ended December 31,		
	2012	2011	2010
Opening balance	59,841	55,427	220,940
Reclassified to liabilities related to assets held for sale	-	-	(162,163)
Contributions made during the year	13,546	11,409	16,588
Benefits paid	(16,650)	(5,703)	(27,944)
Return on assets	5,045	4,162	10,323
Actuarial gains/(losses)*	1,353	(1,409)	(470)
Foreign exchange differences	3,455	(4,045)	(1,847)
Closing balance	<u>66,590</u>	<u>59,841</u>	<u>55,427</u>

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

The defined benefit obligation analysis was as follows:

	December 31,		
	2012	2011	2010
Wholly unfunded	161,850	139,994	143,724
Partly funded	111,209	90,523	93,385
	<u>273,059</u>	<u>230,517</u>	<u>237,109</u>

The plan assets analysis was as follows:

	December 31,		
	2012	2011	2010
Corporate bonds	36,839	32,283	22,747
Shares in mutual funds	14,028	13,830	12,479
Deposits	8,252	4,488	4,585
Equity instruments	4,231	3,661	8,912
Government bonds	2,511	2,658	2,688
Cash	324	545	1,067
Other investments	405	2,376	2,949
	<u>66,590</u>	<u>59,841</u>	<u>55,427</u>

The Group's best estimate of contributions expected to be paid to the plan in 2013 is US\$ 15.9 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 'Interest expense'; actuarial gains/(losses) are recognized as a separate component in other comprehensive income.

## OAO Severstal and subsidiaries

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

#### 25. Other non-current liabilities

	December 31,		
	2012	2011	2010
Decommissioning liability	129,300	106,899	182,894
Amounts payable to employees	41,229	24,562	29,735
Deferred income	28,545	29,837	2,610
Provisions	15,266	15,404	18,271
Lease liabilities	1,502	1,821	2,894
Derivative financial liabilities	1,191	24,938	16,573
Restructured tax liabilities	-	-	725
Other liabilities	38,235	29,718	23,447
	<u>255,268</u>	<u>233,179</u>	<u>277,149</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 2013 – 2045. The present value of expected cash outflows were estimated using existing technology, and discounted using a real discount rate. These rates, presented by segment, are as follows:

	Discount rates, %		
	2012	2011	2010
Severstal Resources:			
Russia	2.1 - 3.7	3.0 - 4.7	0.0 - 2.0
USA	4.0 - 6.5	3.4 - 4.6	1.0 - 3.3
Gold:			
Kazakhstan	-	-	0.1 - 0.9
Burkina Faso	-	-	0.6
Guinea	-	-	0.8

The movements in the decommissioning liability were as follows:

	Year ended December 31,		
	2012	2011	2010
Opening balance	119,302	182,894	279,426
Additional accrual	9,798	66,146	10,508
Change in assumptions	8,730	(76,860)	-
Interest cost	11,918	15,505	10,597
Business combinations	-	-	9,828
Usage of decommissioning liability	(16,601)	(1,103)	(21,762)
Reclassified to liabilities related to assets held for sale	-	(61,262)	(104,637)
Foreign exchange differences	3,348	(6,018)	(1,066)
Closing balance	<u>136,495</u>	<u>119,302</u>	<u>182,894</u>

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

## OAO Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

	December 31,		
	2012	2011	2010
Current portion	7,195	12,403	-
Non-current portion	129,300	106,899	182,894
	136,495	119,302	182,894

#### ***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,		
	2012	2011	2010
Legal claims	32,551	32,375	26,219
Other employee related	6,066	7,400	9,724
Environmental claims	4,062	2,092	2,682
Tax and social security claims	757	26,837	2,555
Other	13,091	10,969	6,252
	56,527	79,673	47,432

	December 31,		
	2012	2011	2010
Current portion	41,261	64,269	29,161
Non-current portion	15,266	15,404	18,271
	56,527	79,673	47,432

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,		
	2012	2011	2010
Opening balance	79,673	47,432	203,038
Charge to the income statement	(24,277)	62,987	7,919
Business combinations	-	-	22,841
Usage of provisions	-	(6,582)	(14,459)
Reclassified to liabilities related to assets held for sale	-	(23,442)	(165,217)
Foreign exchange differences	1,131	(722)	(6,690)
Closing balance	56,527	79,673	47,432

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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### 26. 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, 2012 comprised 837,718,660 issued and fully paid shares (December 31, 2011 and 2010: 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, 2010	1,007.7	3,311,288
Share capital at December 31, 2011	1,007.7	3,311,288
Share capital at December 31, 2012	837.7	2,752,728

All shares carry equal voting and distribution rights.

The reconciliation of the number of shares outstanding at the beginning and at the end of the period is presented below:

	<u>Number of shares, mln.</u>
Number of shares outstanding at December 31, 2011	1,005.2
Gold segment separation effect	(192.9)
Repurchase of issued shares	(1.7)
Number of shares outstanding at December 31, 2012	810.6



## OAO Severstal and subsidiaries

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#### ***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 27).

On July 26, 2012 OAO Severstal's share capital was reduced by cancellation of 169,982,695 shares. As a result, the Group's share capital decreased by US\$ 558.6 million, treasury shares decreased by US\$ 1,475.0 million, and additional capital decreased by US\$ 916.4 million.

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

	<b>Treasury shares</b>
Balance before Gold segment separation	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	20,480
Cancellation of shares	(1,474,965)
Balance at December 31, 2012	235,657

#### ***Earnings/(loss) per share***

The calculation of basic and diluted earnings/(loss) per share is presented below:

	<b>Year ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Profit/(loss) for the period attributable to shareholders of OAO Severstal	761,962	2,034,833	(574,914)
Interest expense on convertible bonds, net of tax	6,574	-	-
Diluted profit/(loss) for the period attributable to shareholders of OAO Severstal	768,536	2,034,833	(574,914)
Basic weighted average number of shares outstanding during the period (millions of shares)	839.8	1,005.2	1,005.2
Effect on conversion of convertible bonds (millions of shares)	6.6	-	-
Diluted weighted average number of shares outstanding during the period (millions of shares)	846.4	1,005.2	1,005.2
Basic earnings/(loss) per share (US dollars)	0.91	2.02	(0.57)
Diluted earnings/(loss) per share (US dollars)	0.91	2.02	(0.57)

#### ***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

## **OAO Severstal and subsidiaries**

### **Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010**

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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 December 20, 2010 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 4.29 (US\$ 0.14 at December 20, 2010 exchange rate) per share and per GDR for the nine months of 2010.

