IMPORTANT: You must read the following before continuing. The following applies to the base prospectus (the ***Base Prospectus***) following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS BASE PROSPECTUS MAY ONLY BE DISTRIBUTED TO PERSONS THAT ARE NOT US PERSONS AS DEFINED IN REGULATION S UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE ***SECURITIES ACT***) OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) WHO ARE ALSO QUALIFIED PURCHASERS (AS DEFINED BELOW). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS BASE PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THIS BASE PROSPECTUS (THE ***NOTES***) HAVE NOT BEEN, AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144 A UNDER THE US SECURITIES ACT (***RULE 144A***) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A ***QIB***) THAT IS ALSO A QUALIFIED PURCHASER AS DEFINED IN SECTION 2(A)(51) OF THE US INVESTMENT COMPANY ACT OF 1940 (A ***QUALIFIED PURCHASER***) THAT (A) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (B) IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (C) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN STEEL CAPITAL S.A. (THE ***ISSUER***), (D) IS ACQUIRING THE NOTES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QUALIFIED PURCHASER, IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN US$200,000, (E) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (F) WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE, OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your Representation: In order to be eligible to view this Base Prospectus or make an investment decision with respect to the Notes, you must be (i) a person other than a US person (within the meaning of Regulation S under the Securities Act) or (ii) a QIB who is a Qualified Purchaser. By accessing this Base Prospectus, you shall be deemed to have represented to us that you are not a US person or that you are a QIB that is a Qualified Purchaser that can represent as set out in (A)-(F) above.

You are reminded that you may not, nor are you authorised to, deliver, forward or distribute this Base Prospectus (or any reproduction of this Base Prospectus) to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any jurisdiction or place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Permanent Dealers (as defined herein) or any affiliate of the Permanent Dealers is a licensed broker or dealer in that jurisdiction, any offering of Notes shall be deemed to be made by the Permanent Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall this Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of any securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Base Prospectus who intend to subscribe for or purchase any securities are reminded that any subscription or purchase may only be made on the basis of the information contained in this Base Prospectus in combination with the relevant series prospectus or final terms. This Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

OAO SEVERSTAL

(incorporated as an open joint stock company under the laws of the Russian Federation)

US$4,500,000,000 Programme for the Issuance of Loan Participation Notes

to be issued by, but with limited recourse to,

Steel Capital S.A.

for the purpose of financing loans to

OAO SEVERSTAL

Under the programme for the issuance of Loan Participation Notes (the ***Programme***) described in this base prospectus (the ***Base Prospectus***), Steel Capital S.A. (the ***Issuer***), subject to compliance with all relevant laws, regulations and directives, may from time to time issue loan participation notes (the ***Notes***) on the terms set out herein, as completed by a set of final terms (each such set of final terms, ***Final Terms***) or series prospectus (***Series Prospectus***) setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed US$4,500,000,000 (or the equivalent in other currencies). This Base Prospectus supersedes any previous base prospectus, offering circular or supplement thereto relating to the Programme. Any Notes issued under the Programme on or after the date of this Base Prospectus are issued subject to the provisions herein. This Base Prospectus does not affect any Notes issued prior to the date hereof.

Notes will be issued in Series (as defined in "*Overview of the Programme*") and the sole purpose of issuing each Series will be to finance a loan (each a ***Loan***) to OAO Severstal (***the Company*** or the ***Borrower***) as borrower, on the terms of an amended and restated facility agreement between the Issuer and the Company dated 15 March 2013 (the ***Facility Agreement***), as amended and supplemented by a loan supplement to be entered into between the Issuer and the Company in respect of each Series on each date on which the Notes of that Series are issued (each a ***Loan Supplement*** and, together with the Facility Agreement, a ***Loan Agreement***). Subject as provided in the Trust Deed (as defined in "*Overview of the Programme*") the Issuer will (a) charge, in favour of Citibank, N.A., London Branch as trustee (the ***Trustee***), by way of a first fixed charge, as security for its payment obligations in respect of each Series of Notes and under the Trust Deed, certain of its rights and interests under the relevant Loan Agreement and the relevant Account (as defined in the relevant Loan Supplement), but excluding any Reserved Rights (as defined in the "*Terms and Conditions of the Notes*") and (b) assign, in favour of the Trustee, certain of its other rights under the Loan Agreement but excluding any Reserved Rights, in each case for the benefit of the holders of the corresponding Series of Notes (the ***Noteholders***), all as more fully described in "*Overview of the Programme*".

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of a Series of Notes, the obligation of the Issuer to make any such payment constitutes an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of such Series of Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by, or for the account of, the Issuer pursuant to the corresponding Loan Agreement. The Issuer will have no other financial obligations under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the Company's covenant to pay under the relevant Loan Agreement and the credit and financial standing of the Company in respect of the financial servicing of each Series of Notes**.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. PROSPECTIVE INVESTORS SHOULD HAVE REGARD TO THE FACTORS DESCRIBED UNDER THE SECTION ENTITLED "*RISK FACTORS*" IN THIS BASE PROSPECTUS.

The Notes and the corresponding Loans (together, the ***Securities***) have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the ***Securities Act***) or with any securities regulatory authority of any State or other jurisdiction of the United States. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, US persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States to non-US persons in reliance on Regulation S (***Regulation S***) under the Securities Act (the ***Regulation S Notes***) and within the United States to qualified institutional buyers (***QIBs***), as defined in Rule 144A (***Rule 144A***) under the Securities Act, that are also qualified purchasers (***QPs***), as defined in Section 2(a)(51) of the US Investment Company Act of 1940 (the ***Investment Company Act***), in reliance on the exemption from registration under the Securities Act provided by Rule 144A (the ***Rule 144A Notes***). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on Offers, sales and transfers of the Notes and distribution of this Base Prospectus, see "*Subscription and Sale*" and "*Selling and Transfer Restrictions*".

This Base Prospectus has been approved by the Central Bank of Ireland (the ***Central Bank***), as competent authority under Directive 2003/71/EC (the ***Prospectus Directive***). The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes that are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Application will be made to the Irish Stock Exchange for the Notes issued under the Programme during the period of 12 months from the date hereof to be admitted to the Official List (the ***Official List***) and trading on its regulated market (the ***Main Securities Market***). Reference in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Main Securities Market. The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. Unlisted Notes may also be issued pursuant to the Programme. The relevant Final Terms or Series Prospectus in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Irish Stock Exchange (or any other stock exchange). The Central Bank has only approved this document in relation to Notes that are to be listed on the Irish Stock Exchange or another Main Securities Market in the European Economic Area, and the Central Bank has neither reviewed nor approved this document in relation to any unlisted Notes.

Regulation S Notes of each Series which are sold in an "offshore transaction" within the meaning of Regulation S, will initially be represented by interests in a global unrestricted Note in registered form (each a ***Regulation S Global Certificate***), without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. (***Euroclear***) and Clearstream Banking, société anonyme (***Clearstream, Luxembourg***) on its issue date (the ***Issue Date***). Beneficial interests in a Regulation S Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. Rule 144A Notes of each Series sold to QIBs that are also QPs, as referred to in, and subject to the transfer restrictions described in, "*Subscription and Sale*" and "*Selling and Transfer Restrictions*", will initially be represented by interests in a global restricted Note in registered form (each a ***Rule 144A Global Certificate*** and together with any Regulation S Global Certificates, the ***Global Certificates***), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (***DTC***) on its Issue Date. Beneficial interests in a Rule 144A Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "*Summary of the Provisions relating to the Notes in Global Form*". Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

The price and amount of Notes to be issued under the Programme will be determined by the Issuer, the Company and the relevant Dealer (as named in "*Overview of the Programme*") at the time of issue in accordance with prevailing market conditions. The minimum specified denomination of any Notes issued under the Programme shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

The Programme has been assigned ratings of "BB+" (outlook—stable) by Standard & Poor's Credit Market Services Europe Limited (***Standard & Poor's***) and "Ba1" (outlook—stable) by Moody's Investors Service Limited (***Moody's***). The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms or Series Prospectus, and if such Series of Notes is rated, it will be rated by Standard & Poor's, Moody's and/or Fitch Ratings Limited (***Fitch***), as indicated in such applicable Final Terms or Series Prospectus. A rating is not a recommendation to sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not by a credit rating agency established in the European Community and registered under Regulation (EC) No 1060/2009 (the ***CRA Regulation***) unless this is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted application for registration in accordance with the CRA Regulation and such registration is not refused or (ii) the rating provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA registered under the CRA Regulation or (iii) the rating is provided by a credit rating agency not established in the EEA is certified under the CRA Regulation. For the purposes of the credit ratings referred to in this Base Prospectus and in any applicable Final Terms or Series Prospectus, each of Standard & Poor's, Fitch and Moody's is established in the European Union and is registered under the CRA Regulation. As such, each of Standard & Poor's, Fitch and Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. Please also refer to "*Risk Factors—Ratings of the Notes*".

Arranger and Permanent Dealer

BARCLAYS

The date of this Base Prospectus is 15 March 2013.

IMPORTANT INFORMATION ABOUT THIS BASE PROSPECTUS

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Company, the Company and its consolidated subsidiaries taken as a whole (the ***Group***), the Notes and the Loans which, according to the particular nature of the Issuer, the Company, the Group, the Notes and the Loans, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Company and the Group, and of the rights attaching to the Notes and the Loans. Each of the Issuer and the Company accepts responsibility for the information contained in this Base Prospectus and any applicable Final Terms or Series Prospectus in relation to the Notes issued by it. To the best of the knowledge and belief of each of the Issuer and the Company, each of which has taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Company, the Group, the Arranger or the Dealers (each as defined in "*Overview of the Programme*") to subscribe for any of the Notes.

This Base Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the ***Order***) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as ***relevant persons***). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

None of the Arranger, the Dealers, their respective affiliates or the Trustee makes any representation or warranty, express or implied, as to the accuracy or completeness of the information in this Base Prospectus. Each person receiving this Base Prospectus acknowledges that such person has not relied on any of the Arranger, the Dealers, their respective affiliates or the Trustee in connection with its investigation of the accuracy of such information or its investment decision. To the fullest extent permitted by law, none of the Arranger or the Dealers accepts any responsibility whatsoever for the contents of this Base Prospectus, or for any other statement, made or purported to be made by an Arranger or a Dealer or on its behalf in connection with the Issuer, the Company, the Group, the Loans or the Notes. Each Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Base Prospectus or any such statement.

Each person contemplating making an investment in the Notes issued under the Programme from time to time must make its own investigation and analysis of the creditworthiness of the Company and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment. Each purchaser of the Notes should be aware that it may be required to bear the financial risks of this investment for an indefinite period of time.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Company, the Group or any of the Arranger or the Dealers. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Company or the Group since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer, the Company or the Group since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Base Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, the Company, the Group, the Arranger and the Dealers to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the Securities Act or with

any securities regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, Notes may not be offered or sold within the United States or to, or for the account of benefit of, US persons (as defined in Regulation S). For a description of certain restrictions on offers and sales of Notes and on distribution of this Base Prospectus, see "*Subscription and Sale*".

This Base Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Company, the Group, the Trustee, the Arranger or the Dealers that any recipient of this Base Prospectus or any financial statements should purchase the Notes. None of the Issuer, the Company, the Group, the Arranger, the Dealers or the Trustee or any of their respective affiliates or agents makes any representation about the legality of the purchase of the Notes by an investor under applicable investment or similar laws. Each prospective investor is advised to consult its own counsel and business adviser as to legal, tax, business, financial and related matters concerning the purchase of the Notes. The contents of this Base Prospectus are not to be construed as legal, business or tax advice.

Each prospective investor in the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes and must obtain any consent, approval or permission required of it for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Company, the Issuer, the Arranger, the Dealers or the Trustee or any of their respective affiliates or agents shall have any responsibility therefor.

Each of the Arranger and Dealers is acting solely for the Company and the Issuer and no one else in connection with the Notes and the Programme and is not, and will not be, responsible to any other person for providing advice in respect of the Notes and the Programme or for providing the protections afforded to their respective clients.

This Base Prospectus contains summaries with respect to certain terms of the Trust Deed and the Facility Agreement, but reference should be made to the actual documents for complete information with respect thereto. These documents will be made available free of charge to prospective investors upon request to the Company or at the office of the paying and transfer agent in London and New York City.

The Issuer is a *société anonyme* incorporated for an unlimited duration under the laws of the Grand Duchy of Luxembourg (***Luxembourg***). The Issuer is not a subsidiary of the Company. The registered office of the Issuer is located at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg and its telephone number is +35 242 122 449. The Issuer is registered with the Registre de Commerce et des Sociétés à Luxembourg (the Register of Commerce and Companies in Luxembourg) under number B116975. For further information on the Issuer, see "*The Issuer*".

*The Notes have not been approved or disapproved by the US Securities and Exchange Commission (the **SEC**) or any other federal or state securities commission or regulatory authority in the United States, nor has such any commission or regulatory authority passed upon the accuracy or adequacy of this Base Prospectus. Any representation to the contrary is a criminal offence in the United States.*

THE STATEMENTS HEREIN ABOUT US FEDERAL TAX ISSUES ARE MADE TO SUPPORT MARKETING OF THE NOTES. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN NOTES UNDER THE LAWS OF LUXEMBOURG, THE RUSSIAN FEDERATION, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

The Securities have not been and will not be registered under the Securities Act. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Regulation S Notes issued under the Programme from time to time are being offered and sold outside the United States to non-US persons in reliance on Regulation S and the Rule 144A Notes issued under the Programme from time to time are being offered and sold within the United States to QIBs that are also QPs in reliance on the exemption from registration under the Securities Act provided by Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description

of these and certain further restrictions on offers, sales and transfers of the Notes and distribution of this Base Prospectus, see "*Subscription and Sale*" and "*Selling and Transfer Restrictions*".

IN CONNECTION WITH THE ISSUE OF ANY SERIES OF NOTES, THE DEALER OR DEALERS (IF ANY) APPOINTED AS THE STABILISING MANAGER(S) (THE *STABILISING MANAGER(S)*) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN RESPECT OF SUCH SERIES OF NOTES MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR ANY PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT SERIES OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT SERIES OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT SERIES OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH APPLICABLE LAWS AND REGULATIONS.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (***RSA 421-B***) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

THE NOTES MAY NOT BE A SUITABLE INVESTMENT FOR ALL INVESTORS

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Base Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of the relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

AVAILABLE INFORMATION

The Company has agreed that, for so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the US Securities Exchange Act of 1934, as amended (the ***Exchange Act***) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such

restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Principal Paying Agent (as defined herein) for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Principal Paying Agent, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

FORWARD-LOOKING STATEMENTS

This Base Prospectus contains "forward looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act which relate to, without limitation, any of the Company's plans, financial position, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward looking statements. Words such as "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and any similar expressions are used to identify forward looking statements. These forward looking statements are contained in "*Risk Factors*", "*Operating and Financial Review*", "*Business*" and elsewhere in this Base Prospectus. The Company has based these forward looking statements on the current view of its management with respect to future events and financial performance. These views reflect the best judgment of its management but involve uncertainties and are subject to certain known and unknown risks and other important factors beyond the Company's control, the occurrence of which could cause actual results to differ materially from those predicted in the Company's forward looking statements and from past results, performance or achievements. Although the Company believes that the estimates and the projections reflected in such forward looking statements are reasonable, if one or more of the risks or uncertainties materialise or occur, including those identified in this Base Prospectus, or if any of the underlying assumptions prove to be incomplete or incorrect, the Company's actual results of operations may vary from those expected, estimated or projected. Accordingly, prospective purchasers of the Notes should not place undue reliance on these forward looking statements. The important factors that could cause the Company's actual results, performance or achievements to differ materially from those in these forward looking statements include, but are not limited to, those discussed in "*Risk Factors*", "*Operating and Financial Review*" and "*Business*". These forward looking statements speak only as at the date of this Base Prospectus. The Company expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward looking statements contained herein to reflect any change in its expectation with regard thereto or any change in events, conditions or circumstances on which any such forward looking statements are based, unless required to do so by applicable law.

ENFORCEMENT OF JUDGMENTS

The Company is an open joint stock company established under the laws of the Russian Federation. A substantial number of the Company's directors and executive officers named in this Base Prospectus reside outside the United Kingdom and/or the United States. Moreover, a substantial portion of the assets of the Company and of such persons are located outside the United Kingdom and the United States. As a result, it may not be possible for the Trustee, acting on behalf of the Noteholders, to effect service of process within the United Kingdom or the United States upon the Company (although, under the Loan Agreements the Company will appoint an agent for service of process in the United Kingdom) and/or to enforce against the Company or any such person court judgments obtained in the United Kingdom and the United States courts.

Judgments rendered by a court in any jurisdiction outside the Russian Federation may not be enforced by courts in the Russian Federation unless there is (i) an international treaty in effect providing for the recognition and enforcement of judgments in civil cases between the Russian Federation and the jurisdiction where such judgment is rendered, and/or (ii) a federal law of the Russian Federation providing for the recognition and enforcement of foreign court judgments.

The Company is not aware of any treaty or convention directly providing for the recognition and enforcement of judgments in civil and commercial matters between the United Kingdom and the Russian Federation or between the United States and the Russian Federation. However, the Company is aware of at least one instance in which Russian courts have recognised and enforced an English court judgment. The basis for this was a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds.

In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above may significantly delay the enforcement of such judgment, or completely deprive the Noteholders or the Trustee of effective legal recourse for claims under the Notes relating to the Loans.

Each Loan Agreement, and any non-contractual obligations arising out of or in connection with it, will be governed by English law and will provide that if any dispute or difference arises from or in connection with such Loan Agreement, such dispute shall be referred to and finally resolved by arbitration in accordance with the LCIA Arbitration Rules. The seat of any arbitration will be London, England. The United Kingdom, the United States and the Russian Federation are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the ***New York Convention***). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation). However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

In September 2002, the arbitrazh procedural code of the Russian Federation (the ***Arbitrazh Procedural Code***) entered into force. The Arbitrazh Procedural Code established the procedure for Russian courts to refuse to recognise and enforce a foreign arbitral award. The Arbitrazh Procedural Code and other Russian procedural legislation could change; therefore, among other things, other grounds for Russian courts to refuse the recognition and enforcement of foreign court judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign court judgment or arbitral award in the Russian Federation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Market and Other Statistical Data

Market data used in this Base Prospectus, as well as certain statistics, including statistics in respect of product sales by volume of third parties and market share, under the captions "*Overview*", "*Risk Factors*", "*Operating and Financial Review*", "*Industry*" and "*Business*", have been extracted from official and industry sources and other third-party sources that the Company believes to be reliable, such as the following:

- *CDU TEK.* Federal State Unitary Enterprise "Central Dispatching Department of Fuel and Energy Complex".
- *IMC Group Consulting Ltd.* IMC Group Consulting Ltd (***IMC***) is an international consultancy and offers a broad spectrum of services in the environmental, mining, minerals, engineering and energy industries worldwide. IMC's headquarters are in Icon Business Centers, New Lake Drive, Sherwood Park, Nottingham, NG15 0DT, UK. The staff of IMC consists of engineers, accountants, economists and geologists with extensive experience in the metals and mining industries.
- *Rosstat.* The Federal State Statistics Service of the Russian Federation.
- *RudProm.* RudProm is an agency that collates statistics about iron ore producers in the former Soviet Union.
- *SRK Consulting.* SRK Consulting provides a range of consulting services to the resource industry. SRK Consulting's business address is 5th Floor, Churchill House, 17 Churchill Way, Cardiff CF10 2HH, United Kingdom. SRK Consulting employs over 70 full-time technical specialists providing experienced support for all aspects of the natural resource industry.

- *worldsteel.* The World Steel Association (***worldsteel***) is one of the largest industry associations in the world, representing approximately 180 steel producers, national and regional steel industry associations, and steel research institutes. worldsteel produces annual reports on the global steel industry.

Where information in this Base Prospectus has been sourced from third-parties including in respect of information concerning the Company's competitors, this information has been accurately reproduced, and as far as the Company and the Issuer are aware and are able to ascertain from the information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. Such information, data and statistics may be approximations or estimates or use rounded numbers. The Company and the Issuer have accurately reproduced such information and, as far as the Company and the Issuer are aware and are able to ascertain from information published by such third-party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Prospective investors should note that the Company's estimates are based on such third-party information. Neither the Company, the Arranger nor the Dealers have independently verified the figures, market data or other information on which third-parties have based their studies.

In addition, some of the information contained in this Base Prospectus has been derived from official data of Russian government agencies and the Central Bank of the Russian Federation (***CBR***). The official data published by Russian federal, regional and local government agencies are substantially less complete or researched than those of more developed countries. Official statistics, including those produced by the CBR, may also be produced on different bases than those used in more developed countries. Any discussion of matters relating to Russia in this Base Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The contents of the Group's website do not form any part of this Base Prospectus.

Financial Information

The Group's audited consolidated financial statements as at and for the years ended 31 December 2012, 2011 and 2010 included in this Base Prospectus beginning on page F-2 and ending on page F-88, together with the notes thereto (the ***Annual Financial Statements***) were prepared in accordance with IFRS as issued by the International Accounting Standards Board (***IASB***), in effect at the time of preparing these consolidated financial statements.

The Issuer's audited financial statements as at and for the years ended 31 December 2011 and 2010 included in this Base Prospectus beginning on page F-89 and ending on page F-114, together with the notes thereto (the ***Issuer's Financial Statements***) were prepared in accordance with Luxembourg Law and Generally Accepted Accounting Principles ("**Luxembourg GAAP**"), in effect at the time of preparing these financial statements.

- In this Base Prospectus, ***Russian Rouble, Russian Roubles, Rouble, Roubles*** or ***RUR*** refers to the lawful currency of the Russian Federation;
- ***US dollar, US dollars, U.S.$*** or ***US$*** refers to the lawful currency of the United States of America;
- ***British pound sterling, British pounds sterling, GBP*** or ***£*** refers to the lawful currency of the United Kingdom; and
- ***EUR, euro,*** or ***€*** refers to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time.