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.

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.

#### **27. 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.

## OAO Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

The results of discontinued operations were as follows:

	Year ended December 31,		
	2012	2011	2010
Revenue	161,072	1,949,534	5,041,064
Expenses	(73,252)	(1,720,251)	(5,357,717)
Loss on remeasurement of disposal groups to fair value less costs to sell	-	-	(1,300,050)
<b>Profit/(loss) before income tax</b>	87,820	229,283	(1,616,703)
Income tax expense	(10,112)	(77,605)	(144,693)
<b>Profit/(loss) net of tax</b>	77,708	151,678	(1,761,396)
Net (loss)/gain on disposal	(31,345)	59,095	-
<b>Profit/(loss) for the period</b>	46,363	210,773	(1,761,396)
Attributable to:			
shareholders of OAO Severstal	29,597	127,563	(1,800,086)
non-controlling interests	16,766	83,210	38,690

#### *Lucchini segment*

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

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.

The fair value less costs to sell of the Lucchini segment as of December 31, 2010 was measured using a combination of valuation techniques. The loss on remeasurement of the Lucchini segment to fair value less costs to sell recognized in 2010 in the amount of US\$ 1,010.3 million was allocated to property, plant and equipment and intangible assets on a pro-rata basis.

In 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/(loss) from discontinued operations.

A cumulative net loss of US\$ 46.8 million was recognized in the Group's other comprehensive income as at December 31, 2010 in relation to foreign exchange differences and changes in cash flow hedges for the Lucchini segment.

## **OAo Severstal and subsidiaries**

### **Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010**

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

#### *North America disposal group*

As of December 31, 2010 the North America disposal group was measured at the fair value less costs to sell determined based on price offers available.

The loss on remeasurement of the North America disposal group to fair value less costs to sell recognized in 2010 in the amount of US\$ 289.8 million was allocated to property, plant and equipment and intangible assets on a pro-rata basis.

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/(loss) from discontinued operations.

A cumulative net income of US\$ 33.0 million was recognized in the Group's other comprehensive income as at December 31, 2010 in relation to the fair value adjustment upon acquisition of subsidiary to previously held interest for the North America disposal group.

#### *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 foreign exchange differences 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 (Note 26).

## OAO Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

A summary of assets and liabilities disposed during the years ended December 31, 2012, 2011 and 2010 is presented below:

	Year ended December 31,		
	2012	2011	2010
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*	(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/(loss) 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 for the years ended December 31, 2012, 2011 and 2010

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

The Group's assets held for sale represented the Gold segment that was classified as held for sale as at December 31, 2011 and the Lucchini segment and Severstal Sparrows Point LLC, Severstal Warren LLC, Severstal Wheeling Inc and Mountain State Carbon LLC as at December 31, 2010.

The major classes of assets and liabilities of the disposal groups measured at the lower of carrying amount and fair value less costs to sell at December 31, 2012, 2011 and 2010 were as follows:

	December 31,		
	2012	2011	2010
<b>Current assets:</b>			
Cash and cash equivalents	-	217,133	208,928
Short-term financial investments	-	3,596	5,862
Trade accounts receivable	-	367	711,162
Accounts receivable from related parties	-	594	3,835
Inventories	-	387,590	1,135,314
VAT recoverable	-	57,031	8,870
Income tax recoverable	-	3,051	13,163
Other current assets	-	73,301	65,429
<b>Total current assets</b>	-	742,663	2,152,563
<b>Non-current assets:</b>			
Long-term financial investments	-	86,370	38,972
Investments in associates and joint ventures	-	4,775	70
Property, plant and equipment	-	582,709	1,204,978
Intangible assets	-	1,252,227	70,335
Deferred tax assets	-	2,812	-
Other non-current assets	-	5,754	42,964
<b>Total non-current assets</b>	-	1,934,647	1,357,319
<b>Total assets</b>	-	2,677,310	3,509,882
<b>Current liabilities:</b>			
Trade accounts payable	-	95,190	680,535
Short-term debt finance	-	58,811	1,071,286
Income tax payable	-	18,176	4,360
Other taxes and social security payable	-	25,496	64,433
Other current liabilities	-	76,961	223,160
<b>Total current liabilities</b>	-	274,634	2,043,774
<b>Non-current liabilities:</b>			
Long-term debt finance	-	-	354,820
Deferred tax liabilities	-	200,930	53,723
Retirement benefit liabilities	-	-	592,772
Other non-current liabilities	-	74,559	227,265
<b>Total non-current liabilities</b>	-	275,489	1,228,580
<b>Total liabilities</b>	-	550,123	3,272,354

As of December 31, 2010 the short-term debt finance included US\$ 767.0 million of the Lucchini segment debt finance reclassified to short-term due to breach of finance covenants of related loan agreements.

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

### 28. 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
	2012	2011	2010		
<b>Severstal Russian Steel segment:</b>					
<i>Subsidiaries:</i>					
CJSC Severgal	100.0%	100.0%	100.0%	Russia	Hot dip galvanizing
Severstal SMC-Kolpino LLC	100.0%	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	65.5%	65.5%	65.5%	Russia	Repairs&construction
Severstal-Promservice LLC	99.9%	99.9%	99.9%	Russia	Repairs&construction
JSC Metallurgremont	75.0%	75.0%	75.0%	Russia	Repairs&construction
Victory Industries Inc	99.9%	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%	84.2%	84.2%	Latvia*	Steel sales
AS Latvijas Metals	100.0%	84.2%	84.2%	Latvia*	Steel sales
ZAO SeverStalBel	100.0%	100.0%	100.0%	Belarus*	Steel sales
Severstal-Ukraine LLC	100.0%	100.0%	51.0%	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
Varndell Limited	n/a	n/a	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	74.6%	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%	84.8%	95.0%	Russia	Leasing
PPTK-1 LLC	100.0%	100.0%	100.0%	Russia	Leasing
JSC RC Group	100.0%	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 oxygen
Lucchini S.p.A.	49.2%	49.2%	n/a	France	Holding company
G.S.I. Lucchini S.p.A.	34.1%	34.1%	n/a	Italy	Steel spheres
Servola S.p.A.	49.2%	49.2%	n/a	Italy	Asset holding
Sideris Steel S.A.S	49.2%	49.2%	n/a	France	Investment holding
Lucchini Holland B.V.	49.2%	49.2%	n/a	The Netherlands	Investment holding
Bari Fonderie Meridionali S.p.A.	n/a	49.2%	n/a	Italy	Forgings

(\*) – 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, 2012, 2011 and 2010

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

Company	December 31,			Location	Activity
	2012	2011	2010		
<b>Severstal Russian Steel segment (continue):</b>					
<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
<i>Subsidiary classified as held for sale:</i>					
OOO Severstal-metiz: welding consumables	n/a	n/a	100.0%	Russia	Welding consumables
<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>Associate:</i>					
Delaco Processing LLC	49.0%	49.0%	49.0%	USA	Steel slitting
<i>Joint ventures:</i>					
Spartan Steel Coating LLC	48.0%	48.0%	48.0%	USA	Hot dip galvanizing
Double Eagle Steel Coating Company	50.0%	50.0%	50.0%	USA	Electro-galvanizing
Bethlehem Roll Technologies LLC	n/a	n/a	50.0%	USA	Grinding steel mill rolls
Ohio Coatings Company	n/a	n/a	50.0%	USA	Tin plate steel
Mississippi Steel Processing LLC	20.0%	20.0%	20.0%	USA	Steel service center
Mountain State Carbon LLC	50.0%	50.0%	n/a	USA	Coking coal
<i>Subsidiaries classified as discontinued operations*:</i>					
Severstal Warren LLC	n/a	n/a	100.0%	USA	Iron & steel mill
Severstal Sparrows Point LLC	n/a	n/a	100.0%	USA	Iron & steel mill
Severstal Wheeling Inc	n/a	n/a	100.0%	USA	Steel mill
Mountain State Carbon LLC	n/a	n/a	100.0%	USA	Coking coal
<b>Lucchini segment (classified as discontinued operation)*:</b>					
<i>Subsidiaries:</i>					
Lucchini S.p.A.	n/a	n/a	49.2%	France	Holding company
Ascometal S.A.S	n/a	n/a	49.2%	France	Steel manufacturing
Ascometal GmbH	n/a	n/a	49.2%	Germany	Sales
Bari Fonderie Meridionali S.p.A.	n/a	n/a	49.2%	Italy	Forgings
G.S.I. Lucchini S.p.A.	n/a	n/a	34.1%	Italy	Steel spheres
Lucchini Asia Pacific Pte Ltd	n/a	n/a	49.2%	Singapore	Sales
Lucchini Holland B.V.	n/a	n/a	49.2%	The Netherlands	Investment holding
Lucchini Iberia SI	n/a	n/a	49.2%	Spain	Sales
Lucchini USA Inc	n/a	n/a	49.2%	USA	Sales
Servola S.p.A.	n/a	n/a	49.2%	Italy	Asset holding
Sideris Steel S.A.S	n/a	n/a	49.2%	France	Investment holding
<i>Associates:</i>					
ESPRA S.A.S	n/a	n/a	17.2%	France	Steel scrap
Tecnologie Ambientali Pulite S.p.A.	n/a	n/a	12.2%	Italy	Environmental services
GICA SA	n/a	n/a	12.3%	Switzerland	Carbon dioxide trading

(\*) – Note 27.



## OAO Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

Company	December 31,			Location	Activity
	2012	2011	2010		
<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%	61.5%	61.5%	Liberia	Iron ore
JSC Vorkutaugol	99.0%	88.1%	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	100.0%	100.0%	100.0%	Cyprus	Holding company
<i>Associates:</i>					
Iron Mineral Beneficiation Services (Proprietary) Ltd	33.0%	33.0%	25.6%	Republic of South Africa	Research & investing
Intex Resources ASA	n/a	21.7%	21.7%	Norway	Mining and exploration
SPG Mineracao SA	25.0%	25.0%	n/a	Brazil	Iron ore
<b>Gold segment (classified as discontinued operation)*:</b>					
<i>Subsidiaries:</i>					
OOO Neryungri Metallic	n/a	100.0%	100.0%	Russia	Gold mining
ZAO Mine Aprelkovo	n/a	100.0%	100.0%	Russia	Gold mining
Celtic Resources Holdings Ltd	n/a	100.0%	100.0%	Ireland	Holding company
JSC FIC Alel	n/a	100.0%	100.0%	Kazakhstan	Gold mining
Zherek LLP	n/a	100.0%	100.0%	Kazakhstan	Gold mining
High River Gold Mines Ltd	n/a	75.1%	72.6%	Canada	Holding company
OJSC Buryatzoloto	n/a	63.8%	61.6%	Russia	Gold mining
Berezitovy Rudnik LLC	n/a	75.0%	72.6%	Russia	Gold mining
Societe Des Mines de Taparko	n/a	67.6%	65.4%	Burkina Faso	Gold mining
Semgeo LLP	n/a	100.0%	100.0%	Kazakhstan	Gold mining
Crew Gold Corporation	n/a	100.0%	93.4%	Canada	Holding company
Societe Miniere de Dinguiraye	n/a	100.0%	93.4%	Guinea	Gold mining
Nord Gold N.V.	n/a	100.0%	100.0%	The Netherlands	Holding company

(\*) – Note 27.

In addition, at the reporting date, a further 70 (December 31, 2011: 111; December 31, 2010: 53) 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 19 of these consolidated financial statements.