Mining Reserves

Certain information relating to the Group's reserves and resources relating to iron ore and coal cited in "*Business*" and "*Industry*" are produced by reference to the following sources. Estimation for the Karelsky Okatysh, Olkon and Vorkutaugol assets is based on the report issued by IMC dated June 2006, which was prepared in accordance with Australasian Joint Ore Reserves Committee Code (***JORC***) reporting standards, reduced by actual production since 1 January 2006, and also accounting for the disposal of the Kuzbassugol mining complex (***Kuzbassugol***) in April 2008. IMC's business address is Icon

Business Centers, New Lake Drive, Sherwood Park, Nottingham, NG15 ODT, UK, and the report of IMC was not prepared for the purposes of this Base Prospectus. Reserves and resource estimations for Severstal Resources' PBS Coals Limited (***PBS Coals***) were prepared under SEC and CMI Canadian Institute of Mining standards and for Severstal Liberia Iron Ore Ltd. (the ***Putu Range Project***) under the guidelines of Samrec, which is the standard of public disclosure of information relating to mineral properties in South Africa and adopted in Liberia and is essentially similar to the Australasian JORC standard. Reports for the Putu Range Project have been prepared by SRK Consulting. See also "*Industry—Mining Industry—International Reporting Methodologies*". SRK Consulting's business address is 5th Floor, Churchill House, 17 Churchill Way, Cardiff CF10 2HH, UK, and these reports have not been prepared for the purposes of this Base Prospectus.

Operating Data

All data relating to the Group's production and operations, such as volumes of production, production capacity and certain sales information presented by sector, geography and product, cited in "*Business*", and as cited specifically elsewhere in this Base Prospectus, were derived from management accounts and information, which were not reviewed or audited by ZAO KPMG, the independent auditors of the Group.

Certain Defined Terms

In this Base Prospectus:

- the ***CBR*** means the CBR;
- the ***Company*** or the ***Borrower*** means OAO Severstal;
- the ***Group*** means the Company and its consolidated subsidiaries;
- the ***Issuer*** means Steel Capital S.A.;
- the ***FAS*** means the Federal Antimonopoly Service of the Russian Federation;
- the ***Russian Government*** means the federal government of the Russian Federation;
- ***tonnes*** means metric tonnes, and one metric tonne is equal to one thousand kilograms;
- the ***US*** means the United States;
- the ***UK*** means the United Kingdom;
- the ***EU*** means the European Union and its member states as at the date of this Base Prospectus;
- ***Russia*** means the Russian Federation; and
- the ***CIS*** means the countries that formerly comprised the Union of Soviet Socialist Republics and that are now members or associate members of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

Rounding

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly, and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

SUPPLEMENTAL BASE PROSPECTUS

Each of the Company and the Issuer will agree to comply with any undertakings given by it from time to time to the Irish Stock Exchange in connection with listed Notes and, without prejudice to the generality of the foregoing, the Company and the Issuer will each, so long as any of its Notes remains outstanding and admitted to trading on the Main Securities Market, in the event of any significant new factor, material mistake or inaccuracy relating to the information contained in this Base Prospectus, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Notes to be listed on the Irish Stock Exchange.

The Company has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information

contained in this Base Prospectus which is capable of affecting the assessment by investors of any Notes and the corresponding Loan and whose inclusion in this Base Prospectus or removal is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Company and the Group (subsidiaries and controlled affiliates), and the rights attaching to such Notes and Loan, the Company shall prepare an amendment or supplement to this Base Prospectus or publish a replacement base prospectus for use in connection with any subsequent offering of the Notes.

The Company and the Issuer may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the terms and conditions described herein, in which event a Series Prospectus or a supplemental prospectus, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

CONTENTS

OVERVIEW 10
RISK FACTORS 31
USE OF PROCEEDS 59
EXCHANGE RATE INFORMATION 60
CAPITALISATION 61
SELECTED CONSOLIDATED FINANCIAL INFORMATION 62
OPERATING AND FINANCIAL REVIEW 65
INDUSTRY 112
BUSINESS 123
MANAGEMENT 175
PRINCIPAL SHAREHOLDERS 186
RELATED PARTY TRANSACTIONS 187
REGULATORY MATTERS 189
DESCRIPTION OF THE COMPANY 203
THE ISSUER 204
FACILITY AGREEMENT 206
TERMS AND CONDITIONS OF THE NOTES 251
FORM OF FINAL TERMS 265
SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM 273
TAXATION 279
CERTAIN ERISA CONSIDERATIONS 292
SELLING AND TRANSFER RESTRICTIONS 294
SUBSCRIPTION AND SALE 298
LEGAL MATTERS 300
INDEPENDENT AUDITORS 301
GENERAL INFORMATION 302
INDEX TO FINANCIAL STATEMENTS F-1

OVERVIEW OF THE GROUP

This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Base Prospectus, including the more detailed information regarding the Group's business and the Annual Financial Statements and related notes included elsewhere in this Base Prospectus. Certain statements in this overview include forward-looking statements that also involve risks and uncertainties as described in "Forward-Looking Statements".

The Group is an international, vertically integrated steel and mining company that sells high-quality metal and mining products to customers across the world. According to worldsteel, the Group was the world's twenty-third largest producer of crude steel in 2011 by volume of production with 15.3 million tonnes of total crude steel output. In 2012, crude steel production of the Group was 15.1 million tonnes. The Group is a full production cycle operation which includes iron ore, coal, scrap collection, steel mills and rolled product plants, downstream production and distribution businesses. The Group's primary production facilities are geographically diversified with locations in Russia, the United States and a number of other countries. With a focus on high value-added products in attractive niche markets, the Group's corporate strategy is to become one of the global industry leaders in terms of EBITDA and to sustain a leading position in terms of both profitability margins and return on investment as a vertically-integrated steel and steel-related mining company.

As at 31 December 2012 the Group comprises three business divisions: Severstal Resources, Severstal Russian Steel, Severstal International.

Severstal Russian Steel. In 2012, Severstal Russian Steel produced approximately 14.9 percent of total Russian crude steel production, based on data from worldsteel. Severstal Russian Steel revenue accounted for 60.4 percent of the Group's total revenues. According to calculations by the Group's management based on publicly released data, Severstal Russian Steel was the fourth largest producer of crude steel products in Russia by volume of production in 2012. Severstal Russian Steel is comprised of the following: steel products production, pipes production, metalware production, scrap collection and processing and trading and service companies.

- The production of steel products occurs primarily at the Cherepovets Steel Mill, including a number of its workshops, among which there are high-grade automotive galvanising facilities at Severgal and Rolling Mill 5000, as well as a number of other facilities located primary in the northwestern region of Russia. These facilities jointly constitute the full production cycle, from the creation of crude steel to production of high value-added products, such as electric welded pipes for construction or coated flat products for the automotive industry. Severstal Russian Steel produced 10.55 million tonnes of crude steel in 2012 and achieved total steelmaking capacity of approximately 92 percent.
- Pipes production is carried out at the Izhora Pipe Mill, a large diameter pipe mill. The Izhora Pipe Mill has production capacity of up to 600 thousand tonnes of pipe per year depending on the diameter of pipe produced and in 2012 averaged approximately 54 percent of total pipe making capacity achieved on produced assortment.
- Metalware production is carried out at OAO Severstal-Metiz (***Severstal-Metiz***) which comprises wire drawing and metalware manufacturing businesses in Russia, Ukraine and Italy, and had total sales of 660 thousand tonnes in 2012. According to calculations by the Group's management based on publicly available data, the Group's metalware market share in 2012 represented approximately 21 percent of the domestic Russian market, approximately 36 percent of the Ukrainian metalware market in low carbon products and approximately 20 percent of the Italian metalware market in steel-wire ropes.
- Scrap collection and processing is a ferrous scrap metal recycling business, which supplies scrap metal to Cherepovets Steel Mill and other companies. It consists of companies located in several Russian regions.
- Trading and service companies comprise trading companies in both Russia and abroad. The main purpose of the service companies is to service and maintain the production processes of the Cherepovets Steel Mill by providing equipment repairing services.

Severstal International. Severstal International is comprised of Severstal Dearborn LLC (***Severstal Dearborn***), Severstal Columbus LLC (***Severstal Columbus***) and holding companies—Severstal

US Holdings LLC, Severstal US Holdings II LLC and Severstal Columbus Holdings LLC. According to the Group's estimates, these companies comprised the fourth largest steelmaking company in the United States in 2012 (excluding the RG Steel facilities that were closed as at 31 December 2012). Severstal International produces high-quality, flat-rolled products and has 5.3 million tonnes of annual crude steel making capacity.

Severstal Resources. Severstal Resources comprises iron ore production and coal production.

- The Group's iron ore business comprises two iron ore extracting complexes: Karelsky Okatysh, which produces iron ore pellets, and Olkon, which produces iron ore concentrate. The Group's iron ore business is also focused on two iron ore projects: the Group's investment in the Putu Range Project in south eastern Liberia, for which the Group has signed a Mineral Development Agreement with the Government of Liberia and has recently completed a pre-feasibility study, and the Group's investment in a project in the Brazilian city of Macapa, SPG, which owns a number of high potential iron ore licenses in the area of Tartarugalzinho, Amapa state. Karelsky Okatysh, located in the Karelia Republic, produces iron ore pellets and had an annual iron ore output of 33 million tonnes in 2012 and plans to remain at the same levels until 2017 and estimated JORC iron ore reserves and resources of approximately 415.3 million tonnes and 1,138.3 million tonnes, respectively. Olkon, located in the Murmansk region of Russia, produces iron ore concentrate and had an annual iron ore output of 15.5 million tonnes in 2012 and plans to increase it to 16.7 million tonnes by 2017 and estimated JORC iron ore reserves and resources of approximately 276.2 million tonnes and 629.7 million tonnes, respectively. Liberia's Putu Range has estimated resources of 4,455 million tonnes based on a report issued by SRK Consulting Ltd. in September 2012 prepared under the Guidelines of Samrec. The Core Mining Avima tenement is a prospective early stage project in the Democratic Republic of Congo.
- The Group's Coal business comprises Vorkutaugol, PBS Coals and two greenfields—Tsentralny field and Usinskoye-1 field. Vorkutaugol comprises five longwall mines, an open pit mine, and three washing plants. It extracts both coking and steam coal. Vorkutaugol, located in the Komi Republic, produces coking and steam coal and had ROM of 13 million tonnes in 2012 and plans to increase it to 16 million tonnes by 2017 and estimated JORC coal reserves of approximately 247 million tonnes. PBS Coals, located in the southwest of Pennsylvania in the United States, operates open mines and deep room and pillar mines. It extracts coking and steam coal, and produces coking coal concentrate. PBS Coals, produced 4.1 million tonnes of ROM in 2012 and plans to increase it to 6.7 million tonnes by 2017. PBS Coals has estimated coal reserves and resources of approximately 77 million tonnes and 125 million tonnes, respectively. Tsentralny field is a greenfield project located in the Tyva Republic and according to its acquired state license, has total resources approximating 639 million tonnes of coking coal of C1 and C2 categories, according to the Russian classification system. Usinskoye-1 field is a greenfield project located in the Republic of Komi near the existing Vorkutaugol operation with estimated resources of 603 million tonnes of coking coal of A, B and C1 categories, according to the Russian classification system. See "*Industry—Mining Industry—Russian Methodologies for Reserve and Resource Reporting*".

Severstal Resources was the second largest producer of hard coking coal and iron ore pellets in Russia in 2012, respectively, according to RudProm and Rasmin. With the capacity to supply all of the current iron ore and hard coking coal needs of Severstal Russian Steel, Severstal Resources forms the basis of the Group's balanced and vertically-integrated business model. With a focus on high value-added products, such as export quality iron ore pellets and hard coking coal concentrate, Severstal Resources had 48.7 million tonnes of iron ore output and ROM of 17.1 million tonnes of coal in 2012. Severstal Resources estimates that, as at 31 December 2012, it had iron ore reserves and resources of approximately 691.5 million tonnes and 6,223 million tonnes, respectively, and coal reserves and resources of approximately 323.8 million tonnes and 125 million tonnes, respectively, based on reports issued by IMC Montan dated February 2013, IMC Consulting Ltd. dated June 2006, prepared in accordance with JORC reporting standards (assets in Russia), by SRK Consulting Ltd. dated September 2012 prepared under the Guidelines of Samrec (Putu deposit, Liberia) and by PBS internal experts dated 31 March 2012 in accordance with JORC reporting standards.

COMPETITIVE STRENGTHS

The Group has developed a variety of competitive strengths, which it believes provide it with a greater resilience to the cyclical nature of the steel industry than some of its competitors and a basis on which to

build its position as a global metals and mining company. The Group's distinct business model is focused on global cost leadership through efficient vertical integration, presence in the concentrated and structurally attractive steel markets and focus on client service. Consequently, the Group remains one of the global leaders by profitability margins and returns on investment. Financial resilience remains a top priority and the Group currently has one of the strongest balance sheets and lowest leverage in the industry, providing a strong cushion against market volatility.

Vertically-Integrated Business with Access to Iron Ore, Coal and Scrap

The Group is a vertically-integrated steel producer operating on a global scale. Its facilities span the full production cycle from iron ore and coal mining operations to steel mills and rolled product plants as well as downstream production and distribution businesses. Its mining operations, conducted by Severstal Resources, provide supplies of iron ore and coal to its production facilities in Russia and to a lesser extent in the United States and also have the capacity to supply iron ore and coal to third parties, which they do. The Group has its own scrap collection and processing facilities. The Group is approximately 94 percent and 107 percent self-sufficient in iron ore and coking coal, respectively.

Severstal Resources was the second largest producer of hard coking coal and iron ore pellets in Russia in 2012, according to Rasmin and RudProm. As a result, Severstal Russian Steel's operations with respect to iron ore and coal are economically fully self-sufficient, as Severstal Resources' overall production volumes are able to cover in full the overall consumption volumes of Severstal Russian Steel, without taking into account the chemical features of the particular coal and iron ore mix required. However, Severstal Russian Steel does source a portion of its iron ore and coal requirements from third-party suppliers primarily due to its requirements for materials with different chemical features and to take advantage of beneficial prevailing prices.

Severstal Resources' deposits have technical characteristics enabling it to produce a relatively wide range of products for customers in the metallurgical industries, in addition to the Group's steel operations. Its reserves of iron ore and coal are significant, with estimated mine lives exceeding several decades. The Group considers mining to be one of its core businesses.

Currently, the Group's North American business units are economically fully self-sufficient in metallurgical coke, and it sources iron ore and other raw materials from domestic suppliers under a variety of arrangements aimed at ensuring a reliable long-term supply of raw materials at competitive prices. This includes a long-term contract with Cliffs Natural Resources for the supply of iron ore to Severstal Dearborn until 2022. Severstal International also indirectly sources approximately 20 percent of its coking coal needs from its sister company PBS Coals, located in Somerset, Pennsylvania. Additionally, annual contracts are in place for approximately 100 percent of the remaining coking coal requirements. Severstal Dearborn owns 50.0 percent of one of the largest coking plants in North America to support blast furnace operations. The balance of Severstal International's coke requirements, if any, is purchased on the spot markets.

The vertically-integrated nature of the Group enables it to secure raw material supplies for its operations while reducing the Group's exposure to raw material price fluctuations, resulting in increased efficiencies.

Global Cost Competitiveness

Globally, Russia is one of the lowest cost regions for steel production in the world, and the Group occupies one of the most favourable positions on the global hot-rolled coil cost curve, according to worldsteel. With its largest production facilities located in northwest Russia, the Group benefits from relatively low-cost supplies of electricity and natural gas, as well as low transportation fees, given the proximity of its production facilities to producers of raw materials in that region and major steel-consuming markets in the central European part of Russia and the ports of the St. Petersburg region. In addition to these cost advantages, as one of the largest producers of steel in Russia, the Group benefits from economies of scale in both production and negotiation power with its suppliers, including third-party suppliers of raw materials. This cost competitiveness is particularly valuable in granting the Group flexibility to shift its sales focus between the Russian domestic market and the export market depending on relative demand for steel and mining products domestically and globally.

In order to maintain its cost competitiveness, the Group has made and continues to make investments to upgrade its facilities in the pursuit of increased productivity and cost efficiency. For example, in 2012,

the Group's largest steel production facility, located in Cherepovets, was estimated to be approximately 58.9 percent self-sufficient in terms of its own generation and consumption of electricity. See "*—Strategy—Pursue Lower-Cost Steel Production*".

Geographically Diversified Business with a Broad Range of Products

The Group's production facilities are geographically diversified, with locations in Russia, the United States and a number of other countries. The majority of the Group's key steel and mining assets are located within Russia. The Group also continues to develop its mining businesses in low-cost regions such as various regions in Africa. The Group's largest steel production facility, located in Cherepovets in northwest Russia, provides it with access to the Russian, CIS, Western and Eastern European, MENA, Central and South-East Asia and other regional steel markets. Furthermore, the Group believes that, as a result of its presence in the United States, it benefits from greater access to the technologically advanced North American markets, which assists the Group in understanding the needs of its customer base and in tailoring its products accordingly. The global diversified nature of the Group has also enabled it to benefit from the sharing of industry know-how and best practices across business divisions. Extensive experience in mining operations in various regions aids the Group's strategy to pursue further expansion of its mining operations internationally through a combination of M&A and greenfield investments.

Investment in Modernisation and Advanced Technological Processes

The Group has made significant investments into modernisation programmes at its main steel production facilities and mining facilities in Russia and in the United States, aimed at expanding production and achieving operational efficiencies. In 2012, the Group's capital expenditure at its three business divisions amounted to US$1.5 billion. As a result, the majority of the Group's capital assets are currently in good condition and do not require significant investments in the near-term. The Group intends to invest approximately US$1.3 billion in 2013 and an additional US$6.1 billion (provided that the Group undertakes the expansion projects contemplated by its current business plan and subject to then-prevailing market conditions), during the period from 2014 to 2017 as part of its continuing capital expenditure programme, with current investment priorities focused on facilitating the expansion of the Group's mining businesses in Russia, Africa and the United States, and expanding the Group's share of the Russian domestic steel products market, aided by the Balakovo project and new galvanising and colour coating lines. The Group completed a new continuous pickle line and tandem cold mill (***PLTCM***) line on the Severstal Dearborn facility which is expected to result in a reduction in costs and improvements in energy efficiency, while also upgrading product quality and yields. Investments in the Phase II expansion at Severstal Columbus doubled its production capacity, reduced costs and increased the facility's ability to produce value-added products.

Ongoing investments in upgrading facilities, customer care projects and research and development efforts are expected to help the Group maintain a leading position in the Russian high-quality value-added steel sector. The Group specialises in producing advanced steel grades for the oil and gas, shipbuilding and automotive industries in Russia. The Group has also sought to adopt new technological processes when operationally convenient to do so, such as the introduction of PCI technology into blast furnace "C" at the Severstal Dearborn facility in connection with the rebuilding of that blast furnace in 2007. In addition, capital expenditure on maintenance for the Group is expected to be US$772 million in 2013 and the average yearly capital expenditure on maintenance in 2014 to 2017 is expected to remain at a level lower than capital expenditure on maintenance in 2013. As a result, the Group believes that its modern production facilities and consistent investment programmes position it well within the high value-added and niche steel product markets, in addition to its other steel and metalware products.

Experienced Management Team

The Group's senior management team combines extensive steel and resources industry knowledge with international management and financial expertise, including valuable insight gained from the five independent non-executive directors on the board of directors. At an operational level, the Group has developed, and continues to refine, a management structure that is focused on improving accountability, clarifying responsibilities and streamlining information reporting and decision-making. Much attention is devoted to efficiently and effectively reporting and communicating the development of a business undertaking at all levels of the production process. Backed by international experience and advanced technical and business qualifications, the management team's ability to successfully manage the

performance of the Group's assets is evidenced by the increased operating efficiency in recent years and cost reduction achievements across the divisions.

Business System of Severstal

Business System of Severstal comprises a series of projects and initiatives launched in 2010 and is intended to achieve operational and organisational excellence throughout the Group's value chain, improve customer service, and foster a culture of health and safety within the Group. The Group defines four key projects composing the core of its Business System: Safety, Continuous Improvement, Customer Focus, and People of Severstal. The Business System is intended to become a structural source of long-term competitive advantage for Severstal through transformation of corporate culture. Since the launch of the Business System in 2010, the Group has realised significant improvements in lean production and overall operational efficiency. The Group estimates that the Business System has contributed US$400.7 million to the Company's EBITDA to date. By 2015, the Group expects the total EBITDA contribution to reach approximately US$1-1.2 billion.

Strong Corporate Governance

The Group seeks to adhere to international corporate governance standards. The Group benefits from a culture of independence on its board of directors as a result of both a diverse, multinational membership and the independence of half of its board and chairman (according to UK standards of independence). In addition, the Group has established committees of its board of directors in accordance with the UK Combined Code on Corporate Governance and has implemented other measures aimed at promoting transparency and good corporate governance. These measures include implementing internal control procedures and internal audit functions, publishing quarterly financial statements prepared in accordance with IFRS, publishing regular production updates and requiring the approval of two-thirds of the board of directors for acquisitions with a value in excess of US$500 million and any transaction with a value of more than 10.0 percent of the book value of the Company's assets. In addition, all transactions with affiliates are approved by the board of directors.

STRATEGY

The Group's corporate strategy is based on its model of being a vertically-integrated steel and steel-related mining company. The Group targets to become one of the global industry leaders in terms of EBITDA and to sustain a market-leading position in terms of margins and return on investment while maintaining a strong financial position. The Group has grounded its corporate strategy in the crucial industrial growth drivers of cost competitiveness, vertical integration, presence in consolidated and growing markets and focus on high value-added products in order to build upon and improve its ranking as one of the leading steel companies worldwide. To successfully implement this strategy, the Group intends to pursue the following initiatives:

Capitalise on Presence in Growing Regional and Highly Consolidated Markets

The Group's main regional markets exhibited strong growth rates (CAGR) in 2011 to 2012: steel demand in Russia grew by approximately 8.4 percent, and in the US, by approximately 9.6 percent year-on-year, according to expert estimates. The Group has a positive mid-to-long term growth outlook for steel demand in all the regions in which it has a presence.

The Group's strategy in each of its key regions is as follows:

Russia. The Group views the Russian market for steel products as providing significant growth potential due to rising personal incomes, growing demand for modern housing, cars and the poor state of the country's infrastructure which requires significant investments. The Group plans to continue to invest in its production facilities in Russia, as it expects a steady growth of domestic demand for high-quality steel products due to the large potential of automotive production, oil and gas industry, infrastructure and housing investments. In line with its strategy, the Group is constructing the Balakovo mini-mill in central Russia, with an expected capacity of one million tonnes per year upon completion, which is currently planned for 2013. The Balakovo mini-mill is expected to produce long products for the construction and infrastructure industries.

Additionally, the Group is investing into downstream facilities in order to increase the share of high value-added products in its portfolio and satisfy the growing quality requirements of domestic customers.

In June 2010, the Group commenced operations at OAO Severstal TPZ-Sheksna (***Severstal TPZ-Sheksna***) with capacity of 250 thousand tonnes of electrical welded pipes and other welded profiles. In December 2011, the Group launched a second painting line in its Cherepovets facility with a capacity of 200 thousand tonnes. The Group continues to develop effective distribution channels which are able to provide access to high-quality clients such as a service center Severstal-Gonvarri-Kaluga (the Group owns 50.0 percent) and stampings facility Gestamp-Severstal-Kaluga (the Group owns 25.0 percent) which both commenced operations in 2010. The Group plans to develop a "Steel Solutions" project to include an organisation of dedicated sales and engineering offices as well as the construction of a new industrial complex for the provision of galvanising services and the production of construction materials, heavy and light steel structures and road fences.

USA. As the US economy continues its recovery from the recessionary effects of the global financial crisis, US steel demand is expected to grow steadily, driven by the oil and gas industry (including non-conventional drilling), automotive and manufacturing industries, emerging growth in the construction sector and long-term population growth in addition to the need to build up previously underinvested infrastructure.

Following the sale of the Group's Northern Steel Group Inc. assets in May 2010 and a 100.0 percent stake in Severstal Sparrows Point LLC (***Severstal Sparrows Point***), Severstal Warren LLC (***Severstal Warren***), Severstal Wheeling Inc. (***Severstal Wheeling***) and 50.0 percent stake in Mountain State Carbon LLC (**MSC**) in March 2011, the Group plans to focus on developing competitive and efficient steelmaking assets in the United States. With the Group's investments to complete Phase II of the Severstal Columbus expansion, resulting in an expected doubling of that facility's production capacity in 2011, the Group intends to strengthen Severstal Columbus' position as one of the most cost competitive US flat mills. In an environment of rising raw material prices, Severstal Dearborn is expected to benefit from its long-term contract with Cliffs Natural Resources. In addition, investments in the PLTCM and a new exposed hot-dip galvanising line (***HDGL***) at Severstal Dearborn has further improved its cost position and enabled it to produce advanced automotive steels. The Group's management believes that this will make Severstal Dearborn one of the principal suppliers of high-quality flat products in North America.

Expand Mining Business Globally

The Group believes that its mining activities will provide a strong source of growth and intends to expand its iron ore and coking coal production. Efficient vertical integration is a key part of the Group's business model. The Group is one of the few international steel companies with a strong position in both iron ore and coking coal.

The Group plans to expand its existing iron ore and coking coal mining operations in Russia and the United States and to develop its portfolio of greenfield mining projects with the aim of increasing its cost competitiveness and its global level of vertical integration.

The Group intends to undertake a brownfield expansion of Vorkutaugol through development of the Usinskoye coking coal deposit. The Group is also pursuing several major projects, including exploration and development license opportunities for an iron ore deposit in Putu Range (Liberia); the Tsentralny coking coal field in the Republic of Tyva (Russia); and a project with SPG for the development of an iron ore deposit in Amapa (Brazil).

In 2011, the Group announced that its indirect subsidiary Lybica Holdings B.V. entered into a legally binding heads of terms agreement with Afferro Mining Inc. (***Afferro***) and its wholly owned subsidiary Mano River Iron Ore Holdings Limited (***Mano River***), for the purchase of a 38.5 percent interest in Severstal Liberia Iron Ore Ltd., Liberia. In 2012, the Group completed the purchase and consolidated 100.0 percent of Severstal Liberia Iron Ore Ltd., the legal entity that owns the Putu Range assets in Liberia. The Group undertook the Putu Range Project in order to minimise its exposure to operational and financial risks.

The Group intends to continue its focus on stringent cost control at its operating mining facilities in order to counter the global trend of increasing mining costs.

Pursue Low-Cost Steel Production

The Group believes that cost competitiveness in every region where it produces steel is a vital element of its success. Accordingly, the Group plans to continue to pursue a strategy of lower-cost steel production in relation to its Russian operations (in comparison to global cost levels in steel production), as well as in relation to its US operations (in comparison to regional cost levels in steel production).

Efficient vertical integration is an integral part of the Group's business model. The Group is one of the few international steel companies with a strong position in both iron ore and coking coal. The Group is economically fully self-sufficient in primary steel-related raw materials in Russia, and, in the US, only local coking coal capacities are sufficient to provide full economic integration for steel plants in North America.

The Group believes that a low-cost operating structure can be achieved by a combination of capital expenditure on production facilities, energy efficiency improvements, integration of its raw materials business with steel production and labour productivity gains, the main contributions of which are expected to come from the continuous improvement, purchasing optimisation and other initiatives included in the Business Sytem of Severstal programme. The Group's capital expenditure programme includes various projects to improve operational efficiencies and to reduce raw material consumption.

Risk Factors

An investment in the Notes involves a high degree of risk, including but not limited to the following:

- The Group's business is dependent on the global economic environment.
- The steel and mining industries are cyclical, which may result in adverse fluctuations in the demand for and the prices of the Group's products.
- Any significant change in prices or supply of raw materials may cause the Group's financial results to vary, which could have a material adverse effect on its results of operations.
- The Group will require a significant amount of cash to fund its capital expenditure programme. If the Group is unable to generate this cash through operations or external sources, this programme may not be completed on schedule or at all.
- The Group has grown rapidly and intends to pursue opportunities to grow its operations through further acquisitions, but there can be no assurance that the Group will be able to successfully integrate such acquired companies or identify suitable acquisition targets.
- The steel industry is highly competitive, and the Group may not be able to compete successfully.
- Payments under each Loan Agreement are structurally subordinated to existing indebtedness of the Group's subsidiaries, and these subsidiaries may incur further such indebtedness in the future.
- Political and governmental instability could adversely affect the value of investments in Russia, including the Notes.
- Arbitrary or selective state action could have a material adverse effect on the Group's business.
- Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity.

For further information on the risks affecting the Group, see *"Risk Factors"* beginning on page 31.

Use of Proceeds

The gross proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to the Company. The gross proceeds of such Loan will be used by the Company for general corporate purposes unless otherwise specified in the relevant Loan Agreement. In connection with the receipt of such Loan, the Company will pay an arrangement fee, as reflected in the relevant Final Terms or Series Prospectus.

Recent Developments

Since 31 December 2012, the following significant developments have occurred:

- 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 for its investment at fair value. No gains or losses were recognised as a result of this event.
- In February 2013, there was an accident involving an explosion at the Vorkutinskaya mine that resulted in 19 fatalities and three casualties and the temporary suspension of mining. The

Vorkutinskaya mine has returned to production following a full health and safety audit of the mine faces. The mine's ventilation system is running at full capacity. The facility has resumed the extraction of coal at the longwall face 1022 in its central section in the Fourth seam, while the production unit affected by the accident has been permanently decommissioned following a full examination of the affected area by an investigating commission established by the Russian Government for the purpose of investigating the accident. Management has also decided to discontinue production at the longwall face 832 in the Triple seam as the residual capacity of the face is less than 100 thousand tonnes of coal. The mine's south section will resume extracting coal in the near future and a program is currently being developed to prepare an installation chamber and machinery for a new longwall face 932 in the Triple seam. The capacity of the new longwall face is more than 600 thousand tonnes of coal. The work of the commission established to investigate the cause of the accident is ongoing. With full support from the staff at Vorkutinskaya, the commission is also assessing the mine's safety systems, its maintenance and production supervision and will develop recommendations for measures to prevent any incident of this kind occurring in the future.

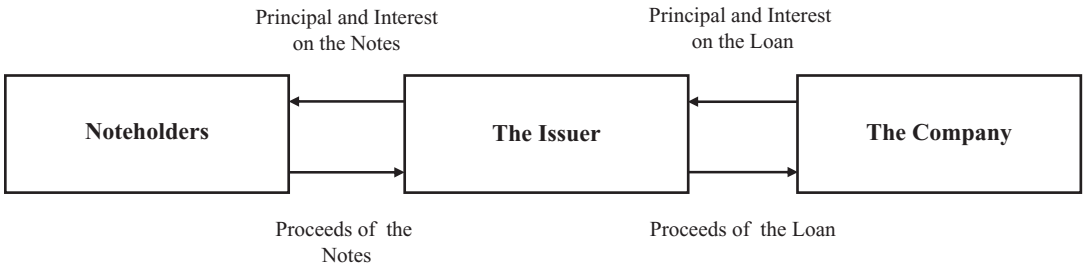
OVERVIEW OF THE PROGRAMME

The following overview contains basic information about the Notes and Loans and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "Terms and Conditions of the Notes" and "Facility Agreement" appearing elsewhere in this Base Prospectus. The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this document and, in relation to the terms and conditions of any particular Series of Notes, the applicable Final Terms or Series Prospectus. Words and expressions defined in "Terms and Conditions of the Notes" below shall have the same meanings in this overview.

Each Series of Notes will be structured as a Loan by the Issuer to the Company of a sum equivalent to the gross proceeds of an issue of such Series. The Issuer will issue Notes to Noteholders, for the sole purpose of funding such Loan. The Loan will have capacity to produce funds to service the payments due and payable on the Notes. Each Series of Notes will be constituted by the amended and restated principal trust deed dated 15 March 2013 (the **Principal Trust Deed**) and as supplemented and amended in respect of such Series of Notes by a supplemental trust deed (each a **Supplemental Trust Deed**, and together with the Principal Trust Deed, a **Trust Deed**), each entered into between the Issuer and the Trustee. Pursuant to each Trust Deed the Issuer will (i) charge to the Trustee by way of a first fixed charge as security for the benefit of the holders of a Series of Notes (a) all principal, interest and other amounts payable by the Company to the Issuer as lender under the relevant Loan Agreement, (b) the right to receive all sums which may be or become payable by the Company under any claim, award or judgment relating to the relevant Loan Agreement and (c) all rights, title and interest in and to all sums of money now or in the future deposited in an account established for the relevant Series of Notes with the Principal Paying and Transfer Agent in the name of the Issuer (the **Account**) including interest from time to time earned thereon and (ii) assign certain of its rights under the relevant Loan Agreement (but excluding any Reserved Rights), to the Trustee for the benefit of the holders of the corresponding Series of Notes. As a consequence of the assignment of the rights under the Loan Agreement the Trustee shall assume the rights of the Issuer (other than certain Reserved Rights) as set out in the relevant provisions of the Trust Deed. If and when the first fixed charge of certain of the Issuer's rights and interests under any Loan is enforced, the Trustee will assume the rights of the Issuer under such Loan as set out in the relevant provisions of the Trust Deed and the Trustee will assume certain rights and obligations towards the Noteholders, as more fully set out in the Trust Deed.

The Company will be obliged to make payments in respect of principal, interest and additional amounts (if any) to the Issuer under each Loan into the Account in accordance with the terms of the relevant Loan Agreement. The Issuer will agree in the Trust Deed not to make or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of any Loan Agreement, unless the Trustee has given its prior written consent. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to each Loan Agreement. Any material amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with, and as more fully described in, "Terms and Conditions of the Notes—14. Notices", and shall be binding on the Noteholders. Formal notice of the security interests created by any Trust Deed will be given to the Company and the Principal Paying and Transfer Agent who will each be required to acknowledge the same.

Each Series of Notes will be limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to Noteholders for payments of principal, interest and other amounts, if any, received by it or for its account pursuant to the relevant Loan. Set out below is a diagrammatic representation of the structure:



Notes to Be Issued Under the Programme

Issuer	Steel Capital S.A.
Company (as Borrower)	OAO Severstal with its registered office and business headquarters at Ul. Mira 30, 162600 Cherepovets, Russia.
Description	Programme for the Issuance of Loan Participation Notes pursuant to which the Issuer may issue Notes.
Offering	The Notes and the corresponding Loans have not been, and will not be, registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S). The Notes may be offered and sold (i) within the United States to QIBs, as defined in Rule 144A, that are also QPs, as defined in Section 2(a)(51) of the Investment Company Act, in reliance on the exemption from registration provided by Rule 144A and (ii) to persons who are not US persons (as defined in Regulation S) in offshore transactions in reliance on Regulation S. The Issuer has not been and will not be registered under the Investment Company Act. Prospective purchasers are hereby notified that sellers of the Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A and the Issuer is relying on an exemption from the Investment Company Act provided by Section 3(c)(7) thereof. Each purchaser of Notes will be deemed, by its acceptance of such Notes, to have made certain representations and agreements intended to restrict transfers of the Notes as described under "*Selling and Transfer Restrictions*". No holder or beneficial owner of the Notes may transfer the Notes except to a transferee who can make the same deemed representations and agreements as set forth in "*Selling and Transfer Restrictions*" on behalf of itself and each account for which it is purchasing. Any transfer in breach of the transfer restrictions set forth in "*Selling and Transfer Restrictions*" will be void ab initio and will not operate to transfer any rights to the transferee. For a description of these and certain further restrictions, see "*Subscription and Sale*" and "*Selling and Transfer Restrictions*".
Programme Size	Up to US$4,500,000,000 (or its equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. The Issuer, with the consent of the Company, may increase the amount of the Programme in accordance with the Dealer Agreement (as defined in "*Subscription and Sale*"). In this respect, for the purpose of calculating the aggregate principal amount of Notes outstanding, the premium of Notes issued at a premium shall be added to their principal amount.
Arranger	Barclays Bank PLC
Permanent Dealer	Barclays Bank PLC
Dealers	Pursuant to the terms of the Dealer Agreement, the Issuer, on the Company's instructions, may from time to time terminate the appointment of any Dealer under the Programme. The Issuer, on the Company's instructions, may also from time to time appoint additional Dealers either in respect of one or more Series of Notes or in respect of the whole Programme. References in this Base Prospectus to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose

	appointment has not been terminated) and to "Dealers" are to all Permanent Dealers and all persons appointed as dealers in respect of one or more Series of Notes.
Trustee	Citibank, N.A.
Principal Paying and Transfer Agent	Citibank, N.A., London Branch, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another principal paying and transfer agent is appointed in respect of that Series. References in this Base Prospectus to "Principal Paying and Transfer Agent" are to Citibank, N.A., London Branch or such alternative principal paying agent or agents, as the case may be.
Registrar	Citigroup Global Markets Deutschland AG, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that an alternative registrar is appointed in respect of that Series. References in this Base Prospectus to "Registrar" are to Citigroup Global Markets Deutschland AG or such alternative Registrar, as the case may be.
Paying Agent	Citibank, N.A., unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another paying agent is appointed in respect of that Series. References in this Base Prospectus to "Paying Agent" are to Citibank, N.A., or such alternative paying agent, as the case may be.
Transfer Agent	Citibank, N.A., unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another transfer agent is appointed in respect of that Series. References in this Base Prospectus to "Transfer Agent" are to Citibank, N.A., or such alternative transfer agent, as the case may be.
Calculation Agent	Citibank, N.A., London Branch, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another calculation agent is appointed in respect of that Series. References in this Base Prospectus to "Calculation Agent" are to Citibank, N.A., London Branch or such alternative calculation agent, as the case may be.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a ***Series***) having one or more issue dates and on terms otherwise identical to each other (or identical other than in respect of the amount and the date of first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. The specific terms of each Series will be completed in the Final Terms or Series Prospectus which shall complete the "*Terms and Conditions of the Notes*".
Status	Each Series of Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the corresponding Loan and to account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to such Loan, all as more fully described in "*Terms and Conditions of the Notes—1. Status*".
Security	The Issuer's payment obligations in respect of each Series of Notes will be secured by a first fixed charge on: • principal, interest and other amounts paid and payable under the relevant Loan Agreement and the Issuer's right to receive all

	sums paid and payable under any claim, award or judgment relating to such Loan Agreement (save for any Reserved Rights); and • all the rights, title and interest in and to all sums of money held from time to time in an account for the particular Series specified in the relevant Final Terms or Series Prospectus, together with the debt represented thereby (including interest from time to time earned thereon) pursuant to the Trust Deed.
Assignment of Rights	The Issuer will assign its rights under the relevant Loan Agreement (save for any Reserved Rights and those rights charged above) to the Trustee on the Issue Date of the corresponding Series of Notes.
Form	Each Series of Notes will be issued in registered form. The Regulation S Notes and the Rule 144A Notes will be represented by the Regulation S Global Certificate and the Rule 144A Global Certificate, respectively, in each case without interest coupons. The Global Certificates will be exchangeable for Definitive Certificates (as defined in "*Summary of the Provisions relating to the Notes in Global Form*") in the limited circumstances specified in the Global Certificates.
Clearing Systems	DTC (in the case of the Rule 144A Notes), Euroclear and Clearstream, Luxembourg (in the case of the Regulation S Notes) and such other clearing system as may be agreed between the Issuer, the Company, the Paying Agents, the Trustee and the relevant Dealer(s).
Initial Delivery of Notes	On or before the issue date for each Series, the Rule 144A Global Certificate will be deposited with a custodian for DTC and the Regulation S Global Certificate will be deposited with Citibank Europe plc as common depositary for Euroclear and Clearstream, Luxembourg. The Rule 144A Notes will be registered in the name of a nominee of DTC and the Regulation S Notes will be registered in the name of a nominee of Euroclear and Clearstream, Luxembourg. Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Company, the Paying Agents, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of a nominee or nominees for such clearing systems.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Company and the relevant Dealer(s).
Maturities	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued with any maturity as may be agreed between the Issuer, the Company and the relevant Dealer(s).
Denomination	Notes will be in such denominations as may be specified in the relevant Final Terms or Series Prospectus, save that unless otherwise permitted by then current laws and regulations: (i) Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum specified denomination of £100,000 (or its equivalent in other currencies), (ii) Notes resold pursuant to

	Rule 144A will be issued in specified denominations of US$200,000 or its equivalent in other currencies rounded upwards as agreed between the Issuer, the Company and the relevant Dealer(s) or integral multiples of US$1,000 thereafter and (iii) the minimum specified denomination of any Notes shall be €100,000 (or its equivalent in any other currency as at the issue date of the relevant Notes).
Rate of Interest	The Notes may be issued on a fixed rate or a floating rate basis.
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms or Series Prospectus.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series of Notes issued on a floating rate basis and the corresponding Loan Supplement as follows (and as specified in the relevant Final Terms, or Series Prospectus, and Loan Supplement): (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or (ii) by reference to the London inter-bank offered rate (***LIBOR***) or the Euro inter-bank offered rate (***EURIBOR***) as adjusted for any applicable margin.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms or Series Prospectus.
Redemption	The relevant Final Terms or Series Prospectus will specify the basis for calculating the redemption amounts payable and whether there will be any put or call options. Unless permitted by then current laws and regulations, Notes that have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Issuer's Restrictions and Covenants	So long as any Note remains outstanding, the Issuer will not, without the prior written consent of the Trustee, *inter alia*, engage in any business whatsoever (other than entering into limited recourse debt securities programmes and other limited recourse debt securities issues for the benefit of the Company, issuing notes thereunder for the purpose of financing any loans to the Company and certain other activities). See "*Terms and Conditions of the Notes—4. Restrictive Covenants*". Furthermore, the Issuer will agree in the Trust Deed not to make or consent to any amendment or modification or waiver of, or authorise any breach or proposed breach of the terms of any Loan Agreement unless the Trustee has given its prior written consent.

Use of Proceeds of the Notes . . .	The Issuer will apply the gross proceeds of the issue of each Series of Notes to fund the corresponding Loan to the Company.
Redemption by the Issuer at the Option of the Company	The Issuer will redeem the Notes in whole, but not in part, at 100.0 percent of their aggregate principal amount plus accrued and unpaid interest and all additional amounts, if any, if the Group elects to repay any Loan on the happening of certain events that result in the Group (or the Issuer) being required to pay additional amounts on account of Russian or Luxembourg taxes in respect of payments under the corresponding Loan or corresponding Notes or results in the Group being required to pay additional amounts on account of increased costs incurred by the Issuer, reduced amounts receivable by the issuer or the Issuer makes any payment of foregoes any return in connection with the relevant Loan.
Mandatory Redemption	In limited circumstances as more fully described in the relevant Loan Agreement, the Notes may be redeemed by the Issuer in whole, but not in part, on any Interest Payment Date in the case of Floating Rate Notes or at any time, in the case of Fixed Rate Notes, upon giving notice to the Trustee and the Company, at the principal amount thereof, together with accrued and unpaid interest and all additional amounts, if any, up to the date of redemption in the event that it becomes unlawful for (i) the Issuer to allow the relevant Loan to remain outstanding under the relevant Loan Agreement or (ii) the Issuer to allow the relevant Notes to remain outstanding. In either case, the Loan would be repaid in full on the date notified by the Issuer.
Relevant Events	In the case of a Relevant Event (as defined in the "*Terms and Conditions of the Notes—9. Enforcement*") the Trustee may, subject to the provisions of the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.
Withholding Tax	All payments of principal and interest in respect of each Series of Notes will be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of all taxes, which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by Luxembourg, or any taxing authority thereof or therein, other than as required by law. If any such taxes, duties and other charges are payable, the sum payable by the Company to the Issuer under the relevant Loan Agreement will (subject to certain exceptions and limitations) be required to be increased to the extent necessary to ensure that the Noteholders receive the net sum which they would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from the Company.
Further Issues	The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes of the same Series and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series. In the event of such further issuance, the principal amount of the relevant Loan will be correspondingly increased.
Listing and Admission to Trading	Application will be made, where specified in the relevant Final Terms or Series Prospectus, as the case may be, to the Irish Stock Exchange for the Series of Notes to be admitted to the Official

	List and trading on the Main Securities Market or such other exchange as shall be specified in the relevant Final Terms or Series Prospectus, as the case may be, or the Series of Notes will remain unlisted.
Rating	The Programme has been assigned ratings of "BB+" (outlook—stable) by Standard & Poor's and "Ba1" (outlook—stable) by Moody's. Series of Notes issued under this Programme may be rated or unrated. The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms or Series Prospectus, and if such Series of Notes is rated, it will be rated by Standard & Poor's, Fitch and/or Moody's, as indicated in such applicable Final Terms or Series Prospectus. A rating is not a recommendation to sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not by a credit rating agency established in the European Community and registered under the CRA Regulation unless this is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted application for registration in accordance with the CRA Regulation and such registration is not refused or (ii) the rating provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA registered under the CRA Regulation or (iii) the rating is provided by a credit rating agency not established in the EEA is certified under the CRA Regulation. For the purposes of the credit ratings referred to in this Base Prospectus and in any applicable Final Terms or Series Prospectus, each of Standard & Poor's, Fitch and Moody's is established in the European Union and is registered under the CRA Regulation. As such, each of Standard & Poor's, Fitch and Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. Please also refer to "*Risk Factors—Ratings of the Notes*". Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Company could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with them, will be governed by English law. The provisions of articles 86 to 94-8 of the Luxembourg law of August 10, 1915, as amended on commercial companies are excluded.