## **OAO Severstal and subsidiaries**

### **Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010**

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

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

##### *Investments in 2010*

In May 2010, the Group acquired a 16.5% stake in Core Mining Limited (“CML”) for a total consideration of US\$ 15.0 million. CML is a private company registered in the Isle of Man focused on the exploration, development and operation of iron ore projects in Central and Western Africa, mainly in Republic of Congo (Brazzaville) and Republic of Gabon.

In September 2010, the Group acquired a 21.7% stake in Intex Resources ASA (“Intex”) for a total consideration of US\$ 13.0 million. Intex is a public mining and exploration company listed on Oslo Stock Exchange with its headquarters in Oslo, Norway. Intex’s main asset is the Mindoro Nickel Project — a substantial nickel laterite deposit in the Philippines. In addition, Intex has two molybdenum assets in Norway, as well as Maniitsoq, a diamond province in Greenland.

During 2010, the Group acquired an 11% stake in Sacre-Coeur Minerals Ltd (“SCM”) for a total consideration of US\$ 6.2 million, increasing its ownership up to 18.1%. SCM is engaged in the acquisition, exploration and development of properties for the potential mining of gold and metals in South America, initially focusing on exploration for gold on its properties in Guyana.

During 2010, the Group acquired a 25.6% stake in Iron Mineral Beneficiation Services (Proprietary) Limited (IMBS) for a total consideration of US\$ 35.7 million, of which US\$ 28.2 million are payable during the next four years based on the future performance of the company. 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.

##### *Investments in 2011*

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 33.0%.

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.

#### ***Acquisition of subsidiary from third parties***

During October-November 2010, the Group paid a US\$ 7.2 million of contingent consideration in respect of the acquired 61.5% stake in African Iron Ore Group Ltd (re-named to Severstal Liberia Iron Ore Ltd) in December 2008.

#### ***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%.

## OAO Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

#### *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%.

#### *Disposal of associate*

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

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

##### *Disposal in 2010*

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

##### *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 2012, 2011 and 2010 is presented below:

	<b>Year ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Trade accounts receivable	-	-	(49,723)
Inventories	-	-	(90,841)
Other assets	-	-	(1,547)
Property, plant and equipment	-	-	(16,433)
Intangible assets	-	-	(632)
Assets held for sale	-	(14,884)	-
Trade accounts payable	-	-	35,307
Liabilities related to assets held for sale	-	23,003	-
Other liabilities	-	-	5,222
Net identifiable assets	-	8,119	(118,647)
Consideration in cash	-	12,914	118,647
Net gain on disposal	-	21,033	-
Net change in cash and cash equivalents	-	12,914	118,647

## **OAO Severstal and subsidiaries**

### **Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010**

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

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

In July 2010, the Group acquired an additional 13.8% stake in Crew Gold Corporation for a total consideration of US\$ 84.5 million, increasing its ownership interest up to 40.4%.

In July 2010, the Group acquired an additional 9.8% stake in Crew Gold Corporation for a total consideration of US\$ 70.9 million, increasing its ownership interest up to 50.2%.

The acquiree's profit from the beginning of the period to the date of acquisition comprised US\$ 10.8 million. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US\$ 140.6 million. The loss since the acquisition date included in the Group's profit/(loss) from discontinued operations amounted to US\$ 14.5 million. Revenue since the acquisition date included in the Group's revenue from discontinued operations amounted to US\$ 98.6 million.

## OAO Severstal and subsidiaries

**Notes to the consolidated financial statements**  
**for the years ended December 31, 2012, 2011 and 2010**  
*(Amounts expressed in thousands of US dollars, except as otherwise stated)*

A summary of assets and liabilities acquired from third parties during 2012, 2011 and 2010 is presented below:

	Year ended December 31,		
	2012	2011	2010
Cash and cash equivalents	-	-	29,929
Trade accounts receivable	-	-	16,500
Inventories	-	-	51,251
Other current assets	-	-	6,896
Property, plant and equipment	-	-	134,061
Intangible assets	-	-	675,668
Other non-current assets	-	-	9,745
Trade accounts payable	-	-	(20,037)
Other taxes and social security payable	-	-	(51)
Other current liabilities	-	-	(67,345)
Deferred tax liabilities	-	-	(120,139)
Debt finance	-	-	(113,055)
Other non-current liabilities	-	-	(11,715)
Net identifiable assets and liabilities acquired	-	-	591,708
Non-controlling interests	-	-	(294,395)
Severstal's share of net identifiable assets and liabilities acquired	-	-	297,313
Investments at equity	-	-	(182,846)
Fair value adjustment upon acquisition of subsidiary to previously held interest	-	-	(42,170)
Consideration:			
Consideration in cash	-	-	(70,879)
Negative goodwill on acquisition of subsidiaries	-	-	1,418
Net change in cash and cash equivalents	-	-	(40,950)

In September 2010, the Group acquired an additional 43.2% stake in Crew Gold Corporation for a total consideration of US\$ 214.8 million, increasing its ownership interest up to 93.4%.

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

In August 2010, the Group acquired an additional stake in High River Gold Mines Ltd upon exercise of warrants held by the Group for a total consideration of US\$ 25.1 million, increasing its ownership interest up to 70.4%.

In October 2010, the Group acquired an additional 2.3% stake in High River Gold Mines Ltd for a total consideration of US\$ 19.7 million, increasing its ownership interest up to 72.6%.

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, 2012, 2011 and 2010

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

### 29. Segment information

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 22).