Selling Restrictions	United States, United Kingdom and Russia and any other jurisdiction relevant to any Series. See "*Subscription and Sale*".
ERISA Considerations	A Series of Notes issued under the Programme may be regarded for purposes of the United States Employee Retirement Income Security Act of 1974 (***ERISA***) as equity interests in a separate entity whose sole asset is the Loan. Accordingly, the Notes should not be acquired by any "benefit plan investor" within the meaning of Section 3(42) of ERISA. Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made certain representations as to its status under ERISA and the US Tax Code. Potential purchasers should read the sections entitled "*Certain ERISA Considerations*" and "*Selling and Transfer Restrictions*".
Risk Factors	An investment in the Notes involves a high degree of risk. Prospective investors should have regard to the factors described in the section entitled "*Risk Factors*" in this Base Prospectus.

The Loan Corresponding to Each Series of Notes

Lender	Steel Capital S.A.
Borrower	OAO Severstal.
Security and Ranking	None of the Loans will be secured by any collateral. Obligations under the Loan will rank at least *pari passu* with all other unsecured and unsubordinated financial indebtedness of the Company.
Interest Basis Dates	Interest will be payable on a fixed or floating rate basis as specified in the relevant Loan Supplement.
Redemption at the Option of the Company	Each Loan may be prepaid at the Company's option in whole, but not in part, on any Interest Payment Date in the case of Floating Rate Loans or at any time, in the case of Fixed Rate Loans, in either case at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, up to the date of repayment, for certain tax reasons or by reason of certain increased costs as provided in the Facility Agreement.
Mandatory Repayments	In the event that it becomes unlawful for the Issuer to fund any Loan or allow such Loan to remain outstanding under the relevant Loan Agreement or allow the corresponding Series of Notes to remain outstanding, the Company may be required to repay such Loan in full.
Certain Restrictions and Covenants	The Issuer will have the benefit of certain covenants made by the Company all as fully described in the relevant Loan Agreement, certain of which shall cease to apply in the event that the Notes have an investment grade rating from two rating agencies, as described in Clause 10.14 of the Facility Agreement.
Events of Default	In the case of an Event of Default (as defined in the Facility Agreement), the Trustee may, subject as provided in the Trust Deed, require the Issuer to declare all amounts payable under the relevant Loan Agreement by the Company to be due and payable.
Use of Proceeds of the Loans	The Company will use the gross proceeds of each Loan for general corporate purposes unless otherwise specified in the relevant Loan Agreement. In connection with the receipt of any Loan, the Company will pay an arrangement fee as reflected in the relevant Final Terms or Series Prospectus.

Withholding Tax	All payments of principal and interest under each Loan will be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of all taxes which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, other than as required by law. If any such taxes, duties or other charges are payable in respect of the Loan, the sum payable by the Company under the Loan will (subject to certain conditions) be required to be increased to the extent necessary to ensure that the Issuer receives the net sum which it would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made.
Governing Law	The Loans, and any non contractual obligations arising out of or in connection with them, will be governed by English law.

OVERVIEW FINANCIAL INFORMATION OF THE GROUP

The following tables set forth, in summary form, the consolidated statements of financial position, the income statements and other information relating to the Group. Such information has been derived from the Annual Financial Statements of the Group prepared in accordance with IFRS. The audit report of ZAO KPMG relating to the Annual Financial Statements of the Group (the ***Report of ZAO KPMG***) appears elsewhere in this Base Prospectus. The financial information presented below should be read in conjunction with such Annual Financial Statements, report and "*Operating and Financial Review*".

CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December		
	2012	2011	2010
	(Amounts expressed in thousands of US dollars, except as otherwise stated)		
Revenue			
Revenue—third parties	13,915,605	15,573,090	12,756,783
Revenue—related parties	188,101	239,310	62,335
	14,103,706	15,812,400	12,819,118
Cost of sales	(10,785,292)	(10,903,222)	(8,716,766)
Gross profit	**3,318,414**	**4,909,178**	**4,102,352**
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	(6,581)	(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)
Profit from operations	**1,370,833**	**2,917,357**	**2,205,306**
(Impairment)/reversal of impairment of non-current assets	(54,117)	438	(80,130)
Net other non-operating expenses	(70,536)	(65,381)	(43,599)
Profit before financing and taxation	**1,246,180**	**2,852,414**	**2,081,577**
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
Profit before income tax	**1,036,921**	**2,428,974**	**1,674,123**
Income tax expense	(263,485)	(466,012)	(427,306)
Profit from continuing operations	**773,436**	**1,962,962**	**1,246,817**
Profit/(loss) from discontinued operations	46,363	210,773	(1,761,396)
Profit/(loss) for the period	**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)	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)	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)

Consolidated Statements of Financial Position

	As at 31 December		
	2012	2011	2010
	(Amounts expressed in thousands of US dollars)		
Assets			
Current assets:			
Cash and cash equivalents	1,726,275	1,863,538	2,012,662
Short-term bank deposits	—	—	12,690
Short-term financial investments	23,778	10,500	27,463
Trade accounts receivable	1,040,567	1,219,961	967,837
Accounts receivable from related parties	15,468	27,349	12,359
Restricted financial assets	—	—	41,313
Inventories	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	302,120	327,163	298,183
Assets held for sale	—	2,677,310	3,509,882
Total current assets	**5,696,694**	**8,929,776**	**9,570,727**
Non-current assets:			
Long-term financial investments	108,060	182,262	204,542
Investments in associates and joint ventures	316,503	301,315	158,564
Property, plant and equipment	8,462,711	7,463,394	7,299,849
Intangible assets	820,935	770,454	1,930,942
Restricted financial assets	32,970	22,638	61,714
Deferred tax assets	100,796	99,651	103,777
Other non-current assets	168,546	140,301	78,266
Total non-current assets	**10,010,521**	**8,980,015**	**9,837,654**
Total assets	**15,707,215**	**17,909,791**	**19,408,381**
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable	1,057,621	1,115,110	897,389
Accounts payable to related parties	36,234	1,583,031	16,717
Short-term debt finance	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	637,947	655,420	554,577
Liabilities related to assets held for sale	—	550,123	3,272,354
Total current liabilities	**3,369,662**	**5,369,798**	**6,379,027**
Non-current liabilities:			
Long-term debt finance	4,327,412	4,790,631	4,722,926
Deferred tax liabilities	338,078	287,126	515,071
Retirement benefit liabilities	201,552	161,734	164,555
Other non-current liabilities	255,268	233,179	277,149
Total non-current liabilities	**5,122,310**	**5,472,670**	**5,679,701**
Equity:			
Share capital	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
Total equity attributable to shareholders of OAO Severstal	**7,194,460**	**6,679,496**	**7,034,939**
Non-controlling interests	**20,783**	**387,827**	**314,714**
Total equity	**7,215,243**	**7,067,323**	**7,349,653**
Total equity and liabilities	**15,707,215**	**17,909,791**	**19,408,381**

Summary Cash Flow Data

	Year ended 31 December		
	2012	2011	2010
	(Amounts expressed in thousands of US dollars)		
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)
Net cash from operating activities	**1,750,359**	**2,579,435**	**1,259,174**
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)
Cash used in investing activities	**(1,102,026)**	**(1,901,520)**	**(1,499,266)**
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)
Cash used in financing activities	**(835,103)**	**(539,054)**	**(287,881)**

Other Measures

	Year ended 31 December		
	2012	2011	2010[5]
	(US$ millions)		
EBITDA[1]	2,119.4	3,583.7	2,864.1
Interest expense	440.9	436.1	617.8
Net interest expense[2]	372.8	386.5	517.2
Total debt finance[3]	5,709.5	5,976.1	6,024.7
Cash and cash equivalents	1,726.3	1,863.5	1,800.5
Short-term deposits	—	—	12.7
Net debt[4]	3,983.2	4,112.6	4,211.5
Certain ratios			
EBITDA/Interest expense	4.8	8.2	4.6
EBITDA/Net interest expense	5.7	9.3	5.5
Net debt/EBITDA	1.9	1.1	1.5
Total debt finance/EBITDA	2.7	1.7	2.1

Notes:

(1) The Group defines EBITDA as profit from operations plus depreciation and amortisation of productive assets and loss on disposal of property, plant and equipment and intangible assets.

- EBITDA is presented as a supplemental measure of the Group's operating performance, which the Group believes is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the steel industry.
- EBITDA has limitations as an analytical tool, and investors should not consider it in isolation, or as a substitute for analysis of the Group's operating results as reported under IFRS. Some of these limitations are as follows:
  - EBITDA does not reflect the impact of financing costs, which can be significant and could further increase if the Group incurs more debt, on the Group's operating performance.
  - EBITDA does not reflect the impact of income taxes on the Group's operating performance.
  - EBITDA does not reflect the impact of depreciation and amortisation on the Group's operating performance. The assets of the Group's businesses which are being depreciated, depleted and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA, EBITDA does not reflect the Group's future cash requirements for these replacements. EBITDA also does not reflect the impact of loss on disposal of property, plant and equipment and intangible assets.
  - Other companies in the steel and mining industries may calculate EBITDA differently or may use it for different purposes than the Group, limiting its usefulness as a comparative measure.
  - The Group relies primarily on its IFRS operating results and uses EBITDA only supplementally. See the Annual Financial Statements included elsewhere in this Prospectus. EBITDA is not defined by, or presented in accordance with, IFRS. EBITDA is not a measurement of the Group's operating performance under IFRS and should not be considered as an alternative to profit, operating profit, net cash provided by operating activities or any other measure of performance under IFRS or as an alternative to cash flow from operating activities or as a measure of the Group's liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of its business.

(2) Net interest expense consists of the interest expense and interest income.

(3) Total debt finance consists of short-term and long-term debt finance.

(4) Net debt consists of total debt finance less cash and cash equivalents and short-term deposits.

(5) Total debt finance, cash and cash equivalents and short-term deposits as at 31 December 2010 were adjusted by amounts related to the Group's entities presented as discontinued operations.

EBITDA RECONCILIATION

	Year ended 31 December		
	2012	2011	2010
		(US$ millions)	
Profit from Operations	1,370.8	2,917.4	2,205.3
Add:			
Depreciation and amortisation of productive assets	722.6	645.4	616.0
Loss on disposal of property, plant and equipment and intangible assets	26.0	20.9	42.8
EBITDA	2,119.4	3,583.7	2,864.1

RISK FACTORS

An investment in any Notes involves a high degree of risk. Prospective investors should consider carefully the risks set forth below in this Base Prospectus prior to making any investment decision with respect to any such Notes. The risks described below could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Investors should note that the risks described below are not the only risks the Group faces. The Group has described only the risks that they consider to be material. However, there may be additional risks that the Group currently considers not to be material or of which the Group is not currently aware, and any of these risks could have the effects set forth above.

Risk Factors relating to the Group and the Steel and Mining Industries

The Group's business is dependent on the global economic environment

During 2012, the global economy and steel market experienced significant difficulties. According to the World Bank, in 2012 global GDP increased by 2.3 percent, which was 1.0 percent lower than expected previously, and in 2013, the World Bank forecasts global GDP growth to be 2.4 percent. The economic slowdown in China, the sovereign debt problems in Europe, the fiscal cliff tensions in the United States and the weaker performance of emerging economies (including India, Brazil and Russia) resulted in a sharp fall in raw material prices, which negatively impacted global steel prices as well. While sovereign debt tensions in the Eurozone presented the most important risk in 2011, such tensions eased substantially in the second half of 2012, as parliamentary elections in Greece resulted in the victory of parties supporting the EU bailout and corresponding austerity measures and significant progress was made in establishing a new financial infrastructure in Europe, including the German constitutional court's approval of the European stability mechanism (***ESM***) in September 2012 and the European Central Bank's stated willingness to engage in "outright monetary transactions" to purchase sovereign bonds of EU countries that are subject to EFSF (European Financial Stability Facility)/ESM adjustment programmes. However, the situation in the Eurozone remains unstable, especially following the inconclusive Italian parliamentary elections in February 2013; and the risk of any country's exit from the Eurozone could lead to negative effects for the global economy, and, in particular, the financial, automotive and real estate sectors.

According to the Russian Federal State Statistics Service (***Rosstat***), Russia's GDP grew by 3.4 percent year-on-year in 2012. The recovery in 2012 had a significant positive impact on both domestic market pricing and demand for steel products, iron ore and coking coal. As Metal Expert reported, in 2012, Russian domestic steel demand increased by 2.4 percent year-on-year to 41.8 million tonnes, exceeding the pre-crisis level. The Russian Ministry of Economic Development announced their forecasts for Russia's GDP in 2013 in the range of 3.0 to 3.2 percent due to the escalation of the financial crisis in the Eurozone, the decline of raw material prices and the decrease in investments in risk regions. Nevertheless, the global economic environment is subject to a number of uncertainties, including mounting government deficits, discontinuation of certain stimulus programmes, potential inflation or deflation and continuing high levels of unemployment. A restructuring of sovereign debt issued by one or more Eurozone member states or any impact on global or Russian financial markets resulting from the ongoing sovereign debt crisis affecting certain Eurozone member states could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. Uncertainty created by the possibility of a deterioration of the financial markets could make it more difficult for the Group to fund its capital and liquidity requirements. There is a risk of a possible cyclical downturn in the Chinese economy and a stagnation of European and US economies, which would result in a global economic downturn and impact all industries. If global economic conditions deteriorate, the resulting contraction in demand for many of the Group's products and the tightening of the credit markets could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The steel and mining industries are cyclical, which may result in adverse fluctuations in the demand for and the prices of the Group's products

The industries in which a large proportion of the Group's customers operate, such as the automotive, construction and oil and gas industries, are cyclical in nature, which can result in adverse fluctuations in the demand for and price of steel products. Demand for the raw materials necessary for the production of steel products, such as iron ore and coal, is generally correlated with the demand for steel products. Particular economic and market factors may also have a significant effect on certain parts of the Group's operations, such as an economic downturn in the United States, Europe or China leading to a decrease in production

by automotive manufacturers, resulting in a decrease in demand for the Group's automotive flat steel products. Furthermore, the global economic downturn resulted in a decline in demand for and prices of steel and iron ore products. Although prices rose significantly in 2010 and in the first half of 2011 in response to the start of the global recovery, steel markets began a downward trend in the second half of 2011 as a result of the worsening of the sovereign debt crisis in Europe that, in turn, led to a slowing global industrial production and reduced demand. During 2012, steel prices continued their downward tendency. Adverse fluctuations in the demand for the Group's products or the supply of competing products may result in overproduction or underproduction, increased costs or general uncertainty in the industry, any of which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Any significant change in prices or supply of raw materials may cause the Group's financial results to vary, which could have a material adverse effect on its results of operations

The Group requires substantial amounts of raw materials in the steel production process, in particular coal and iron ore. Although the Russian Steel Division has a secure supply of iron ore and coal from Severstal Resources and certain Severstal International operations have secure iron ore supply through long-term contracts, the availability of coal, iron ore and/or slabs for Severstal International, and the availability of other necessary raw materials such as scrap may be negatively affected by a number of factors largely beyond the control of the Group, including interruptions in production by suppliers, supplier allocation to other purchasers, price fluctuations and transport costs. In addition, the Group's operations require substantial amounts of other raw materials, including various types of limestone, alloys, refractories, oxygen, fuel and gas, the price and availability of which are also subject to market conditions. The Group may not be able to adjust its prices to recover the costs of significant increases in the prices of such raw materials. Any significant change in the prices or supply of raw materials could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group will require a significant amount of cash to fund its capital expenditure programme. If the Group is unable to generate this cash through operations or external sources, this programme may not be completed on schedule or at all

Steel production and mining are capital intensive businesses. In particular, the Group has undertaken a capital expenditure programme focused on the modernisation and development of its existing steel production and mining facilities. The Group's capital expenditure programme was reviewed in 2013 and is scheduled to run through 2017, involving the expenditure of approximately US$1.3 billion in 2013 and US$6.1 billion over 2014-2017. The Group had total capital expenditures of US$1,138.6 million in 2010, US$1,776.8 million in 2011 and US$1,537.9 million in 2012, excluding the Group's discontinued operations of Lucchini SpA and its subsidiaries (***Lucchini***), Severstal Sparrows Point, Severstal Warren, Severstal Wheeling, MSC and Nordgold. See "*Business—Investment in Modernisation and Advanced Technological Processes*". The Group plans to rely on cash generated from its operations, and, to a lesser extent, external financing, to provide the capital needed for the capital expenditure programme. However, there can be no assurance that the Group will be able to generate adequate cash from operations or that external financing, if necessary, will be available on reasonable terms. As a consequence, the Group may be unable to fund its current capital expenditures and/or any potential capital expenditures that may be required to finance its future projects or acquisitions.

In addition, capital expenditure programmes are subject to a variety of potential problems and uncertainties, including changes in economic conditions, delays in completion or delivery, cost overruns and defects in design or construction, which may require additional cash investment. For example, the construction of the production facilities at Severstal Columbus in the United States in 2007 experienced significant cost overruns as a result of higher than expected construction costs. Further, the Group's capital expenditure programme includes plans to acquire significant amounts of new equipment, including more advanced technologies. While such new production equipment and technologies are aimed at increasing the operational performance of the Group's facilities, there can be no assurance that the equipment will meet its intended production targets on a timely basis, or at all, the result of which could be reduced production, delays or additional costs. Further, to finance the programme, the Group may incur a substantial amount of additional indebtedness, the interest and principal repayments on which may be a significant drain on the cash flows of the Group. A failure or delay of the Group's capital expenditure programme or the significant increases in the financing costs that may be incurred to fund the programme

could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group has grown rapidly and intends to pursue opportunities to grow its operations, including through further acquisitions, but there can be no assurance that the Group will be able to successfully integrate such acquired companies or identify suitable acquisition targets

In recent years, the Group has increased its ownership interests in a number of companies and acquired other companies, businesses and production assets, in particular the acquisition of a number of mining operations by Severstal Resources. The Group may consider future acquisitions of assets or companies that the Group believes are aligned with its corporate strategy and financial targets and offer significant potential synergies. In particular, the Group considers growth opportunities in emerging markets. The Group's approach towards M&A transactions is cautious and prudent as the Group prioritises its objective of maintaining financial stability amid high volatility in commodity and financial markets. The Group is not considering any sizeable cash-based M&A in the forseeable future.

The success of past, current and future acquisitions will depend on the Group's ability to manage the assimilation of the acquired assets or companies into its operations despite the inherent difficulties, such as existing operational inefficiencies, cultural differences, redundancies of personnel, incompatibility of equipment and information technology, production failures or delays, loss of significant customers, problems with minority shareholders in acquired companies and their material subsidiaries, the potential disruption of the Group's own business, the assumption of liabilities relating to the acquired assets or businesses, the possibility that indemnification agreements with the sellers of such assets may be unenforceable or insufficient to cover potential liabilities, the impairment of relationships with employees and counterparties as a result of difficulties arising out of integration, poor records or internal controls and difficulty in establishing immediate control over cash flows. Furthermore, there can be no assurance that the Group will be able to achieve the target synergies in its operations with recent or planned acquisitions.

Additionally, the value of any business the Group acquires or invests in may be lower than the amount that the Group pays for it, which, for example, could be related to a decline in the position of that business in the market or markets where it operates or to a decline in the market generally. Developed markets, such as Western Europe and the United States, may offer lower margins, as a general matter, compared to Russia and the CIS. The Group may not be able to identify suitable acquisition targets, and future acquisitions may not be available to the Group on terms as favourable as in the past. The Group may in the future face significant competition for potential acquisitions. When making acquisitions it may not be possible for the Group to conduct a detailed investigation of the nature of the assets being acquired due to, for example, time constraints in making the acquisition decision and other factors. The Group may also become responsible for additional liabilities or obligations not foreseen by the Group at the time of an acquisition, including in particular any financial liabilities entered into by previous management prior to completion.

Any or all of these difficulties, if they materialise, could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group may experience equipment failure or other unanticipated events, which may result in significant interruption in manufacturing processes, production curtailment and shutdowns

The Group's manufacturing processes depend on critical pieces of steel making and mining equipment, such as furnaces, continuous casters and rolling equipment, and electrical equipment, such as transformers, underground equipment, excavators, trucks and beneficiation equipment. This equipment may, on occasion, be out of service as a result of malfunction or defect. In addition, the Group's facilities are subject to the risk of damage due to unanticipated events, such as fires, explosions or adverse weather conditions. In the event of equipment failure or damage to its facilities, the Group may experience loss of revenues or customers due to material plant shutdowns or periods of reduced production and may require large capital expenditures to repair or replace faulty machinery or to repair damaged facilities, and if the equipment failure or damage to facilities extends to injuries to employees or has an environmental impact, other costs or liabilities arising out of those circumstances. For example, in 2008, there was an explosion at one of Severstal International's blast furnaces (blast furnace "B"), which severely damaged the furnace. The Group maintains property and business interruption insurance customary for businesses in the steel industry, nonetheless, any loss of revenues or customers or large unexpected capital expenditures resulting

from equipment failure or other unanticipated events could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group's mining operations are subject to hazards and risks that could lead to unexpected production delays, increased costs, damage to property or injury or death to persons

The Group's mining operations include open-pit and underground mining, both of which involve significant hazards and risks. Hazards associated with the Group's open-pit mining operations include flooding of the open pit, collapses of the open-pit wall, accidents related to the operation of large open-pit mining and rock transportation equipment, accidents related to the preparation and ignition of large scale open-pit blasting operations, production disruptions due to weather and hazards related to the disposal of mineralised wastewater, such as groundwater and waterway contamination. Hazards associated with the Group's underground mining operations include underground fires and explosions, including those caused by flammable gas, cave-ins or ground falls, discharges of gases and toxic chemicals, flooding, sinkhole formation and ground subsidence and other accidents and conditions resulting from drilling and removing and processing material from an underground mine. If any of these hazards or accidents results in significant injury to employees and damage to equipment or other property, the Group may experience unexpected production delays, increased production costs, and increased capital expenditures to repair or replace equipment or property, as well as claims from affected employees and environmental and other authorities for any alleged breaches of applicable laws or regulations. For example, in 2007, there was an explosion and fire at the Vorktaugol mining complex that resulted in ten casualties and the suspension of mining (see "*Business—Severstal Resources—Health, Safety and Environment*") and on 11 February 2013 there was an accident involving an explosion at the Vorkutinskaya mine that resulted in 19 fatalities and three casualties (see "*Business—Recent Developments*") and temporary suspension of mining. These and any further such disruptions to mining, delays and costs could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group's stated mineral reserves and resources are only an estimate based on a range of assumptions and there can be no assurance that the anticipated tonnage or grades can be achieved

The Group's estimates of its iron ore and coal reserves and resources contained in this Base Prospectus are calculated by reference to estimates provided by IMC Consulting Ltd in its report dated June 2006, and for Putu by SRK Consulting report dated September 2012 prepared in accordance with Samrec reporting standards. See *"Presentation of Financial and Other Information—Mining Reserves"*. Such estimates were based on interpretations of geological data obtained from sampling techniques and projected rates of production. Sampling techniques and projections are inherently uncertain and variances in reserve and resource estimates under different methodologies may be difficult to determine and evaluate. In addition, a substantial amount of time is required to bring reserves and resources into the production phase given that construction might last up to 4-5 years after the feasibility report. If the Group's actual production of iron ore and coal in the future is significantly less than the Group's planned production based on these estimates of its reserves, the Group may not be able to supply iron ore and coal to its steel operations at an economically feasible price or at all, which would have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

An increase in existing trade barriers or the imposition of new trade barriers in the Group's principal export markets could cause a significant decrease in the demand for its products in those markets

There are currently few trade restrictions on the principal export markets of the Group's Russian operations including in the European Union and the United States.

The Russian Federation acceded to the World Trade Organisation (the ***WTO***) on 22 August 2012. The current agreement on trade in certain steel products between the Europe and the Russian Federation stipulates that in the event that the Russian Federation accedes to the WTO before the expiry of the agreement, the agreement will be terminated and, as a consequence, any steel product quantity limits will be abolished as of the date of accession. Therefore beginning from 23 August 2012, there are no quantitative restrictions against import of certain steel products originating from the Russian Federation into Europe.

Despite Russia's accession to the WTO, the risk of new trade restrictions in the EU against Russian steel producers persists in the long-term. Russia and the EU have introduced a special early warning

system for the trade of steel products known as the Steel Contact Group, and a first meeting was held on 26 October 2012 in Saint-Petersburg.

In the US market, there are two suspension agreements with regards to the import of hot-rolled plates and hot-rolled coils and thin sheets. The agreements restrict imports of these products from the Russian Federation but allowing the Group's Russian operations to have access to the US market. The suspension agreement with regard to the import of hot-rolled coils and thin sheets is being revised by the US Department of Commerce with a focus on toughening its conditions, by increasing minimal price level, in particular. It could restrict the Russian import of hot-rolled coils and thin sheets into the US market to some extent.

There are no other significant restrictions on the Group's principal export markets. See "*Regulatory Matters—Trade Barriers and Anti-Dumping Regulations*".

Trade barriers affect the demand for the Group's products by effectively increasing the prices for those products compared to domestically available products. For example, international sanctions against Iran have caused a significant decrease in Iranian steel imports, which negatively affected the global steel market.

An increase in existing trade barriers, or the imposition of new trade barriers, could cause a significant decrease in the demand for the Group's products in its principal export markets, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Russian Government may impose export tariffs on Russian steel and mining producers, which could adversely affect the demand for its products

Historically, the Russian Government has considered adopting export tariffs on certain steel and mining products, potentially including products produced by the Group. Certain of the Group's major customers, as well as other major consumers of steel products, have presented, and may in the future present, to the Russian Government initiatives to introduce export duties in order to affect the pricing of steel and mining products in the domestic market. No decision has been made to this effect but the low risk of such export tariffs being adopted remains present in the long-term.

The Group's business entails significant health, safety and environmental liability risks

The Group operates industrial facilities in which heavy metals or hazardous substances that are liable to present significant risks to the health or safety of neighbouring populations and to the environment are present. In this respect, the Group has in the past and may in the future incur liability for having caused injury or damages to persons or property or for the pollution of the environment.

Although the Group has made provisions for such future potential liability, there can be no assurance that the amounts covered by such provisions will prove to be sufficient in the future due to the intrinsic uncertainties involved in projecting expenditures and liabilities relating to health, safety and the environment. It is possible that the assumptions used to determine these provisions will need to be adjusted in the future due to future changes in regulations, changes in the interpretation or application of regulations by the relevant authorities, or, with respect to issues related to restoration of the environment, changes in technical, hydrological or geological restrictions, or the discovery of pollution that is not yet known. It is possible that the Group's current insurance policies will be insufficient to cover the costs of any such future material liability. See *"—The Group's existing and future insurance coverage may not be sufficient to cover costs arising from hazards and other operational risks arising from its steel and mining operations".* Any such liability shortfalls could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Achieving environmental compliance at sites that are currently in operation or that have been decommissioned entails a risk that could generate substantial financial costs for the Group

The competent authorities have made, are making or may in the future make specific requests that the Group carries out environmental improvement works, such as cleaning up and rehabilitating sites, and controlling emissions at sites in Europe where it is currently operating, or where it has operated in the past (including at sites it has disposed of), at neighbouring sites or at sites where the Group stored or disposed of waste. The Group may be required to incur significant costs to fulfil these obligations, which could have

a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Additional or stricter environmental rules and regulations may significantly increase the Group's cost of compliance

The Group's steel making plants and mining operations involve potential environmental problems including the generation of pollutants, greenhouse gases and the storage and disposal of wastes and other hazardous materials. As a result, the Group must comply with stringent regulatory requirements necessitating the commitment of significant financial resources and expects that the global trend towards stricter environmental laws and regulations (including international negotiations aimed at reducing emissions of greenhouse gases) will continue. Any significant increase in the cost of complying with such environmental rules and regulations in the future could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group's existing and future insurance coverage may not be sufficient to cover costs arising from hazards and other operational risks arising from its steel and mining operations

Although 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, some of its business divisions do not have comprehensive business interruption insurance and most of the Group's business divisions do not maintain environmental liability insurance. In particular, the Russian Steel Division maintains only limited levels of insurance against business interruption, but does not have insurance against third-party liabilities for property or environmental damage. The Group would therefore suffer significant losses in the event of damage to or destruction of any of its principal operating assets in Russia or in the event that any claim is brought against the Group relating to personal injury, death or property damage caused by the Group's operations in Russia. In addition, no assurance can be given that the Group will be able to maintain existing insurance or obtain additional insurance coverage at commercially reasonable rates, which could lead to future shortfalls between the Group's liability and its insurance coverage. Any such liability shortfalls could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group maintains a significant part of the social and physical infrastructure in the Cherepovets area, which requires a substantial commitment of resources

The Group has been responsible for maintaining a portion of the social and physical infrastructure in and around the city of Cherepovets and currently owns various social assets. The Group is by far the largest employer in Cherepovets, and it estimates that its tax and other similar payments to the city of Cherepovets accounted for a significant proportion of the city's total budget for the years ended 31 December 2011 and 2012. The Group expects that the city of Cherepovets will continue to rely on it for a substantial portion of its budget and that it will continue to maintain some of its commitments in respect of social, employment and welfare infrastructure in the Cherepovets area.

The Group's limited flexibility and significant level of additional fixed resource commitments could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The steel industry is highly competitive, and the Group may not be able to compete successfully

The markets for steel and steel products are highly competitive. Steel producers are also in competition with producers of substitute materials, particularly in the automotive, construction and packaging industries. The Group's competitors include major international steel producers, some of which are larger or have greater capital resources than the Group or, in some cases, have lower costs than the Group. Competitors may have competitive advantages in terms of location and access to key suppliers and transport routes. The Group's competitive position may also be affected by the recent trend towards consolidation in the steel industry. The highly competitive nature of the industry combined with excess production capacity for some steel products has exerted, and may in the future continue to exert, downward pressure on prices of certain of the Group's products. There can be no assurance that the Group will be able to compete effectively in the future. See *"Industry—Competition"*.

In addition, as a major Russian steel producer, the Company appears on the register of the FAS maintained for companies with a 35.0 percent share in a particular goods market. The measures applicable to the Company as a result of this inclusion could restrict its ability to set prices for such goods.

Failure by the Group to compete effectively for any of these reasons could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Inflation in Russia could increase the Group's costs

Although inflation in Russia decreased from 8.8 percent year-on-year in 2010 to 6.1 percent in 2011, the lowest level in the last 20 years, inflation increased in 2012 to 6.6 percent according to Rosstat. A number of the Group's costs relating to its Russian operations, such as wage costs, maintenance costs, construction costs and utilities costs, are sensitive to rises in general price levels in Russia. However, due to competitive pressures, the Group may not be able to raise prices sufficiently to preserve operating margins. Accordingly, high rates of inflation could increase the Group's costs and there can be no assurance that the Group will be able to maintain or increase its operating margins to cover such costs and failure to do so could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Wage increases in Russia may reduce the Group's profit margins

Wage costs in Russia have historically been significantly lower than wage costs in the more economically developed countries of North America and Europe for similarly skilled employees. However, if wage costs were to increase in Russia, this could result in a reduction in the Group's profit margins. Unless the Group is able to continue to increase the efficiency and productivity of its employees, wage increases could have a material adverse effect on its business, results of operations, financial condition, future prospects and the value of the Notes.

The Group's Russian operations obtain significant amounts of their electricity from the wholesale market which is currently subject to an ongoing liberalisation programme and purchase a substantial portion of their natural gas needs from a government controlled entity that declared a programme of price increases, either of which could result in costs increases

In 2012, the Group's Russian operations purchased significant volumes of natural gas from subsidiaries of OAO Gazprom (***Gazprom***), a government controlled entity and the dominant producer and monopoly transporter of natural gas within Russia. Domestic natural gas prices are regulated by the government and have been rising over the last few years. In 2012, gas prices rose by 7.1 percent, according to preliminary estimates of Russia's Ministry of Economic Development. The current Gazprom strategic program is aimed at gas price increases for customers in Russia and designed to move prices toward European levels. The Group has, however, been able to take advantage of more favourable pricing as competition in the Russian gas market has increased. For example, OAO Severstal and Severstal-Metiz have entered into a gas supply contract with OAO Novatek, a competitor of Gazprom, for 2013-2017.

The Group's electricity purchases come from the wholesale market. Starting from 1 January 2011, price controls on electricity were removed under the implementation of the liberalisation program aimed at introducing competition, liberalising the wholesale electricity market and moving from regulated pricing to a market-based system. Currently, however, only 35 percent of the electricity market has been liberalised. In 2012, wholesale electricity prices for the Group increased by approximately 7.5 percent. According to plans of the Ministry of Economic Development, in 2013 electricity prices are forecasted to increase by approximately 10.5 to 12.7 percent.

Any substantial increases in costs could adversely affect the Group's future profitability to the extent it is unable to pass on higher costs to its customers. This could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Company is beneficially controlled by a single person, whose interests could conflict with those of the Noteholders

The Company is beneficially controlled by Mr. Alexey Mordashov (the ***Majority Shareholder***), who as at 31 December 2012, controlled indirectly 79.17 percent of the Company's shares, see *"Principal Shareholders"*. As a result, the Majority Shareholder has the ability to exert significant influence over

certain actions requiring shareholder approval, including, but not limited to, increasing or decreasing the authorised share capital of the Company (and disapplying pre-emptive rights), the election of directors, declaration of dividends, the appointment of management and other policy decisions. While transactions with the Majority Shareholder and his affiliates can benefit the Company, the interests of the Majority Shareholder could at times conflict with the interests of Noteholders. Although the Group has in the past sought and continues to conclude related party transactions on an arm's length basis, conflicts of interest may arise between the Group, its affiliates and the Majority Shareholder or his affiliates, resulting in the conclusion of transactions on terms not determined by market forces. See *"Management"* and *"Related Party Transactions"*. Any such conflict of interest could adversely affect the Group's business, financial condition and results of operations, future prospects and the value of the Notes.

The Group's competitive position and future prospects are heavily dependent on the experience and expertise of its Majority Shareholder, senior management and technical personnel

The Majority Shareholder, who is also the Group's chief executive officer, and senior management team have been and, the Group believes, will continue to be important in the implementation of the Group's strategy and the operation of the Group's day-to-day activities. The experience, personal connections and relationships of members of senior management are important to the conduct of its business. There can be no assurance that these individuals will continue to make their services available to the Group in the future. The Group partially maintains key man insurance covering its senior managers. Moreover, competition for management and technical personnel, such as steel and mining engineers, with relevant expertise is intense due to the small number of qualified individuals, and this situation could seriously affect the Group's ability to retain its existing senior management and technical personnel and attract additional suitably qualified senior management and technical personnel. The loss or diminution in the services of members of the Group's senior management team or technical personnel or an inability to attract and retain additional senior management and technical personnel could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Severe weather conditions could significantly affect the Group's business and financial results

Severe weather conditions in Russia can affect the Group's ability to produce and transport its products. For example, in 2012 at Vorkutaugol's surface mine Yunyaginsky, flood levels exceeded seasonal norms. As a result of the surface mine impounding, commercial output in April decreased. A substantial part of the Group's sales by volume from its Russian steel operations sold internationally are routed through the port of St. Petersburg, which experiences occasional shutdowns due to bad weather and can only be fully utilised during the summer navigation period, when the Gulf of Finland is not frozen over. Severe weather in March 2011 led to a queue of approximately 150 vessels in the Gulf of Finland waiting for an icebreaker from Murmansk, which resulted in cargo delivery delays. Normally, the queue does not exceed fifty vessels. Severe weather conditions could negatively affect distribution and therefore revenues from international sales. Any of these climatic limits could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Disruption in rail transport and increased rail costs could significantly hinder the Group's operations and product distribution in Russia

The Group's Russian operations depend on the Russian railway system and rely predominantly on the rail freight network operated by JSC Russian Railways (***Russian Railways***) for transport of raw materials and deliveries of its steel products to its facilities, consignment agents and customers. Russian Railways is the predominant company in the Russian railway sector which, together with its subsidiaries, owns the country's largest fleet of freight rolling stock. It also plays a monopolistic role as the sole railway infrastructure operator, and it enjoys a near monopoly in the provision of locomotive services.

The physical infrastructure and other assets owned and operated by Russian Railways, particularly its rail network, largely date back to Soviet times and have, in many cases, not been adequately maintained.

The Russian railway system is subject to risks of disruption as a result of the declining physical condition of the facilities, a shortage of railcars, the limited capacity of border stations and load shedding, including those due to poorly maintained railcars and train collisions. In particular, the rolling stock of Russian Railways is generally in a poor state of repair. While the Group owns and leases railcars, and rents additional railcars, such assets are sufficient for only a portion of the Group's total transportation

requirements. The failure of Russian Railways to upgrade its rolling stock within the next few years could result in a shortage of available working rolling stock, a disruption in transportation of the Group's raw materials and products and increased costs of rail transport. There can be no assurance that the age and insufficient funding and maintenance of a substantial part of the Russian railway network and other infrastructure operated by Russian Railways will not in the future lead to material disruptions of the Group's business or increase the Group's costs of doing business.

In addition, the Russian Government sets rail tariffs and may further increase these tariffs, as it has done in the past. Such increases in railway tariffs have resulted in significant increases in the Group's transportation costs. Both the privatisation of Russian Railways and its cost of upgrading its rolling stock and other facilities could further contribute to increased tariffs.

The Group considers alternative delivery methods (such as river and motor transport) where practicable. Any disruption in transportation or increase in tariffs could significantly increase the Group's costs, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group may be subject to administrative sanctions, required divestitures or limitations on operations if it fails, or is found to have failed, to comply with the prior approval or subsequent notification requirements of the FAS with respect to its acquisitions of companies that are incorporated and operating in Russia or assets located in Russia

The Group has expanded its operations through the acquisition of companies that are incorporated and operating in Russia or assets that are located in Russia, such as the mining companies that currently comprise Severstal Resources. Some of these acquisitions are, or were, subject to the prior approval or subsequent notification requirements of the FAS, or its predecessor agencies. Certain portions of these requirements are vaguely worded and there can be no assurance that the Group will be able to comply fully or that the FAS will not challenge the Group's past compliance, which could result in administrative sanctions, required divestitures or limitations on operations. Any such sanctions, divestitures or limitations would materially adversely affect the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group's business could be adversely affected if it fails to obtain or renew necessary licences or fails to comply with the terms of its licences

The Group's business depends on the continuing validity of its licences, the issuance to it of new licences and its compliance with the terms of its licences, including subsoil licences for the Group's mining operations in Russia. Regulatory authorities exercise considerable discretion in the timing of licence issuance and renewal and in monitoring of licensees' compliance with licence terms. Requirements imposed by these authorities may be costly and time- consuming and may result in delays in the commencement or continuation of exploration or production operations. Moreover, legislation on subsoil rights remains internally inconsistent and vague, and the acts and instructions of licensing authorities and procedures by which licences are issued are often arguably inconsistent with legislation.

In certain circumstances, state authorities in Russia may seek to interfere with the issuance of licences, for example, by initiating legal proceedings alleging that the issuance of a licence violates the civil rights or legal interests of a person or legal entity. The licensing process may also be influenced by outside commentary, political pressure and other extra legal factors. In the case of subsoil licences, unsuccessful applicants may bring direct claims against the issuing authorities that the licence was issued in violation of applicable law or regulation. If successful, such proceedings and claims may result in the revocation or invalidation of the licence. Accordingly, licences that the Group requires may be invalidated or may not be issued or renewed. Licences that are issued or renewed may not be issued or renewed in a timely fashion or may involve conditions that restrict the Group's ability to conduct its operations or to do so profitably. As part of their obligations under licensing regulations and the terms of their licences, the Group's Russian subsidiaries are also required to comply with numerous industrial standards, maintain production levels, recruit qualified personnel, maintain necessary equipment and a system of quality control, monitor the Group's operations, maintain appropriate filings and, upon request, submit appropriate information to licensing authorities, which are entitled to control and inspect their activities. In most cases, a licence may be suspended or terminated if the licensee does not comply with the "significant" or "material" terms of the licence. However, the Ministry of Natural Resources and Ecology of Russia has not issued any new interpretive guidance on the meaning of "significant" or "material" terms of licences. Court decisions on the meaning of these terms have been inconsistent and, under the Russian legal system, do not have

significant value as precedents for future judicial proceedings. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights of subsoil licensees. As a result, while the Group seeks to comply with the terms of its subsoil licences and believes that it is currently in material compliance with the terms of such licences, there can be no assurance that its licences will not be suspended or terminated. In the event that the licensing authorities in Russia discover a material violation by a member of the Group, that member of the Group may be required to suspend its operations or to incur substantial costs in eliminating or remedying the violation, which could have an adverse effect on the Group's business or results of operations.

Any or all of these factors may affect the Group's ability to obtain, maintain or renew necessary licences. If the Group is unable to obtain, maintain or renew necessary licences or is only able to obtain or renew them with newly introduced material restrictions, it may be unable to benefit fully from its reserves, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

In addition, the Group's business outside of Russia also depends on the continuing validity of permits, the issuance to them of new permits and compliance with the terms of such permits, which may involve uncertainties and costs to the Group. In particular, the Group is engaged in discussions with Michigan state environmental authorities regarding the permitting of Severstal Dearborn's blast furnace. While the Group believes that permitting of current operations is fully supportable, it may be forced, as a result of these discussions, to operate under modified permit requirements and comply with more stringent environmental regulations, which could potentially result in a shutdown of Severstal Dearborn's blast furnace or the installation of costly additional pollution control technologies.

The Group has engaged and may continue to engage in related party transactions and major transactions

The Group has engaged in transactions with certain of its shareholders, including the Majority Shareholder, directors and executive officers and companies controlled by them or in which they or the Group own an interest (see *"Related Party Transactions"*). The Group believes that these related party transactions have been and will continue to be concluded at arm's length. However, there can be no assurance that the terms on which these related party transactions are conducted have not and will not differ significantly from the terms on which third-party transactions have been and are conducted. The practice of related party transactions may result in transactions conducted on terms less favourable to the Group than would otherwise have been negotiated with third parties and could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes. Besides that, the Company and other entities of the Group have engaged in large value transactions which under applicable Russian law are categorised as "major transactions" and which require approval by the board of directors or, depending on the size of the relevant transaction, by the shareholders of the company that is entering into such transaction. The Group believes that those "major transactions" which the Group entities enter into are properly authorised. However, there can be no assurance that all procedural requirements have been complied with in connection with the approval of such transactions. A "major transaction" which has not been properly authorised may be challenged by a company or any of its shareholders.

The Group's business depends on good relations with its employees. A breakdown in these relations and/or restrictive labour and employment laws could have a material adverse impact on the Group

Although the Group believes its labour relations with its employees are good, there can be no assurance that a work slowdown or a work stoppage will not occur at any of the Group's operating units or exploration prospects. At most of the Group's business units, there are collective bargaining agreements in place with labour unions. Any future work stoppages, disputes with employee unions or other labour-related developments or disputes, including renegotiation of collective bargaining agreements, could result in a decrease in the Group's production levels and adverse publicity and/or an increase in costs, which could have a material adverse effect on the Group's business, results of operations and financial condition and the value of the Notes.

Employees and former employees of the Group and service providers or customers of the Group (as well as neighbouring populations) may have been exposed, and, to a certain extent, may still be exposed, to toxic or hazardous substances

The Group's steel and mining operations use, and have in the past used, large quantities of heavy metals, chemicals, toxic or hazardous substances. In spite of safety and monitoring procedures implemented by the Group at each production site, employees, and in some cases the employees of other companies and service providers, have been or may have been exposed to such substances and some employees may have developed specific pathologies from such exposure, which could induce them to file claims against the Group in future years.