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

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

	<u>Severstal Resources</u>	<u>Gold</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	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>	<u>1,450,558</u>	<u>2,680,066</u>	<u>4,809,446</u>	<u>1,412,002</u>	<u>(1,422,296)</u>	<u>8,929,776</u>
<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>	<u>3,332,208</u>	<u>-</u>	<u>10,268,064</u>	<u>3,069,836</u>	<u>(7,690,093)</u>	<u>8,980,015</u>
<b>Total assets</b>	<u>4,782,766</u>	<u>2,680,066</u>	<u>15,077,510</u>	<u>4,481,838</u>	<u>(9,112,389)</u>	<u>17,909,791</u>
<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>	<u>824,112</u>	<u>894,094</u>	<u>2,454,414</u>	<u>699,540</u>	<u>497,638</u>	<u>5,369,798</u>
<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>	<u>534,380</u>	<u>-</u>	<u>4,181,837</u>	<u>2,283,334</u>	<u>(1,526,881)</u>	<u>5,472,670</u>
<b>Equity</b>	<u>3,424,274</u>	<u>1,785,972</u>	<u>8,441,259</u>	<u>1,498,964</u>	<u>(8,083,146)</u>	<u>7,067,323</u>
<b>Total equity and liabilities</b>	<u>4,782,766</u>	<u>2,680,066</u>	<u>15,077,510</u>	<u>4,481,838</u>	<u>(9,112,389)</u>	<u>17,909,791</u>

\* 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, 2012, 2011 and 2010

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

Segmental statements of financial position as at December 31, 2010:

	<u>Severstal Resources</u>	<u>Gold</u>	<u>Severstal Russian Steel</u>	<u>Lucchini</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	66,497	212,182	1,700,229	-	33,754	-	2,012,662
Short-term bank deposits	22	-	12,668	-	-	-	12,690
Short-term financial investments	48,904	2,070	677,564	-	-	(701,075)	27,463
Trade accounts receivable	142,397	1,260	613,854	-	210,326	-	967,837
Amounts receivable from related parties	207,708	-	110,524	-	39	(305,912)	12,359
Restricted financial assets	-	-	41,313	-	-	-	41,313
Inventories	101,091	283,479	1,527,266	-	522,968	(65,670)	2,369,134
VAT recoverable	26,454	32,510	220,662	-	-	-	279,626
Income tax recoverable	4,437	3,833	20,570	-	10,738	-	39,578
Other current assets	56,072	32,400	171,495	-	38,216	-	298,183
Assets held for sale	3,266	-	10,899	1,853,849	1,643,991	(2,123)	3,509,882
<b>Total current assets</b>	<u>656,848</u>	<u>567,734</u>	<u>5,107,044</u>	<u>1,853,849</u>	<u>2,460,032</u>	<u>(1,074,780)</u>	<u>9,570,727</u>
<b>Non-current assets:</b>							
Long-term financial investments	1,325,960	120,185	6,409,105	-	6,000	(7,656,708)	204,542
Investments in associates and joint ventures	21,336	5,547	67,142	-	64,539	-	158,564
Property, plant and equipment	1,088,406	488,164	3,573,159	-	2,174,087	(23,967)	7,299,849
Intangible assets	497,342	1,275,184	137,918	-	19,229	1,269	1,930,942
Restricted financial assets	19,017	5,453	37,244	-	-	-	61,714
Deferred tax assets	4,166	11,163	38,448	-	50,000	-	103,777
Other non-current assets	8,042	6,052	16,982	-	47,190	-	78,266
<b>Total non-current assets</b>	<u>2,964,269</u>	<u>1,911,748</u>	<u>10,279,998</u>	<u>-</u>	<u>2,361,045</u>	<u>(7,679,406)</u>	<u>9,837,654</u>
<b>Total assets</b>	<u>3,621,117</u>	<u>2,479,482</u>	<u>15,387,042</u>	<u>1,853,849</u>	<u>4,821,077</u>	<u>(8,754,186)</u>	<u>19,408,381</u>
<b>Liabilities</b>							
<b>Current liabilities:</b>							
Trade accounts payable	102,108	57,879	408,026	-	329,376	-	897,389
Amounts payable to related parties	6,067	-	175,419	-	8,306	(173,075)	16,717
Short-term debt finance	282,991	280,241	1,301,799	-	57,777	(499,257)	1,423,551
Income taxes payable	6,765	26,231	8,234	-	-	-	41,230
Other taxes and social security payable	61,849	25,909	67,766	-	554	-	156,078
Dividends payable	-	-	17,131	-	-	-	17,131
Other current liabilities	70,035	77,509	354,597	-	48,289	4,147	554,577
Liabilities related to assets held for sale	12,795	-	1,057	2,026,696	1,705,094	(473,288)	3,272,354
<b>Total current liabilities</b>	<u>542,610</u>	<u>467,769</u>	<u>2,334,029</u>	<u>2,026,696</u>	<u>2,149,396</u>	<u>(1,141,473)</u>	<u>6,379,027</u>
<b>Non-current liabilities:</b>							
Long-term debt finance	235,481	116,174	3,731,224	-	1,370,428	(730,381)	4,722,926
Deferred tax liabilities	169,418	206,524	153,090	-	-	(13,961)	515,071
Retirement benefit liabilities	22,582	-	88,894	-	53,079	-	164,555
Other non-current liabilities	141,613	63,409	36,566	-	35,553	8	277,149
<b>Total non-current liabilities</b>	<u>569,094</u>	<u>386,107</u>	<u>4,009,774</u>	<u>-</u>	<u>1,459,060</u>	<u>(744,334)</u>	<u>5,679,701</u>
<b>Equity</b>	<u>2,509,413</u>	<u>1,625,606</u>	<u>9,043,239</u>	<u>(172,847)</u>	<u>1,212,621</u>	<u>(6,868,379)</u>	<u>7,349,653</u>
<b>Total equity and liabilities</b>	<u>3,621,117</u>	<u>2,479,482</u>	<u>15,387,042</u>	<u>1,853,849</u>	<u>4,821,077</u>	<u>(8,754,186)</u>	<u>19,408,381</u>



# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

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

	<u>Severstal Resources</u>	<u>Gold</u>	<u>Severstal Russian Steel</u>	<u>Severstal International</u>	<u>Inter segment transactions</u>	<u>Conso- lidated</u>
<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
	<u>3,004,555</u>	<u>-</u>	<u>8,617,130</u>	<u>3,878,485</u>	<u>(1,396,464)</u>	<u>14,103,706</u>
<b>Cost of sales</b>	<u>(1,724,862)</u>	<u>-</u>	<u>(6,711,442)</u>	<u>(3,774,920)</u>	<u>1,425,932</u>	<u>(10,785,292)</u>
<b>Gross profit</b>	1,279,693	-	1,905,688	103,565	29,468	3,318,414
General and administrative expenses	(155,355)	-	(517,304)	(91,107)	9,153	(754,613)
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
Gain/(loss) on remeasurement and disposal of financial investments	8,021	-	381,510	-	(396,112)	(6,581)
Loss on disposal of property, plant and equipment and intangible assets	(3,866)	-	(19,887)	(2,209)	-	(25,962)
Net other operating income/(expenses)	<u>3,726</u>	<u>-</u>	<u>27,267</u>	<u>(5,025)</u>	<u>(5,725)</u>	<u>20,243</u>
<b>Profit/(loss) from operations</b>	750,610	-	990,192	(6,936)	(363,033)	1,370,833
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>	1,216,753	-	938,573	(7,158)	(901,988)	1,246,180
Interest income	81,908	-	110,965	3,386	(128,090)	68,169
Interest expense	(58,001)	-	(365,360)	(141,818)	124,241	(440,938)
Foreign exchange differences	(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>	<u>1,085,144</u>	<u>153,797</u>	<u>751,113</u>	<u>(258,770)</u>	<u>(911,485)</u>	<u>819,799</u>
<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, 2012, 2011 and 2010

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

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

	<u>Severstal Resources</u>	<u>Gold</u>	<u>Severstal Russian Steel</u>	<u>Lucchini</u>	<u>Severstal International</u>	<u>Inter segment transactions</u>	<u>Conso- lidated</u>
<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
	<u>3,711,432</u>	<u>-</u>	<u>10,546,831</u>	<u>-</u>	<u>3,422,095</u>	<u>(1,867,958)</u>	<u>15,812,400</u>
<b>Cost of sales</b>	<u>(1,745,500)</u>	<u>-</u>	<u>(7,748,673)</u>	<u>-</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	(160,307)	-	(497,400)	-	(82,698)	15,362	(725,043)
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
Gain/(loss) on remeasurement and disposal of financial investments	33	-	(4,685)	-	-	-	(4,652)
Loss on disposal of property, plant and equipment and intangible assets	(7,848)	-	(11,140)	-	(1,951)	-	(20,939)
Net other operating (expenses)/income	(10,761)	-	20,610	-	6,993	(18,303)	(1,461)
<b>Profit from operations</b>	1,394,216	-	1,450,000	-	61,541	11,600	2,917,357
Reversal of impairment of non-current assets	-	-	438	-	-	-	438
Net other non-operating expenses	(21,207)	-	(53,283)	-	-	9,109	(65,381)
<b>Profit before financing and taxation</b>	1,373,009	-	1,397,155	-	61,541	20,709	2,852,414
Interest income	24,768	-	183,677	-	79	(158,843)	49,681
Interest expense	(106,751)	-	(358,642)	-	(98,178)	127,430	(436,141)
Foreign exchange differences	65,689	-	(102,669)	-	-	-	(36,980)
<b>Profit/(loss) before income tax</b>	1,356,715	-	1,119,521	-	(36,558)	(10,704)	2,428,974
Income tax expense	(285,097)	-	(171,056)	-	(4,884)	(4,975)	(466,012)
<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, 2012, 2011 and 2010

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

Segmental income statements for the year ended December 31, 2010:

	Severstal Resources	Gold	Severstal Russian Steel	Lucchini	Severstal International	Inter segment transactions	Conso- lidated
<b>Revenue</b>							
Revenue - third parties	1,235,576	-	8,610,139	-	2,911,068	-	12,756,783
Revenue - related parties	1,496,440	-	204,615	-	444	(1,639,164)	62,335
	<u>2,732,016</u>	<u>-</u>	<u>8,814,754</u>	<u>-</u>	<u>2,911,512</u>	<u>(1,639,164)</u>	<u>12,819,118</u>
<b>Cost of sales</b>	<u>(1,387,112)</u>	<u>-</u>	<u>(6,006,406)</u>	<u>-</u>	<u>(2,909,333)</u>	<u>1,586,085</u>	<u>(8,716,766)</u>
<b>Gross profit</b>	1,344,904	-	2,808,348	-	2,179	(53,079)	4,102,352
General and administrative expenses	(84,435)	-	(424,161)	-	(78,353)	1,906	(585,043)
Distribution expenses	(210,559)	-	(780,872)	-	-	704	(990,727)
Other taxes and contributions	(60,210)	-	(75,802)	-	(560)	-	(136,572)
Share of associates' profit	4,727	-	2,906	-	12,728	-	20,361
Loss on remeasurement and disposal of financial investments	(6,171)	-	(140,151)	-	-	-	(146,322)
(Loss)/gain on disposal of property, plant and equipment and intangible assets	(25,852)	-	(20,337)	-	3,399	-	(42,790)
Net other operating (expenses)/income	<u>(10,997)</u>	<u>-</u>	<u>(2,855)</u>	<u>-</u>	<u>1,473</u>	<u>(3,574)</u>	<u>(15,953)</u>
<b>Profit/(loss) from operations</b>	951,407	-	1,367,076	-	(59,134)	(54,043)	2,205,306
Impairment of non-current assets	(14,834)	-	(21,136)	-	(44,160)	-	(80,130)
Net other non-operating expenses	<u>(17,088)</u>	<u>-</u>	<u>(26,511)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(43,599)</u>
<b>Profit/(loss) before financing and taxation</b>	919,485	-	1,319,429	-	(103,294)	(54,043)	2,081,577
Interest income	19,098	-	282,853	-	184	(201,540)	100,595
Interest expense	(161,234)	-	(469,673)	-	(151,024)	164,146	(617,785)
Foreign exchange differences	<u>62,214</u>	<u>-</u>	<u>47,522</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,736</u>
<b>Profit/(loss) before income tax</b>	839,563	-	1,180,131	-	(254,134)	(91,437)	1,674,123
Income tax expense	<u>(144,722)</u>	<u>-</u>	<u>(235,830)</u>	<u>-</u>	<u>(58,505)</u>	<u>11,751</u>	<u>(427,306)</u>
<b>Profit/(loss) from continuing operations</b>	694,841	-	944,301	-	(312,639)	(79,686)	1,246,817
Profit/(loss) from discontinued operations	-	148,700	-	(1,210,076)	(742,684)	42,664	(1,761,396)
<b>Profit/(loss) for the period</b>	<u>694,841</u>	<u>148,700</u>	<u>944,301</u>	<u>(1,210,076)</u>	<u>(1,055,323)</u>	<u>(37,022)</u>	<u>(514,579)</u>
<b>Additional information:</b>							
depreciation and amortization expense	177,048	121,415	287,571	37,981	237,711	-	861,726
capital expenditures	262,114	171,673	575,633	15,183	341,620	-	1,366,223
intersegment revenue (incl. in revenue from related parties)	1,496,377	-	142,787	7,121	-	(1,646,285)	-

## OAQ Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

*(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,		
	2012	2011	2010
Russian Federation	5,861,457	4,784,705	5,111,242
North America	3,293,635	3,336,165	2,790,550
Africa	168,931	128,910	1,063,247
Europe	115,816	92,863	130,269
Central Asia	-	-	275,463
	<u>9,439,839</u>	<u>8,342,643</u>	<u>9,370,771</u>

The locations are primarily represented by the following countries:

- In Europe: Latvia, Italy and Ukraine;
- In Africa: Liberia (as at December 31, 2012 and 2011); Burkina Faso, Liberia and Guinea (as at December 31, 2010);
- In the Central Asia: Kazakhstan (as at December 31, 2010);
- In North America: the USA.

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

### 30. 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 and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

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, 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
Convertible bonds 2017	480,268	475,000	5,268
Eurobonds 2022	759,608	750,000	9,608
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>
	<b>December 31, 2010</b>		
	<b>Market value</b>	<b>Book value</b>	<b>Difference</b>
Ruble bonds 2012	516,834	492,176	24,658
Ruble bonds 2013	514,160	492,176	21,984
Eurobonds 2013	605,044	543,552	61,492
Eurobonds 2014	418,361	375,000	43,361
Eurobonds 2017	988,125	1,000,000	(11,875)
Severstal Columbus bonds	561,425	525,000	36,425
	<u>3,603,949</u>	<u>3,427,904</u>	<u>176,045</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, 2012, 2011 and 2010

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

#### **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 31e). The Group has developed policies and procedures for the management of credit exposures, including the establishment of credit committees that actively monitors credit risk.

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

	December 31,		
	2012	2011	2010
Cash and cash equivalents	1,726,275	1,863,538	2,012,662
Loans and receivables	1,180,733	1,465,579	1,138,656
Derivative financial assets	34,808	-	-
Held-to-maturity securities and deposits	27,908	6,913	28,052
Available-for-sale financial assets	39,840	32,363	155,477
Held-for-trading securities	30	4,093	18,350
Restricted financial assets	32,970	22,638	103,027
	3,042,564	3,395,124	3,456,224

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

	December 31,		
	2012	2011	2010
Russian Federation	600,511	549,392	432,626
North America	258,131	332,720	228,910
Europe	177,984	216,797	202,661
The Middle East	9,925	79,088	3,787
China and Central Asia	4,145	24,625	35,973
Central and South America	3,722	18,352	6,121
South-East Asia	712	32,129	26,457
Africa	54	35	37,311
	1,055,184	1,253,138	973,846

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

	December 31,		
	2012	2011	2010
Industrial consumers	804,000	751,943	757,760
Wholesale customers	177,709	412,155	122,215
Retail customers	13,629	18,219	59,769
Other customers	59,846	70,821	34,102
	1,055,184	1,253,138	973,846

The Group holds bank and other guarantees provided as collateral for financial assets. Amount of collateral held does not fully cover Group's exposure to credit risk.

## OAO Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

#### **Impairment losses**

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

	December 31,					
	2012		2011		2010	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
Not past due	887,464	(47,569)	1,116,018	(49,251)	887,212	(17,795)
Past due less than 30 days	173,504	(1,672)	118,613	(487)	55,913	(179)
Past due 31-90 days	36,335	(1,641)	39,223	(92)	18,566	(162)
Past due 91-180 days	4,658	(577)	10,605	(1,073)	12,410	(1,139)
Past due 181-365 days	2,997	(2,631)	10,799	(1,724)	25,479	(10,948)
More than one year	55,271	(50,955)	47,839	(37,332)	41,516	(37,027)
	<u>1,160,229</u>	<u>(105,045)</u>	<u>1,343,097</u>	<u>(89,959)</u>	<u>1,041,096</u>	<u>(67,250)</u>

The impairment allowance at December 31, 2012 included the impairment allowance in respect of trade receivables from related parties for the total amount of US\$ 50.1 million (December 31, 2011: US\$ 31.9 million; December 31, 2010: US\$ 3.4 million).

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

	Year ended December 31,		
	2012	2011	2010
Opening balance	(89,959)	(67,250)	(85,649)
Impairment loss recognized	(45,653)	(58,445)	(64,920)
Impairment loss reversed	34,661	27,234	64,584
Reclassified to assets held for sale	-	6,474	16,288
Foreign exchange differences	(4,094)	2,028	2,447
Closing balance	<u>(105,045)</u>	<u>(89,959)</u>	<u>(67,250)</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.

At December 31, 2012 the Group recognized an impairment allowance in respect of deposit in the amount of US\$ nil (December 31, 2011: US\$ nil; December 31, 2010: US\$ 134.0 million) (Note 6).

## **OA0 Severstal and subsidiaries**

### **Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010**

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

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

*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.

*2010*

The Group has a concentration of cash and short-term bank deposits with AB Russia, OAO Bank VTB, OAO Sberbank Russia and OAO Metcombank that at December 31, 2010 represented US\$ 322.8 million, US\$ 393.5 million, US\$ 300.0 million and US\$ 168.2 million, respectively.

The Group has a concentration of available-for-sale financial assets with Detour Gold Corporation that at December 31, 2010 represented US\$ 90.6 million.