The Group is involved in legal actions and occupational illness claims due to past exposure to asbestos. Owing to the latency periods for various asbestos related pathologies, the possibility that an increasing number of legal actions or occupational illness claims will be filed in the years ahead cannot be excluded. In addition, employees of the Group or its service providers or customers or persons living near the Group's manufacturing facilities are exposed or have in the past been exposed to certain substances that are currently considered not to be hazardous. However, chronic toxicity, even in very low concentrations or exposure doses, could be discovered in the future. This could also lead to claims against the Group.

If any of the events described above lead to a material liability for the Group in the future, this could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group bears the risk of interest rate fluctuations

Interest rates on the Group's debt are either fixed or variable, at a fixed spread over LIBOR, EURIBOR or MOSPRIME (the "Moscow Prime Offered Rate") for the duration of each contract. As at 31 December 2012, 17 percent of the Group's total outstanding indebtedness carried a variable rate. Accordingly, the Group is exposed to the effect of fluctuations in interest rates with an immediate effect on the interest costs of the Group, in the case of borrowings at a variable rate interest, and an effect on the rate at which borrowings at fixed rates of interest are refinanced or renewed from time to time. There can be no assurance that the costs associated with an increase in the rates of interest at which the Group borrows funds will be able to be passed on in the form of higher prices to its customers. Accordingly, increases in interest rates may have an adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group may incur losses as a result of fluctuations in the foreign currency exchange rates of the rouble, the US dollar or the euro

The Group is exposed to translational and transactional foreign currency exchange rate risks. Translational foreign currency exchange rate risks are the result of translating assets and liabilities denominated in currencies other than US dollars into US dollar amounts for financial reporting purposes. Transactional foreign currency exchange rate risks arise as a result of payments the Group makes or receives that involve foreign currency exchange. Currently, the Group's International operations are balanced with most of their revenues, borrowings and expenses denominated in the same currency. The Group's Russian operations have revenues denominated in roubles, US dollars and euros, with meaningful fluctuations year-on-year. Expenses are mostly in roubles and borrowings are in US dollars and euros. As the Group reports its financial results in US dollars and must frequently exchange or translate foreign currency into roubles or roubles into foreign currency, fluctuations in foreign currency exchange rates could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Russia's property law is subject to uncertainty and contradiction

The legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real estate to the same extent as is common in some of the more developed market economies of North America and Europe. Land use and title systems rely on complex traditional ownership systems. As a result, the title of land that the Group might invest in may be unclear or in doubt. Moreover, the validity of the Group's right to title or use of its properties may be successfully challenged or invalidated due to technical violations or defects in title. Such instability creates uncertainties in the operating environment in the emerging market nations, which could

hinder the Group's long-term planning efforts and may prevent the Group from carrying out its business strategy effectively and efficiently. If the real property owned or leased by the Group is found not to be in compliance with all applicable approvals, consents, registrations or other regulations, the Group may lose the right to use such real property, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Shareholder liability under Russian legislation could cause the Company to become liable for the obligations of its Russian subsidiaries and its Russian joint venture entities

Under Russian law, the Company may be jointly and severally liable for the obligations of its Russian subsidiaries or joint venture entities together with such entities if (i) the Company has the ability to make decisions for such Russian subsidiaries or joint venture entities as a result of its ownership interest, the terms of a binding contract or in any other way, (ii) the Company has the ability to issue mandatory instructions to such Russian subsidiaries or joint venture entities and that ability is provided for by the charter of the relevant Russian subsidiary or joint venture entity or in a binding contract and (iii) the relevant Russian subsidiary or joint venture entity concluded the transaction giving rise to the obligations pursuant to the Company's mandatory instructions. In addition, the Company may have secondary liability for the obligations of its Russian subsidiaries or joint venture entities if (a) it has the ability to make decisions for the relevant Russian subsidiary or joint venture entity as a result of its ownership interest, the terms of a binding contract, or in any other way and (b) the relevant Russian subsidiary or joint venture entity becomes insolvent or bankrupt due to the Company's fault (i.e., the Company has used its ability referred to in (a) above knowing that this would result in insolvency or bankruptcy of the relevant Russian subsidiary or joint venture entity). This type of liability could result in significant losses, and could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Incomplete, unreliable or inaccurate official data and statistics could create uncertainty

The Group relies on and refers to information and statistics from various third-party sources and its own internal estimates. For example, substantially all the information contained in this Base Prospectus concerning the Group's competitors has been derived from publicly available information. The Group believes that these sources and estimates are reliable, but has not independently verified them. There can be no assurance that statistics derived from third-party sources are true and accurate in all material respects.

Weaknesses in the tax systems and legislation of some countries in which the Group operates create an uncertain environment for its business activity and could subject the Group to additional material tax liabilities

The Group operates in various jurisdictions. Tax legislation that is currently in effect in some of these jurisdictions is in its infancy and not well developed and is subject to varied interpretations by the local authorities. Despite the Group's efforts to comply with the applicable tax legislation, the selective application of the relevant tax laws at the discretion of the local authorities complicates tax planning and business decisions within the Group. Furthermore, it puts the arrangements and structures in place at risk of being challenged by the local tax authorities based on the adverse selective interpretation by them of the applicable tax legislation (with the possibility of the application of new interpretations of tax laws and regulations retroactively), which could have a material adverse effect on the Group's business, financial position, results of operations, prospects and the value of the Notes.

As at 31 December 2012, the actual and potential contingent claims for taxes, fines and penalties made by the Russian tax authorities to certain Group entities amounted to approximately US$18.1 million. Management of the Group does not agree with the tax authorities' claims and believes that the Group has complied with the existing legislation in all material respects. The management of the Group is unable to assess the ultimate outcome of the claims and the outflow of financial sources to settle such claims, if any. The Group's management believes that it has made adequate provisions for other probable tax claims.

RISK FACTORS RELATING TO RUSSIA

A substantial portion of the Group's fixed assets are located in Russia and a significant portion of the Group's revenue is derived from Russia. There are certain risks associated with investments in Russia.

Emerging markets such as Russia are subject to greater risks than more developed markets, including significant economic, political, social, legal and legislative risks; in addition, financial turmoil in Russia could disrupt the Group's business, as well as negatively affect the value of the Notes

Generally, investment in emerging markets is suitable only for sophisticated investors who are familiar with and who fully appreciate the significance of the risks involved in investing in emerging markets and prospective investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

The European sovereign debt crisis of 2011 and 2012, has so far had a relatively limited impact on the Russian economy due to Russia's relatively healthy public finances including a low debt to GDP ratio, relatively small budget deficit, and high levels of foreign currency reserves. However, should the ongoing crisis lead to a significant worsening of the global macroeconomic situation and/or impact commodity prices and global trade flows, Russia's overall economic and financial position in the short and medium term could also be negatively affected.

Investors should note that emerging markets such as Russia are subject to rapid change and that the information set out in this Base Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable developed markets. As it has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in other emerging market country could adversely affect the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Political Risks

Changes in the political situation inside Russia or Russia's involvement in conflicts with other countries could create an uncertain operating environment, hinder the Group's long-term plans and adversely affect the value of the Group's investments in Russia

In the past, ethnic, religious, historical and other divisions inside Russia have led to tensions and, in certain cases, military conflict and terrorist attacks. If such an event were to occur in the future, it could result in significant political consequences, including the imposition of a state of emergency in some or all of Russia or heightened security measures, which may disrupt normal economic activity.

In the past such conflicts occurred between Russia and its neighbours. For example, a military conflict in August 2008 between Russian and Georgia involving South Ossetia and Abkhazia may have added additional downward pressure on the Russian stock market, which had already been affected by the global economic downturn. As a result of this conflict, Russia's relations worsened with certain other countries for a considerable period of time. Russia's relationships with Ukraine have also been strained recently for a variety of reasons. While Russia's relationship with both Georgia and Ukraine has improved and stabilised and none of these conflicts have, to date, directly affected the Group's business, there can be no assurance that such conflicts or tensions could not re-emerge or intensify and, in turn, have an adverse effect on the Group's business, financial condition and results of operations.

Political and governmental instability could adversely affect the value of investments in Russia, including the Notes

Since 1991, Russia has moved from a one-party state with a centrally planned economy to a federal republic with democratic institutions and a market-oriented economy. The Russian political system, though more stable than in the 1990s, remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian Government has, at times, been unstable. On 4 December 2011, the State Duma elections were held and, on 4 March 2012, presidential elections were held in the Russian Federation. The structure of political forces in the State Duma did not change substantially and Vladimir Putin was elected as president. While the Russian political system and the relationship between the Russian President, the Russian government and the State Duma currently appears to be stable, future

political instability could result either from an economic downturn, a decline in standards of living, political disagreements or unrest, change in government policy or otherwise.

In addition, shifts in governmental policy and regulation in Russia may be less predictable than in many developed democracies and could disrupt or reverse political, economic and regulatory reforms. Major policy shifts or a lack of consensus between the Russian President, the Russian government, the State Duma and powerful economic groups, could lead to a deterioration in Russia's investment climate. This could have a material adverse effect on the value of investments relating to Russia and as such on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Arbitrary or selective state action could have a material adverse effect on the Group's business

State authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without hearing or prior notice. Possible state actions include withdrawal of licences, interference with or nullification of contracts and transactions entered into in connection with privatisations, invalidation of share issuances and registrations, sudden and unexpected tax audits, criminal prosecutions and civil actions.

There can be no assurance that business activities of the Group will not be affected by the tax audits undertaken by the Federal Tax Service. In addition, the Cherepovets Steel Mill is the largest taxpayer in the Vologodskaya region where it is located, and any substantial decrease in its tax liabilities may be subject to investigation by the tax authorities in more aggressive fashion than would usually be the case. See *"—The Group maintains a significant part of the social and physical infrastructure in the Cherepovets area, which requires a substantial commitment of resources"*.

Arbitrary or selective state action, if directed at the Group, in Russia or in any other jurisdiction where the Group undertakes projects or operations could lead to the loss of key licences, termination of contracts, invalidation of share issuances, civil litigation, criminal proceedings and imprisonment of key personnel, any of which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Economic Risks

Economic instability in Russia could adversely affect the Group's business

From 2000 until the first half of 2008, Russia experienced rapid growth in its GDP, increased tax revenue and increased stability of the rouble, providing some degree of economic soundness. However, the Russian economy was adversely affected by the global financial and economic crisis that began in the second half of 2008, which manifested itself through extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP around the world. While the Russian economy experienced a modest recovery in 2010 and 2011, with its GDP increasing by 4.3 and 4.3 percent, respectively, according to Rosstat, any economic reversal is likely to have a negative impact on the Group's profitability. But in 2012, Russian GDP growth decreased to 3.4 percent, according to Rosstat. Any of the following risks, which the Russian economy has experienced at various times in the past and some of which occurred during the financial and economic crisis, may have a significant adverse effect on the investment climate in Russia and, in turn, may be a significant burden on the Group's operations:

- significant declines in GDP;
- hyperinflation;
- increases in, or high, interest rates;
- an unstable currency;
- high state debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- the use of fraudulent bankruptcy actions in order to take unlawful possession of property;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- tax evasion;

- the "black" and "grey" market economies;
- high levels of capital flight;
- corruption and the penetration of organised crime into the economy;
- political and social instability;
- dependence of the economy on exports of commodities;
- significant declines and volatility in the stock market;
- significant increases in unemployment and underemployment;
- the impoverishment of a large portion of the Russian population; and
- outdated and deteriorating physical infrastructure.

In addition, as Russia produces and exports large quantities of oil, natural gas and other mineral resources, the Russian economy is particularly vulnerable to market downturns or economic slowdowns elsewhere in the world. This may cause fluctuations in the prices of oil, natural gas and minerals on the world market, which reached record high levels in 2008 and have since experienced high levels of volatility, including significant decreases.

Further, there can be no assurance that a future economic crisis will not have a negative effect on investor confidence in the Russian markets or economy and the ability of Russian-based companies to raise capital in the international capital markets, any of which, in turn, could have a material adverse effect on the Russian economy.

The occurrence of any of these events could adversely affect Russia's economy and the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Instability of global financial markets could affect the Russian economy and the Group.

Russia's economy was adversely affected by the global financial and economic crisis in 2008 2009 and could be adversely affected by market downturns and economic crises or slowdowns elsewhere in the world in the future. In particular, the disruptions in the global financial markets have had a severe impact on the liquidity of Russian entities, the availability of credit and the terms and cost of domestic and external funding for Russian entities. This could adversely influence the level of customer demand for various goods and services, including those provided by the Group.

In October 2011, Moody's changed its outlook from "stable" to "negative" for the Russian banking system, which reflected concerns that market volatility was weakening Russia's operative environment. In January 2012, Fitch revised its outlook for the Russian Federation from "positive" to "stable" based on perceived increased political uncertainty and global economic outlook, reflecting an assessment that there is an increased credit risk that the Russian government may default on its obligations. In March 2012, Fitch announced it may further lower the Russian sovereign credit rating if the Russian government does not restrict its budget policy and fails to limit expenditure.

These developments, as well as adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment, or a decline in oil, gas or other commodities prices (such as, for example, steel or precious metals) could slow or disrupt the Russian economy and adversely affect the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Introduction of currency restrictions may limit the Group's ability to execute its strategy or operate its business or could otherwise adversely affect the Russian capital markets

During the 1990s, Russia's currency regulation and control regime severely limited, and at times prohibited, certain hard currency payments and operations. These actions resulted in an immediate and severe devaluation of the rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. Despite recent liberalisation, there can be no assurance that Russia's currency regulation and control regime will not impose new restrictions or prohibitions. Restrictions or prohibitions on hard currency payments and operations could limit the Group's ability to invest in its capital improvement programmes, pursue attractive acquisition opportunities or purchase raw materials or

sell its products internationally. In addition, such restrictions or prohibitions may limit an investor's ability to repatriate earnings from securities of Russian issuers, including the Group, or otherwise have a negative impact on the Russian capital markets. The consequences of any new restrictions or prohibitions could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Russian banking system remains underdeveloped with a limited number of creditworthy Russian banks, and another banking crisis could place severe liquidity constraints on the Group's business

The transparency of the Russian banking sector still lags behind internationally accepted norms in certain respects. Banking supervision is also often inadequate, and, as a result, many Russian banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to determinations of inadequate capital and the insolvency of some banks.

Prior to the global financial and economic crisis in 2008 2009, there had been a rapid increase in lending by Russian banks, which many believe was accompanied by deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market has led to Russian banks increasingly holding large amounts of Russian corporate rouble denominated bonds in their portfolios, which further deteriorated the risk profile of Russian bank assets.

The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. There are currently only a limited number of creditworthy Russian banks, most of which are located in Moscow. Another banking crisis, or the bankruptcy or insolvency of the banks which hold the Group's funds, could result in the loss of its income for several days or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Furthermore, any shortages of funds or other disruptions to banking experienced by the Group's banks from time to time could also have a material adverse effect on the Group's ability to complete its planned developments or obtain finance required for its planned growth and thus have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Russia's physical infrastructure is in poor condition

The physical infrastructure in Russia, including rail and road networks, power generation and transmission, communication systems, and building stock, largely dates back to Soviet times and has not been adequately funded and maintained. Electricity and heating shortages in some regions of Russia have seriously disrupted the local economies. For example, in August 2009, an accident at the Sayano Shushenskaya hydroelectric power plant resulted in a significant portion of the supply to the local power grid being lost, which led to widespread power failure in the region and forced all major users such as aluminum smelters to switch to generators. Additionally, in January 2006, electricity supplies to certain industrial customers in Moscow were reduced as a result of extreme cold weather in Moscow. Other parts of the country face similar problems.

Road conditions throughout Russia are also poor, with many roads not meeting modern quality requirements. The Russian Government is actively pursuing the reorganisation of the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The poor condition or further deterioration of Russia's physical infrastructure may harm the national economy, disrupt access to communications, increase the cost of doing business in Russia or disrupt business operations, any or all of which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Social Risks

Social instability could lead to labour and social tension, increased support for renewed centralised authority, nationalism or violence

In the view of some analysts, the failure to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social tension. Labour and social tension could have political, social and economic consequences, such as increased support for a renewal of centralised authority; increased nationalism, with support for re-nationalisation of privatised property, or expropriation of or restrictions on foreign involvement in the economy of Russia.

In addition, following the State Duma elections held on 4 December 2011 and the presidential elections held on the 4 March 2012, Moscow, St. Petersburg and some other major urban centres in Russia experienced protests from supporters of opposition parties alleging irregularities in those elections, and supporters of the incumbent political party, on a scale not seen in Russia for many years. However, the political situation has since stabilized and the protest movement has weakened to an extent that such social unrest is not expected to continue or escalate in the immediate term.

Nonetheless, if any of the foregoing, including a resumption of any politically related social unrest, were to occur, it could have an adverse effect on confidence in Russia's social environment and the value of investments in Russia, could restrict the Group's operations and lead to a loss of revenue, and could otherwise have a material adverse effect on the Group's business, financial condition, results of operations and future prospects and the value of the Notes.

Crime and corruption could disrupt the Group's ability to conduct its business and could materially adversely affect the Group's financial condition and results of operations

Organised criminal activity has reportedly increased significantly since the dissolution of the Soviet Union in 1991, particularly in large metropolitan centres. In addition, the Russian and international press have reported high levels of official corruption in Russia and other CIS countries, including the bribery of officials for the purpose of initiating investigations by state agencies, obtaining licences or other permissions or in order to obtain the right to supply goods or services to state agencies. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further interests of the state and individual officials. Additionally, published reports indicate that a significant number of Russian media regularly publish slanted articles in return for payment.

The proliferation of organised or other crime, corruption and other illegal activities that disrupt the Group's ability to conduct its business effectively, or any claims that it has been involved in corruption, or illegal activities (even if false) that generate negative publicity, could have an adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Risks Relating to the Russian Legal System and Russian Legislation

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity

Russia's legal framework has evolved rapidly in recent years. Since 1991, new Russian domestic legislation has been put into place. Currently, this system includes the Constitution of the Russian Federation of 1993, the Civil Code of the Russian Federation and other federal laws, decrees, orders and regulations issued by the president, government and federal ministries, which can be complemented by regional and local rules and regulations, adopted in certain spheres of regulation. These legal norms on the one hand can overlap or contradict one another and on the other hand can leave gaps in the regulatory infrastructure. Several fundamental Russian laws have only recently become effective. Consequently, certain areas of judicial practice are not yet formed, and are often difficult to predict.

Among the risks of the current Russian legal system are:

- inconsistencies among (i) federal laws, (ii) decrees, orders and regulations issued by the president, the Russian Government, federal ministries and regulatory authorities and (iii) regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;

- the relative inexperience of judges and courts in interpreting new principles of Russian legislation, particularly business and corporate law;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- a high degree of unchecked discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

In addition, several fundamental Russian laws have only relatively recently become effective. The enactment of new legislation in the context of a rapid evolution to a market economy and the lack of consensus about the aims, scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the Russian legal system. The enforceability of some of the more recently enacted laws may be subject to doubt and many new laws remain untested. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure All of these weaknesses could affect the Group's ability to enforce its legal rights in Russia, including rights under contracts, or to defend itself against claims by others, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The lack of independence of certain members of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Group or the Noteholders from obtaining effective redress in a court proceeding and could materially adversely affect the value of the Notes

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia are also less than complete. The Russian court system in the past has been and may still be understaffed and underfunded. Russia, along with many western European states, such as Germany and France, is a civil law jurisdiction and, as such, judicial precedents generally have no binding effect on subsequent decisions. Enforcement of court judgments by law enforcement agencies can sometimes be time consuming because of the large number of outstanding court judgments. Additionally, court claims are often used in furtherance of political aims. The Group may be or may become subject to such claims and may not be able to receive a fair trial.

There are also legal uncertainties relating to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that, due to the lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation, or in the event that the Group's business is reorganised. Expropriation or nationalisation of any of the Group's entities, their assets or portions thereof, or their break-up into separate companies, potentially without adequate compensation, could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group is subject to anti-monopoly laws enforced by the FAS, which may result in certain limitations being imposed on the Group's activities, the violation of which may result in civil, administrative and even criminal liability

The Federal Law No. 135-FZ "On Protection of Competition" dated 26 July 2006, which came into force on 26 October 2006, (the ***Competition Law***) generally prohibits any concerted action, agreement or coordination of business activity that results or may result in, among other things, (a) price fixing, discounts, extra charges or margins; (b) coordination of auction bids; (c) partition of a commodity market by territory, volume of sales or purchases, types of goods, customers or suppliers; (d) refusal to enter into contracts with buyers (customers) for reasons other than economic or technological reasons; (e) imposing unfavourable contractual terms; (f) fixing disparate prices for the same goods, for reasons other than economic or technological reasons; (g) creation of barriers to entering or exiting a market; and (h) restriction of competition in any other way. There is no established court practice on what concerted actions or coordination of business activity is and courts interpret these concepts inconsistently. As a result, there is significant uncertainty as to what actions may be viewed as violation of the Competition Law. In a number of precedents, Russian courts found concerted actions where market participants acted in a similar way within the same period of time, although, arguably, there have been legitimate economic reasons for such behaviour and the behaviour was not aimed at restriction of competition. Therefore, there is a risk that the Group can be found in violation of the Competition Law if its market behavior, vis-à-vis its

customers or suppliers is viewed as being similar to behaviour of the Group's competitors and perceived by the FAS as a purported restriction of competition. Such broad interpretations of the Competition Law may result in the FAS imposing substantial limitations on the Group's activities, may limit operational flexibility and may result in civil, administrative and even criminal liability.

The FAS has ample powers to investigate perceived violations of the Competition Law, has been very active over the last several years in policing marketing, sales and supply strategies of major participants of the Russian steel industry and has brought charges against certain market participants alleging concerted actions in violation of the Competition Law.

In July 2010, the FAS commenced proceedings in respect of several steel companies, including the Group, for alleged actions in violation of the Competition Law. Specifically, the FAS is investigating claims about high steel prices and the different prices charged to Russian and non-Russian customers, with the issue being discrimination against Russian customers in favour on non-Russian customers. In March 2011, the FAS has admitted that there has been no violation of the Competition Law and the case has been closed.

If the Group's activities are found to be in violation of the Competition Law in any of the cases described above or in any other cases, the Group could be subject to penalties or ordered to change its business operations in a manner that increases costs or reduces profit margin and revenue, which can adversely affect the Group's business, financial condition and results of operations.

In the event that the title to any Russian company acquired by the Group through privatisation, bankruptcy sale or by other means is successfully challenged, the Group may lose its ownership interest in that company or its assets

Almost all of the Group's steel making and mining assets in Russia consist of companies that have been privatised or that the Group acquired through bankruptcy proceedings or directly or indirectly from others who acquired them through privatisation or bankruptcy proceedings, and the Group may seek to acquire additional companies that have been privatised or that have undergone bankruptcy proceedings. In view of some analysts, privatisation legislation in Russia is vague, internally inconsistent and in conflict with other elements of Russian legislation. Although the statute of limitations for challenging transactions entered into in the course of privatisations is currently three years, privatisations may still be vulnerable to challenge, including through selective action by governmental authorities motivated by political or other extra legal considerations.

If any of the Group's acquisitions is challenged as having been improperly conducted and the Group is unable to defend itself successfully, the Group may lose its ownership interests, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Russian tax laws, regulations and practice are not well developed and are subject to frequent changes that could adversely affect the Group's business

The Company and the Russian subsidiaries of the Group are subject to a broad range of Russian taxes and other compulsory payments and levies imposed at the federal, regional and local levels, including, but not limited to profits tax, value-added tax ("VAT"), mineral extraction tax, payroll taxes, excise taxes, property tax, and other taxes and levies.

Russia's laws and regulations relating to these taxes, such as the Russian Tax Code, have been in force for a short period of time as compared to tax laws and regulations existing in countries with more developed market economies. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in frequent changes in the tax legislation and the approaches to its interpretation and application, which sometimes occur at short notice and were applied retroactively. Although Russia's tax climate, tax system and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed in the future in a manner that would significantly contribute to the instability and unpredictability of the Russian tax system. It is also possible that the Russian Government will impose arbitrary or onerous taxes, fines and penalties in the future which could adversely affect the business of the Company and the Russian subsidiaries of the Group.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Russian Tax Code relating to the above-mentioned taxes are relatively new, the interpretation and application of these laws and regulations is often unclear, unstable or

non- existent. Different interpretations of tax laws and regulations may exist both among and within government bodies at the federal, regional and local levels increasing the number of existing uncertainties and tax risks and leading to inconsistent enforcement of these laws and regulations in practice. The Russian tax system is therefore impeded by the fact that at times it still relies heavily on the inconsistent judgments of local tax officials and fails to address many of the existing problems.

Furthermore, taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws and regulations differently. Private clarifications to specific taxpayers' queries with respect to particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities. Therefore, there can be no assurance that the representatives of the local Russian tax inspectorates will not take positions contrary to those set out in the private responses issued by the Russian Ministry of Finance. During the past several years the Russian tax authorities have shown a tendency of taking more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax charges made by them as a result of tax audits of Russian companies operating in various industries. In some instances, the Russian tax authorities have applied new interpretations of tax laws and regulations retroactively. It is therefore possible that transactions and activities of the Company and the Russian subsidiaries of the Group that have not been challenged in the past may be challenged in the future.

In practice, taxpayers often have to resort to court proceedings to defend their positions against the tax authorities. Rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

In its decision of 25 July 2001, the Constitutional Court of Russian Federation introduced the concept of "a taxpayer acting in bad faith" without clearly stipulating the criteria for its interpretation and application. This concept is not defined in the Russian tax legislation or other branches of Russian legislation. Based on the available practice, it could be concluded that the tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is at times unfavourable to taxpayers.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation (the "Supreme Arbitration Court") issued Ruling No. 53 ("Ruling No. 53"), which introduced the concept of the "unjustified tax benefit", defined mainly by a reference to specific examples of such tax benefits (i.e., tax benefits received by taxpayers in connection with transactions that have no reasonable business rationale) which may lead to the disallowance of their application. Based on the current practice, it is apparent that the Russian tax authorities actively seek to apply this concept to challenge tax positions taken by taxpayers. Although the intention of Ruling No. 53 was to combat the abuse of tax law, based on the court practice relating to its application in cases which were brought to courts to date, it can be concluded that the Russian tax authorities have started applying the "unjustified tax benefit" concept in a broader sense than may have been initially intended by the Supreme Arbitration Court. Importantly, the Group is aware of cases where this concept has been applied by the Russian tax authorities to disallow benefits granted by double tax treaties. Although to date the courts have often interpreted this concept in favour of taxpayers, there can be no assurance that this tendency will continue in the future.

Tax declarations together with related documentation are subject to review and investigation by a number of the Russian authorities empowered by Russian law to impose fines and penalties on taxpayers. Generally, tax declarations and the related documentation remain subject to inspection by the Russian tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a particular year has been reviewed by the Russian tax authorities does not prevent that year, or any tax declarations and other documentation relating to that year, from further reviews by the Russian tax authorities during the three-year limitation period. In particular, a repeat tax audit may be conducted (i) by a higher-level tax authority as a measure of control over the activities of lower-level tax authorities, (ii) in connection with the reorganization/liquidation of a taxpayer, or (iii) as a result of the filing by such taxpayer of an amended tax return decreasing the amount of tax payable for the respective tax period. Therefore, previous tax audits do not preclude subsequent tax claims relating to the audited period. Furthermore, the Russian Tax Code provides for the possible extension of the three-year statute of limitation period for liabilities for tax offences if the taxpayer is deemed to obstruct the performance of the tax audit and this has become an insurmountable obstacle for the tax audit. As the terms "obstructed" and "insurmountable obstacles" are not specifically defined in Russian tax law or any other branches of the Russian legislation, the Russian tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their

tax audits with obstruction committed by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three-year limitation period. Therefore, the statute of limitations is not entirely effective with respect to liabilities for the commission of tax offenses in Russia. Such extended tax audit, if it is concluded that the Company and/or the Russian subsidiaries of the Group have significant tax underpayments for the respective prior tax periods, may have a material adverse effect on the Group's business, financial condition and results of operations.

Russian transfer pricing legislation that was effective before 1 January 2012 was broad in scope and vaguely drafted and provided limited guidance regarding its application and interpretation, generally leaving wide scope for its interpretation and application at the discretion of the Russian tax authorities and courts. Moreover, in the event that the Russian tax authorities make a transfer pricing adjustment, the transfer pricing rules did not provide for an offsetting adjustment for the related counterparty in the relevant transaction.

On 1 January 2012 new Russian transfer pricing legislation became effective. The list of the "controlled" transactions which fall within control under new rules includes transactions with Russian and non-Russian related parties and certain types of cross-border transactions, including all transactions with companies located in "black-listed" jurisdictions. These new rules have considerably increased the compliance burden for taxpayers as compared to the rules which were effective before 2012 due to, among other things, shifting the burden of justifying and proving market prices from the Russian tax authorities to the taxpayers. Although the new rules are modelled on the basis of the OECD transfer pricing guidelines, there are some peculiarities as to how the OECD transfer pricing principles are reflected in the local rules. Special transfer pricing rules apply to securities transactions and derivatives. It is currently difficult to evaluate what effect these new rules may have on the Company and/or the Russian subsidiaries of the Group. However, the transfer pricing legislation could have a considerable impact on the Group's tax position.

Accordingly, due to uncertainties in the interpretation of Russian transfer pricing legislation which was in effect before 2012 and the recently introduced new transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge prices applied under the respective transactions entered into by the Company and/or the Russian subsidiaries of the Group and make adjustments which could adversely affect their tax positions, unless they are able to confirm arm's length nature of prices applied under the "controlled" transactions supported by the appropriate transfer pricing documentation. The imposition of additional tax liabilities on the Company and/or the Russian subsidiaries of the Group under the Russian transfer pricing legislation may have a material adverse effect on the Group's business, results of operations and financial condition.

A new concept of a consolidated taxpayer was incorporated in the Russian Tax Code and became effective as at 1 January 2012. The new rules introduce consolidated tax reporting that enables the consolidation for profits tax purposes of the financial results of Russian companies which form one group (the "Tax Group"). The Tax Group's profits tax base should be determined based on income and expenses of its participants. The consolidated profits cannot be reduced by tax losses accumulated by the participants of the Tax Group prior to its establishment. Moreover, intragroup transactions are to be included in the consolidated tax base and are arguably not subject to the new Russian transfer pricing rules. There are several requirements which should be met in order to create a consolidated group.

While the Company and some of the Russian subsidiaries of the Group have created the Tax Group, there is no assurance that the consolidated taxpayer regime will not be changed in the future. Moreover, the impossibility of some of the Russian companies of the Group to join the Tax Group as well as the risks that the application of the consolidated group of taxpayers regime will subsequently be challenged by the Russian tax authorities may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Further, the Russian Government in the Main Directions of the Russian Tax Policy for 2013 and the planned period of 2014-2015 expressed its intention to introduce the "controlled foreign companies" rules to the Russian tax legislation. It is currently unclear as to how and when these amendments will be enacted (if at all), interpreted and applied in practice and what effect they may have on the Group. The imposition of additional tax liabilities as a result of the application of the "controlled foreign companies" rules to transactions of the Group may have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The facts described above create tax risks in Russia that may be substantially more significant than those typically existing in countries with more developed tax systems and, in particular, raise the risk of the imposition of additional taxes, levies, fines and penalties on the Company and/or Russian subsidiaries of the Group.

Historically, the Company and the main Russian subsidiaries of the Group have paid significant amounts of taxes to the Russian budget due to the scale of their operations. Consequently, the introduction of new taxes, an increase in the current tax rates or the introduction of amendments to currently effective taxation rules may have significant impact on the overall tax liabilities of the respective entities of the Group and may, in particular, result in the Group being required to make substantially larger tax payments to the Russian revenue in the future. In addition to creating a substantial tax burden, these tax risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Company and the Russian subsidiaries of the Group to significant additional taxes, fines and penalties and enforcement measures that could adversely affect the Group's business, financial condition and results of operations.

The Group's effective tax rate and financial condition could be affected by the Russian tax status of the non-Russian subsidiaries of the Group

The Group operates in various jurisdictions and includes companies incorporated outside Russia. Russian tax laws, as currently in effect, do not contain detailed rules on taxation of foreign companies in Russia. The Russian Tax Code contains a concept of permanent establishment as a means of taxing foreign legal entities which carry out regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities. However, the practical application of the concept of a permanent establishment under the Russian law is not well developed and foreign companies having even limited operations in Russia, which would not normally satisfy the conditions of creating a permanent establishment under international rules, may be at risk of being treated as having a permanent establishment in Russia and become liable to the respective Russian taxes and have obligations to withhold Russian taxes from payments to foreign individuals and legal entities as a tax agent. Recently there have been several instances where the Russian tax authorities sought to challenge a Russian tax status of foreign companies; some of their attempts were successful.

Moreover, Russian tax legislation does not currently contain a concept of tax residency for legal entities. However, the Russian Government has been considering introducing the concept of tax residency for legal entities in domestic tax law, particularly for the purposes of combatting tax evasion. Recently, such plans were confirmed by the Russian Government in the Main Directions of Russian Tax Policy for 2013 and the planned period of 2014-2015. In particular, it has been proposed to determine the tax residency of legal entities based on a number of criteria similar to those stipulated by the double tax treaties concluded by the Russian Federation. No assurance however can be currently given as to whether and when (if at all) these amendments will be enacted, what will be their exact nature, the approach to their interpretation and application by the Russian tax authorities and courts as well as the possible impact on the foreign entities of the Group. The Group cannot rule out that as a result of the introduction of these changes or further changes in the approach of the Russian tax authorities and/or the courts to the application of the current taxation rules, the non-taxable status of some or all foreign companies of the Group in Russia may be challenged and such foreign companies might be deemed to become Russian tax residents, subject to all applicable Russian taxes which could have a material adverse effect on the business, prospects, financial condition and results of operations of the Group.

Though the amount of income subject to taxation in Russia should be determined as income attributable to a permanent establishment, there is a risk that the Russian taxes authorities will seek to charge Russian taxes based on the entire amount of income of a foreign company. In particular, pursuant to the new transfer pricing rules, the amount of income of a foreign entity that is attributable to its Russian permanent establishment is to be measured based on the functions undertaken by this Russian permanent establishment, accepted economic (commercial) risks attributable to such activity and the assets deployed. In order to determine the amount of income of a foreign entity attributable to its permanent establishment in Russia, the Russian tax authorities may perform a functional analysis of an activity undertaken by a foreign entity in the territory of Russia. However, as of the close of this Base Prospectus the practice of the application of these rules is not available.

Interest payments on any Loan may become subject to Russian withholding tax

In general, interest payments on borrowed funds made by a Russian legal entity to a non-Russian legal entity or organisation having no registered presence and/or no permanent establishment in Russia are subject to Russian profits tax withholding ("withholding tax") at the rate of 20 percent (or such other tax rate as could be effective as of the date of payment) which could be reduced or eliminated under the terms of an applicable double tax treaty subject to compliance with the respective treaty clearance formalities by the recipient of interest. In particular, the Convention between the Grand Duchy of Luxembourg and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital signed on 28 June 1993 (the "Convention") envisages exemption of interest income from Russian withholding tax provided that certain criteria specified therein are satisfied by the recipient of interest.

The application of tax benefits envisaged by the Convention could however be affected by the change in the interpretation by the Russian tax authorities of the concept of the factual/beneficial owner of income. Specifically, on 30 December 2011 the Russian Ministry of Finance issued letter No. 03-08-13/1 (the "Letter") addressed to the Federal Tax Service, in which the former asserted that in the context of a very specific Eurobond structure which is not identical to the transaction described in this Base Prospectus, a foreign issuer of Eurobonds cannot benefit from the provisions of the Russia-Ireland double tax treaty in respect of interest on the loan paid by the Russian borrower because, in view of the Russian Ministry of Finance, the issuer may not be considered as the beneficial owner of interest income payable by the Russian borrower on the respective loan. Instead the Letter says that holders of Eurobonds could apply provisions of the applicable double tax treaties (if any) concluded between Russia and the country of residency of each holder. The Company cannot preclude the possibility that the Russian tax authorities might apply the same approach to the payment made under the structure of the Issue as described in this Base Prospectus.

Notwithstanding anything to the contrary above, no Russian withholding tax obligations should arise for the Russian companies in Eurobond structures, including the transaction described in this Base Prospectus, by virtue of the release from tax agent obligations envisaged by the Federal Law No. 97-FZ dated 29 June 2012 "On introduction of amendments to part one and part two of the Tax Code of the Russian Federation and Article 26 of Federal law on banks and banking activity" ("**Law No. 97-FZ**"). Law No. 97-FZ provides that Russian borrowers should be fully released from the obligation to withhold Russian income tax from interest payments made on debt obligations provided by the foreign legal entities which issued for this purpose "issued bonds," provided that certain conditions are met. Please see "Taxation—Russian Federation." This release from the obligation to withhold tax from interest and other payments in such Eurobond structures should apply retrospectively to income paid since 2007 and is available in respect of the "issued bonds" before 1 January 2014.

On this basis the Company believes that the respective conditions set out by Law No. 97-FZ should be satisfied and on that basis the Company should be released from withholding tax agent obligations with respect to interest payable on the Loans, which were funded before 1 January 2014. Importantly, Law No. 97-FZ does not provide for the exemption for the foreign interest income recipients from Russian withholding tax. Currently however there is no requirement and mechanism in the Russian tax legislation for foreign legal entities to self-assess and pay the tax to the Russian tax authorities, in case the tax was not withheld at source; such rules however are set out for non-Russian tax residents which are individuals. At the same time earlier the Russian Ministry of Finance acknowledged in its information letter published on its website that the release of Russian companies from withholding tax agent obligations arising in the Eurobonds structures should effectively mean that no Russian withholding tax should arise, since there is neither a mechanism nor obligation for a non-resident to calculate and pay the tax independently under such circumstances to the Russian budget. There can be no assurance that such requirements will not be introduced in the future or that the Russian tax authorities will not make any attempts to collect the tax from the foreign interest income recipients, including the Issuer or the Noteholders.

If interest due under any Loan becomes payable to the Trustee pursuant to the security arrangements described herein, there is some residual uncertainty as to whether the release of the Company from the withholding tax agent obligation under Law No. 97-FZ would be applicable. There is a potential risk that Russian withholding tax in respect of interest on the relevant Loan payable to the Trustee will become subject to Russian withholding tax at the rate of 20 percent (or such other tax rate as may be effective at the time of payment) or Russian personal income tax at the rate of 30 percent (or such other tax rate that may be effective at the time of payment). Further it is not expected that the Trustee will, or will be able to,

claim the exemption from or the reduction in the standard Russian withholding tax rate applicable to interest based on the applicable double tax treaty under such circumstances. In addition, while some of the Noteholders that are persons not residing in Russia for tax purposes might be eligible for the exemption from or the reduction in standard Russian withholding tax rate or Russian personal income tax rate, as the case may be, under the applicable double tax treaties entered into between their countries of tax residence and the Russian Federation, where such treaties exist and to the extent that they are applicable and could be relied upon by these Noteholders, there is no assurance that the respective treaty relief will be available to them (and, particularly, to the non-Russian tax residents who are individuals due to difficulties related to the advance tax relief. Please see "*Taxation—Russian Federation*") in practice under such circumstances.

If interest payable on any Loan becomes subject to Russian withholding tax (as a result of which the Issuer will reduce interest payable under the corresponding Series of the Notes by the amount of such withholding taxes), the Company will be obliged (subject to certain conditions) under the terms of the relevant Loan Agreement to increase the amounts payable by it under the relevant Loan ("gross up") as may be necessary to ensure that the net amount of payments received by the Issuer will not be less than the amounts it would have received in the absence of such withholding. It is currently unclear, however, whether provisions of the relevant Loan Agreement obliging the Company to gross up interest payable on the Loans will be enforceable under the Russian law as currently in effect. If the Company fails to increase interest payable on the relevant Loan, such failure will constitute an Event of Default pursuant to the relevant Loan Agreement.

If the Company is obliged to increase payments on any Loan (as described above), it may (without premium or penalty), subject to certain conditions, prepay the relevant Loan in full. In such case, all outstanding Notes of the corresponding Series will each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of the redemption. See "*Terms and Conditions of the Notes*".

Sale or other disposal of the Notes in Russia by a non-tax resident Noteholder who is an individual may become subject to Russian personal income tax reducing the value of the Notes

Where proceeds from the sale or other disposal of the Notes are deemed to be received from a source within Russia by a Noteholder, who is an individual not qualifying as a Russian tax resident for the purpose of Russian personal income tax, Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of such sale or other disposal) will apply to the gross amount of the sales or other disposal proceeds realised upon the sale or other disposal of the Notes decreased by any available duly documented cost deductions (including the acquisition costs of the Notes and other documented expenses relating to the acquisition holding and sale or other disposal of the Notes), provided that the documentation supporting cost deductions is available to the person obliged to calculate and withhold Russian personal income tax in a timely manner. Furthermore, sales or other disposal proceeds attributable to accrued interest, if deemed to be received by such Noteholders from Russian sources, can be subject to Russian personal income tax at the rate of 30 percent (or such other tax rate as could be effective at the time of such sale or other disposal), even if the sale or other disposal results in a loss.

Russian personal income tax rate may technically be reduced or eliminated under provisions of an applicable double tax treaty concluded between Russia and the country of tax residency of a particular Noteholder, subject to timely compliance by that Noteholder with the respective treaty clearance formalities in practice. Noteholders who are individuals not residing in Russia for tax purposes may not be able to obtain the advance treaty relief in relation to sales or disposal proceeds (including accrued interest income), as may be relevant, received from a source within Russia, whilst obtaining a refund of Russian personal income tax that was excessively withheld in relation to this income could be extremely difficult, if not impossible.

The imposition or the possibility of imposition of Russian personal income tax could adversely affect the value of the Notes. Please see "*Taxation*".

Risk Factors Related to the Notes

Risk Factors Relating to the Notes and the Trading Market

Before making their investment decision, potential investors in the Notes should read the terms of the Facility Agreement, and in particular the covenants and events of default, and certain exclusions

therefrom, which in substance will define the limits of a Noteholder's rights and remedies. See "*Facility Agreement*".

Payments under each Loan Agreement are structurally subordinated to existing indebtedness of the Group's subsidiaries, and these subsidiaries may incur further such indebtedness in the future

The obligations of the Company under each Loan Agreement are structurally subordinated to the existing obligations of the Company's subsidiaries. In addition, subject to certain limitations set forth in the Loan Agreements, the Company and its subsidiaries may be able to incur substantial additional debt in the future, including debt that may be secured or structurally senior to the debt under each Loan. Any such additional debt incurred by the Company's subsidiaries would be structurally senior to the obligations of the Company under each Loan Agreement. As at 31 December 2012, the Group had approximately US$5.7 billion of total debt finance. Secured indebtedness of the Company or any of its subsidiaries may also rank effectively senior to the obligations of the Company under each Loan Agreement. The incurrence of such additional indebtedness by the Company or its subsidiaries could have an adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Company may be unable to repay its obligations under a Loan Agreement

At maturity, the Company may not have the funds to fulfill its obligations under a Loan Agreement and may not be able to arrange for additional financing. If the maturity date of a Loan occurs at a time when other arrangements prohibit the Company from repaying that Loan, the Company would try to obtain waivers of such prohibitions from the lenders under those arrangements, or the Company could attempt to refinance the borrowings that contain the restrictions. If the Company could not obtain the waivers or refinance these borrowings, the Company would be unable to repay that Loan.

Noteholders' recourse against the Issuer is limited

The Issuer is only obliged to make payments under a Series of Notes to the Noteholders in an amount equivalent to sums of principal, interest and/or additional amounts (if any) actually received by or for the account of the Issuer under the relevant Loan Agreement, less any amount in respect of Reserved Rights. Consequently, if the Company fails to fully satisfy its obligations under a Loan Agreement, the Noteholders of the corresponding Series of Notes will receive less than the scheduled amount of principal, interest and/or additional amounts (if any) on the relevant due date.

Noteholders have no direct recourse against the Company

Except as otherwise disclosed in "*Terms and Conditions of the Notes*" and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreements or the Loans exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreements or have direct recourse against the Group, except through action by the Trustee under the Security Interests (as defined in "*Terms and Conditions of the Notes*"). Neither the Issuer nor the Trustee under the Assigned Rights (as defined in "*Terms and Conditions of the Notes*") shall be required to monitor the financial performance or status of the Group or to enter into proceedings to enforce payment under a Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payments of principal and/or interest by the Company under each Loan Agreement to, or to the order of, the Trustee or the Principal Paying Agent will satisfy the Issuer's obligations in respect of the Notes. Consequently, Noteholders will have no further recourse against the Issuer or the Group after such payment is made.