#### ***Liquidity risk***

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



# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

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

### 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>

### December 31, 2010

	<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	6,146,477	(7,716,557)	(1,784,457)	(1,126,555)	(2,619,640)	(2,185,905)
Lease liabilities	10,859	(10,860)	(7,966)	(842)	(952)	(1,100)
Trade and other payables	1,025,190	(1,029,186)	(1,002,788)	(5,250)	(17,646)	(3,502)
<b>Derivative financial liabilities</b>	22,286	(28,445)	(9,377)	(4,642)	(14,426)	-
	<u>7,204,812</u>	<u>(8,785,048)</u>	<u>(2,804,588)</u>	<u>(1,137,289)</u>	<u>(2,652,664)</u>	<u>(2,190,507)</u>

### 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.

### 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.

# OA0 Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

2010

At December 31, 2010, the Group has a concentration of bank financing with Deutsche Bank AG and European Bank for Reconstruction and Development of US\$ 880.0 million and US\$ 618.4 million, respectively.

### Currency risk

Currency risk arises when a Group entity enters into transactions and balances not denominated in 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:

	December 31, 2012					
	Euro	USD	GBP	RUB	CAD	NOK
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	(1,879,711)	(1,806,288)	(92)	(9,982)	22	2,182

	December 31, 2011					
	Euro	USD	GBP	RUB	CAD	NOK
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	158,090	(1,280,605)	(21)	3,034	40	1,833

	December 31, 2010								
	Euro	USD	GBP	RUB	CHF	CAD	KZT	NOK	Other
Available-for-sale financial assets	-	15,582	6,920	-	-	-	-	-	-
Held-to-maturity securities and deposits	-	-	-	-	-	690	-	-	-
Loans and receivables	1,332,624	1,527,205	18,736	33,520	-	67,322	54,501	-	310
Cash and cash equivalents	210,260	944,596	596	22	3,311	-	-	-	2,686
Restricted financial assets	14,082	29,337	-	-	-	-	-	-	-
Debt finance	(853,446)	(3,680,171)	(3,435)	(660)	-	(120,504)	-	(83,169)	(383)
Finance lease liabilities	(236)	(662)	-	-	-	-	-	-	-
Trade and other payables	(192,984)	(94,896)	(175)	(981)	(52)	(10)	-	-	-
Derivative financial liabilities	-	(14,039)	-	-	-	-	-	-	-
Net exposure	510,300	(1,273,048)	22,642	31,901	3,259	(52,502)	54,501	(83,169)	2,613

# OAO Severstal and subsidiaries

## Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

### *Sensitivity analysis*

A 10 percent strengthening of the following currencies against the functional currency at December 31, 2012 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 2011 and 2010.

	Year ended December 31,		
	2012	2011	2010
<b>Net profit</b>			
Euro	(154,348)	12,724	40,241
USD	(143,282)	(100,897)	(98,234)
GBP	(8)	(2)	1,684
CHF	-	-	294
CAD	3	3	(3,923)
RUB	(902)	212	2,690
KZT	-	-	4,103
NOK	143	128	(5,988)
Other	-	-	209

A 10 percent weakening of these currencies against the functional currency at December 31, 2012 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 should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

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

	December 31,		
	2012	2011	2010
<b>Variable rate instruments</b>			
Financial assets	44,219	21,091	31,386
Financial liabilities	(978,008)	(1,942,638)	(2,279,275)
	<u>(933,789)</u>	<u>(1,921,547)</u>	<u>(2,247,889)</u>

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

## OAO Severstal and subsidiaries

### Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

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

#### *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 2011 and 2010.

	Net profit	
	100 bp increase	100 bp decrease
<b>December 31, 2012</b>		
Financial assets	442	(442)
Financial liabilities	(8,897)	8,897
Cash flow sensitivity (net)	(8,455)	8,455
<b>December 31, 2011</b>		
Financial assets	28	(28)
Financial liabilities	(14,304)	14,304
Cash flow sensitivity (net)	(14,276)	14,276
<b>December 31, 2010</b>		
Financial assets	251	(251)
Financial liabilities	(18,234)	18,234
Cash flow sensitivity (net)	(17,983)	17,983

#### *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.

	Level 1	Level 2	Level 3	Total
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)
Balance at 31 December 2010	120,863	(4,051)	34,729	151,541
Available-for-sale financial assets	120,748	-	34,729	155,477
Held-for-trading securities	115	18,235	-	18,350
Derivative financial liabilities	-	(22,286)	-	(22,286)

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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:

	<b>Available-for- sale financial assets</b>	<b>Held-for- trading securities</b>
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	-
Losses recognized in other comprehensive income	(580)	-
Purchases of financial instruments	23,712	-
Balance at 31 December 2009	11,597	-

# **OA0 Severstal and subsidiaries**

## **Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010**

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

### **31. Commitments and contingencies**

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

The taxation system and regulatory environment of the Russian Federation, Kazakhstan, Burkina Faso and Guinea 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 these countries 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 approximately US\$ 18.1 million (December 31, 2011: US\$ 17.7 million made by the Russian tax authorities; December 31, 2010: US\$ 113.6 million made by the Russian, Kazakhstan, Burkina Faso and Guinea tax authorities). 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 sources 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\$ 777.0 million (December 31, 2011: US\$ 1,085.9 million; December 31, 2010: US\$ 1,546.6 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\$ 39.1 million (December 31, 2011: US\$ 88.2 million; December 31, 2010: US\$ 38.2 million) of guarantees issued, including guarantees issued for related parties, of US\$ 23.0 million (December 31, 2011: US\$ 74.9 million; December 31, 2010: US\$ 10.0 million).

# **OAO Severstal and subsidiaries**

## **Notes to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010**

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### **32. Subsequent events**

In January 2013, Lucchini S.p.A. officially declared insolvency. The appointed independent Extraordinary Commissioner sent a communication to all creditors informing them of the opening of the extraordinary administration proceeding. Effective that date, the Group lost its significant influence on Lucchini and started to account the respective investment at fair value. No gains or losses were recognized as a result of this event.