The debt agreements that the Group has entered into include covenants that may restrict the Group from making certain business decisions and/or carrying out its business strategy

The agreements that govern the Group's debt instruments, including the Loan Agreements, contain certain restrictions limiting its flexibility in operating its business. Such restrictions limit its ability to:

- create liens;

- borrow money;
- sell or otherwise dispose of assets;
- engage in mergers or consolidation;
- increase share capital;
- pay dividends or make any distribution on its share capital;
- provide guarantees or other security; and
- enter into derivative transactions.

These restrictions could hinder the Group's ability to carry out its business strategy and the Group's ability to make payments on the Loans.

In addition, a breach of a Loan Agreement or the terms of other debt instruments could cause a default under the terms of the Group's other financing arrangements, causing all debt under those financing arrangements to become due. No assurance can be given that if the indebtedness under the relevant Loan Agreement were to be accelerated, the assets of the Group would be sufficient to generate the funds necessary to repay the relevant Loan, and thus the corresponding Series of Notes, in full in satisfaction of its obligations under the relevant Loan Agreement.

The Group may prepay the loans under the Loan Agreements

Under the terms of each Loan Agreement, the Company may, subject to certain conditions, prepay the relevant Loan if it is required to increase its payments for tax reasons regardless of whether the increased payment obligation results from any change in the applicable tax laws or treaties or from the change in application of existing tax laws or treaties or from enforcement of the security provided for in connection with the corresponding Series of Notes. The Company may also prepay a Loan if it is required to indemnify the Issuer in respect of certain increased costs to the Issuer (as may be set forth in the relevant Loan Agreement). In the event that it becomes unlawful for the Issuer to allow a Loan to remain outstanding under the relevant Loan Agreement, to allow the corresponding Series of Notes to remain outstanding, to maintain or give effect to any of its obligations under the relevant Loan Agreement and/or to charge or receive or be paid interest at the rate then applicable to the relevant Loan, the Company may be required by the Issuer to prepay the relevant Loan in full. In case of any such prepayment, all outstanding Notes of such Series of Notes would be redeemable at par together with accrued interest.

There is no active trading market for the Notes

There may not be an existing market for the Notes at the time they are issued. Although each Series of Notes is expected to be listed on the Irish Stock Exchange and traded on the Main Securities Market, an active trading market in the Notes may not develop or be maintained after listing. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes. In addition, Securities markets, in recent periods, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

Ratings of the Notes

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Where a Series of Notes is rated, the rating assigned to the Notes will be specified in the applicable Final Terms or Series Prospectus.

Changes to the credit ratings of Russia, the Company or the Programme may adversely affect the value of the Notes

Outstanding Eurobonds of Russia are rated "Baa1" by Moody's, "BBB" by Standard & Poor's and "BBB" by Fitch. The Programme has been assigned ratings of "BB+" (outlook—stable) by Standard & Poor's and "Ba1" (outlook—stable) by Moody's. Series of Notes issued under this Programme may be rated or unrated. The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms or Series Prospectus, and if such Series of Notes is rated, it will be rated by Standard & Poor's, Fitch and/or Moody's, as indicated in such applicable Final Terms or Series Prospectus.

The foregoing credit ratings and any credit rating(s) set out in the applicable Final Terms or Series Prospectus do not mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. The significance of each rating should be analysed independently from any other rating. Any changes in the credit ratings of the Company or the Notes could adversely affect the value of the Notes and the price that a subsequent purchaser will be willing to pay for the Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or to the review by, or regulation of, certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments to it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited

Except in limited circumstances, the Notes will be issued only in global form with interests therein held through the facilities of Euroclear, Clearstream, Luxembourg and/or DTC. Ownership of beneficial interests in the Notes is shown on, and the transfer of that ownership is effected only through, records maintained by Euroclear, Clearstream, Luxembourg and/or DTC or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear, Clearstream, Luxembourg and/or DTC can only act on behalf of their participants, which, in turn, act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear, Clearstream, Luxembourg and/or DTC systems may be impaired.

The United States federal income tax characterisation of the Notes is uncertain

No authority directly addresses the US federal income tax characterisation of securities like the Notes and the Issuer has not and will not seek a ruling from the US Internal Revenue Service (***IRS***) as to their characterisation for such purposes. Although the matter is not free from doubt, to the extent relevant for US federal income tax purposes, the Issuer intends to take the position that a beneficial owner of a Note will be treated for such purposes as the beneficial owner of a debt instrument that is not a contingent payment debt instrument. No assurance can be given that the IRS will not assert, or a court would not sustain, a position regarding the characterisation of the Notes that is contrary to this treatment. Alternative characterisations include treatment of the Notes as equity in the Issuer, which would be a passive foreign investment company, as contingent payment debt instruments subject to special rules relating to accrual of original issue discount (***OID***) and contingent interest, or as other types of financial instruments. Prospective investors should seek advice from their own tax advisors as to the consequences to them of investing in the Notes, including their treatment for US federal income tax purposes.

US Foreign Account Tax Compliance Withholding

The "Foreign Account Tax Compliance Act" provisions of the US "Hiring Incentives to Restore Employment Act" (commonly referred to as ***FATCA***) generally will impose new information reporting,

withholding and other requirements on certain non-US financial institutions. Non-US financial institutions that do not comply with these requirements generally will be subject to a 30 percent withholding tax on certain payments of US source income, gross proceeds from the sale of certain US assets and certain other payments attributable to US source income or assets.

The Issuer believes that it is not a financial institution for purposes of FATCA. However, the application of FATCA to entities like the Issuer is uncertain. If the Issuer were to be treated as a financial institution for purposes of FATCA (or were to become subject to provisions of local law intended to implement an intergovernmental agreement entered into pursuant to FATCA) and were to comply with the information reporting and withholding requirements, after 2016 it could be required to withhold tax from certain payments on Notes to the extent such payments were attributable to US source income or assets. Only holders of Notes that (i) do not provide information required by the Issuer to comply with its obligations under FATCA, (ii) are non-US financial institutions that fail to comply with FATCA or (iii) receive payments on the Notes through financial institutions that do not comply with FATCA, would become subject to this withholding.

Further notes of a Series of Notes issued in additional offerings by the Issuer may not be fungible for US federal income tax purposes with the Notes issued in the original offering of that Series of Notes

If the further notes of a Series of Notes are not fungible for US federal income tax purposes with the Notes issued in the original offering of that Series of Notes, US holders of those notes may be required to accrue OID on the further notes into income whether or not they receive cash payments. Because the further notes may not be distinguishable from the previously outstanding Notes, the market value of all of the Notes may be adversely affected. See "*Taxation—Certain US Federal Income Tax Considerations—Fungible Issue*".

USE OF PROCEEDS

The gross proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to the Company. The gross proceeds of such Loan will be used by the Company for general corporate purposes unless otherwise specified in the relevant Loan Agreement. In connection with the receipt of such Loan, the Company will pay an arrangement fee, as reflected in the relevant Final Terms or Series Prospectus.

EXCHANGE RATE INFORMATION

The official currency of Russia, where a substantial amount of the Group's assets are located, is the Rouble. However, the Annual Financial Statements are reported in US dollars. As a result, fluctuations in the value of the Rouble against the US dollar may affect these results when translated into US dollars. See "*Risk Factors—Risk Factors Relating to the Group and the Steel and Mining Industries—The Group may incur losses as a result of fluctuations in the foreign currency exchange rates of the rouble, the US dollar or the euro*", and "*Operating and Financial Review—Key Factors Affecting the Group's Financial Results—Exchange rate movements*".

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Rouble and the US dollar, based on the official exchange rate quoted by CBR. Fluctuations in the exchange rates between the Rouble and the US dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Annual Financial Statements and other information presented in this Base Prospectus.

	RUR per US$1.00			
Year ended 31 December	**High**	**Low**	**Period average[1]**	**Period end**
2005	29.00	27.46	28.22	28.78
2006	28.78	26.18	27.26	26.33
2007	26.58	24.26	25.57	24.55
2008	29.38	23.13	24.85	29.38
2009	36.43	28.67	31.71	30.24
2010	31.78	28.93	30.37	30.48
2011	32.68	27.26	29.38	32.20
2012	34.04	28.95	31.09	30.37
2013				
January	30.42	30.03	30.26	30.03
February	30.62	29.93	30.16	30.62

(1) The average is calculated as a geometric average in respect of each day during relevant period.

No representation is made that the rouble amounts referred to in this Base Prospectus could have been or could be converted into US dollars at the above exchange rates or at any other rate.

CAPITALISATION

The following table sets forth on a consolidated basis the Group's cash and cash equivalents, short-term debt finance and capitalisation at 31 December 2012. Prospective investors should read this table in conjunction with "Selected Consolidated Financial Information", "Operating and Financial Review" and the Annual Financial Statements which are included in this Base Prospectus beginning on page F-2.

	As at 31 December 2012 Actual
	(US$ thousands)
Cash and cash equivalents	**1,726,275**
Short-term debt finance	**1,382,128**
Long-term debt finance	**4,327,412**
Equity	
Share capital	2,752,728
Treasury shares	(235,657)
Additional capital	315,922
Foreign exchange differences	(411,658)
Retained earnings	4,767,325
Other reserves	5,800
Total equity attributable to shareholders of OAO Severstal	**7,194,460**
Non-controlling interests	**20,783**
Total equity	**7,215,243**
Total capitalisation[(1)]	**11,542,655**

(1) Total capitalisation is the sum of long-term debt finance and total equity.

There has been no material change in the Group's total capitalisation since 31 December 2012.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth, in summary form, the consolidated statements of financial position, the income statements and other information relating to the Group. Such information has been derived from the Annual Financial Statements of the Group prepared in accordance with IFRS. The Report of ZAO KPMG appears elsewhere in this Base Prospectus. The financial information presented below should be read in conjunction with such Annual Financial Statements, report and "*Operating and Financial Review*".

CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December		
	2012	2011	2010
	(Amounts expressed in thousands of US dollars, except as otherwise stated)		
Revenue			
Revenue—third parties	13,915,605	15,573,090	12,756,783
Revenue—related parties	188,101	239,310	62,335
	14,103,706	15,812,400	12,819,118
Cost of sales	(10,785,292)	(10,903,222)	(8,716,766)
Gross profit	**3,318,414**	**4,909,178**	**4,102,352**
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	(6,581)	(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)
Profit from operations	**1,370,833**	**2,917,357**	**2,205,306**
(Impairment)/reversal of impairment of non-current assets	(54,117)	438	(80,130)
Net other non-operating expenses	(70,536)	(65,381)	(43,599)
Profit before financing and taxation	**1,246,180**	**2,852,414**	**2,081,577**
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
Profit before income tax	**1,036,921**	**2,428,974**	**1,674,123**
Income tax expense	(263,485)	(466,012)	(427,306)
Profit from continuing operations	**773,436**	**1,962,962**	**1,246,817**
Profit/(loss) from discontinued operations	46,363	210,773	(1,761,396)
Profit/(loss) for the period	**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)	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)	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)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December		
	2012	2011	2010
	(Amounts expressed in thousands of US dollars)		
Assets			
Current assets:			
Cash and cash equivalents	1,726,275	1,863,538	2,012,662
Short-term bank deposits	—	—	12,690
Short-term financial investments	23,778	10,500	27,463
Trade accounts receivable	1,040,567	1,219,961	967,837
Accounts receivable from related parties	15,468	27,349	12,359
Restricted financial assets	—	—	41,313
Inventories	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	302,120	327,163	298,183
Assets held for sale	—	2,677,310	3,509,882
Total current assets	**5,696,694**	**8,929,776**	**9,570,727**
Non-current assets:			
Long-term financial investments	108,060	182,262	204,542
Investments in associates and joint ventures	316,503	301,315	158,564
Property, plant and equipment	8,462,711	7,463,394	7,299,849
Intangible assets	820,935	770,454	1,930,942
Restricted financial assets	32,970	22,638	61,714
Deferred tax assets	100,796	99,651	103,777
Other non-current assets	168,546	140,301	78,266
Total non-current assets	**10,010,521**	**8,980,015**	**9,837,654**
Total assets	**15,707,215**	**17,909,791**	**19,408,381**
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable	1,057,621	1,115,110	897,389
Accounts payable to related parties	36,234	1,583,031	16,717
Short-term debt finance	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	637,947	655,420	554,577
Liabilities related to assets held for sale	—	550,123	3,272,354
Total current liabilities	**3,369,662**	**5,369,798**	**6,379,027**
Non-current liabilities:			
Long-term debt finance	4,327,412	4,790,631	4,722,926
Deferred tax liabilities	338,078	287,126	515,071
Retirement benefit liabilities	201,552	161,734	164,555
Other non-current liabilities	255,268	233,179	277,149
Total non-current liabilities	**5,122,310**	**5,472,670**	**5,679,701**
Equity:			
Share capital	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
Total equity attributable to shareholders of OAO Severstal	**7,194,460**	**6,679,496**	**7,034,939**
Non-controlling interests	**20,783**	**387,827**	**314,714**
Total equity	**7,215,243**	**7,067,323**	**7,349,653**
Total equity and liabilities	**15,707,215**	**17,909,791**	**19,408,381**

SUMMARY CASH FLOW DATA

	Year ended 31 December		
	2012	2011	2010
	(Amounts expressed in thousands of US dollars)		
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)
Net cash from operating activities	**1,750,359**	**2,579,435**	**1,259,174**
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)
Cash used in investing activities	**(1,102,026)**	**(1,901,520)**	**(1,499,266)**
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)
Cash used in financing activities	**(835,103)**	**(539,054)**	**(287,881)**

OPERATING AND FINANCIAL REVIEW

The following is a discussion of the Group's financial condition and results of operations as at and for the years ended 31 December 2012, 2011 and 2010, and of the material factors that the Group believes are likely to affect its financial condition and results of operations. You should read this section in conjunction with the Annual Financial Statements included in this Base Prospectus beginning on page F-2. The Annual Financial Statements have been prepared in accordance with IFRS.

In addition, the following discussion contains certain forward looking statements that reflect the Group's plans, estimates and beliefs. The Group's actual results may differ materially from those discussed in these forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Base Prospectus, including "Risk Factors" and "Forward Looking Statements".

Overview of the Group

The Group is an international, vertically-integrated steel and mining company that sells high-quality metal and mining products to customers across the world. According to worldsteel, the Group was the world's twenty-third largest producer of crude steel in 2011 by volume of production with 15.3 million tonnes of total crude steel output. In 2012, crude steel production of the Group was 15.1 million tonnes. The Group is a full production cycle operation which includes iron ore, coal, scrap collection, steel mills and rolled product plants, downstream production and distribution businesses. The Group's primary production facilities are geographically diversified with locations in Russia, the United States and a number of other countries. With a focus on high value-added products in attractive niche markets, the Group's corporate strategy is to become one of the global industry leaders in terms of EBITDA and to sustain a leading position in terms of both profit margins and return on investment as a vertically-integrated steel and steel-related mining company.

As at 31 December 2012 the Group comprises three business divisions: Severstal Resources, Severstal Russian Steel and Severstal International.

The Group's Annual Financial Statements and Scope of Consolidation

The Annual Financial Statements have been prepared in accordance with IFRS as issued by the IASB, in effect at the time of the preparation of the Annual Financial Statements.

The Annual Financial Statements include the accounts of the Group's subsidiaries from the date that control effectively commenced until the date that control effectively ceased. Acquisitions of controlling interests in companies that were previously under the control of the Majority Shareholder of the Group 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. Acquisitions by the Majority Shareholder of additional interests in the acquired companies, after control over those companies has been obtained by the Majority Shareholder, are treated as if those additional interests were acquired by the Group. Intra Group balances, transactions, unrealised gains and losses arising from such transactions have been eliminated in these Annual Financial Statements.

The list of the Group's significant subsidiaries, associates and joint ventures with effective ownership interests as at 31 December 2010, 2011 and 2012 is included in the Annual Financial Statements.

Segmental Reporting for the Years Ended 31 December 2010, 2011 and 2012

In 2012, the Group was divided into five reporting segments, in accordance with IFRS 8 "Operating Segments" for the purposes of the Annual Financial Statements: Severstal Russian Steel segment (formerly Russian Steel), Severstal Resources segment (formerly Steel Resources), Severstal International segment (formerly Severstal North America), Gold segment (discontinued) and Lucchini segment (discontinued).

The discussion relating to the years ended 31 December 2010, 2011 and 2012 follows the reporting segment structure consistent with the Annual Financial Statements.

Severstal Resources segment

The Severstal Resources segment's operations include: iron ore production and coal production. Severstal Resources forms the basis of Severstal's balanced and vertically-integrated business model. Its

business units are able to satisfy almost all of the iron ore and hard coking coal requirements of the Severstal Russian Steel and Severstal International divisions' steel operations.

Severstal Russian Steel segment

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

Severstal International segment

The Severstal International segment comprises the Group's North American assets and is organised under the Severstal International division for business purposes. The Severstal International product line includes hot-rolled, cold-rolled, electrogalvanised, hot-dip galvanised and tin-plated steel and high-quality flat-rolled steel.

Lucchini (discontinued)

Lucchini was also organised under the Severstal International division. Due to the significant decline in Lucchini's profitability and the uncertain future prospects for a recovery in the European market for Lucchini's products in 2010, the Group decided to dispose of Lucchini, reflecting it as an asset held for sale and a discontinued operation. As at 31 December 2010, the Lucchini segment was classified as discontinued operations and assets held for sale in the Annual Financial Statements.

In March 2010, the Group acquired a 20.2 percent stake in Lucchini from a Lucchini family company, bringing the Group's share in the capital of Lucchini to 100.0 percent. In June 2010, the Group sold a 50.8 percent stake in Lucchini to the Majority Shareholder, following an extensive M&A process that did not result in acceptable bids. However, in accordance with IFRS requirements, the Group continued to consolidate the Lucchini segment primarily due to a call option exercisable within the following five years and a contractual entitlement, for the benefit of the Group, to any gain on a subsequent sale of this stake to a third party.

In February 2011, the Group signed an amendment to the Lucchini sale and purchase agreement with the Majority Shareholder, which cancelled the call option and the contractual entitlement, for the benefit of the Group, to any gain on a subsequent sale of this stake to a third party. As a result, effective from the date of that amendment, the Group has accounted for the investment in Lucchini using the equity method (see "*Operating and Financial Review—Recent Developments*").

Gold (discontinued)

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

In November 2011, the Group made the decision to separate the Gold segment by the exchange of 100.0 percent of the shares of Nord Gold, the segment's holding company, for the Company's shares and GDRs. As at 31 December 2011, the Gold segment was classified as assets held for sale and discontinued operations in the Annual Financial Statements following the decision to separate out this segment. In March 2012, the Group completed the separation of the Gold segment.

Key Factors Affecting The Group's Financial Results

The Group's results are affected by a variety of factors, including, but not limited to, the following:

Discontinued operations and the disposition of assets held for sale

Discontinued operations are disclosed when a component of the Group has either been disposed of during the reporting period or is classified as held for sale at the reporting date and represents a separate major line of business or geographical area of operations. A discontinued operation is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a

subsidiary acquired exclusively with a view to resale. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification.

For periods covered in the Group's Annual Financial Statements, the Group's discontinued operations represent the Lucchini segment, Sparrows Point, Severstal Warren, Severstal Wheeling and MSC, which are an operating segment within the Severstal International reporting segment, and the Gold segment. The Lucchini segment and North America disposal group were classified as held for sale as at 31 December 2010 and the Gold segment was classified as held for sale as at 31 December 2011 following management's decision to sell or separate these businesses within 12 months after the reporting date.

In March 2011, the Group sold 100.0 percent of its stake in Sparrows Point, Severstal Warren and Severstal Wheeling, and a 50.0 percent stake in MSC. The Group's remaining 50.0 percent interest in MSC is accounted for using the equity method.

In February 2011, the Group signed an amendment to the Lucchini sale and purchase agreement with the Majority Shareholder, which cancelled the call option and the contractual entitlement, for the benefit of the Group, to any gain on a subsequent sale of this stake to a third party. As a result, effective from the date of that amendment, the Group has accounted for the investment in Lucchini using the equity method (see "*Operating and Financial Review—Recent Developments*").

In November 2011, the Group made the decision to separate the Gold segment by the exchange of 100.0 percent of the shares of Nord Gold, the segment's holding company, for the Company's shares and GDRs. In March 2012, the Group completed the separation of the Gold segment.

Macroeconomic trends

The majority of the Group's operations are, or were in the periods under review, based in Russia, the United States and Africa. As a result, macroeconomic trends in these regions and region specific factors significantly influence the Group's performance.

During 2012, the global economy and steel market experienced significant difficulties. The economic slowdown in China, the sovereign debt problems in Europe, the fiscal cliff tensions in the United States and the weaker performance of emerging economies (including India, Brazil and Russia) resulted in a sharp fall in raw material prices, which negatively impacted global steel prices as well. Central banks in the United States Europe and Japan used liquidity injections in the form of monetary easing to support their respective economies, and many countries decreased interest rates in order to stimulate the economy while attempting to keep inflation under control.

Sovereign debt tensions in the Eurozone have eased substantially in the second half of 2012, as parliamentary elections in Greece resulted in the victory of parties supporting the EU bailout and corresponding austerity measures. Following the approval of new budget austerity measures, Greece received a new tranche of financial funds from the "Troika" led by the European Commission, European Central Bank and International Monetary Fund, as well a two-year delay of debt payments. At the same time, significant progress was made in establishing a new financial infrastructure in Europe, including the German constitutional court's approval of the European stability mechanism in September 2012 and the European Central Bank's stated willingness to engage in "outright monetary transactions" to purchase sovereign bonds of EU countries that are subject to EFSF/ESM adjustment programmes. Following these events, the risk that Greece or any other member state will exit the Eurozone has diminished in the near term.

During the course of 2012, the Chinese economy also experienced slower growth but began to recover gradually at the end of the year. A number of stimulus measures (both monetary and fiscal) were announced to stimulate Chinese economy. However, the effect of such measures is unclear as China's GDP growth still decelerated to 7.8 percent in 2012 from 9.3 percent in 2011, according to the World Bank. Steel production in China increased by 3.1 percent in 2012.

Russian GDP growth also decelerated in 2012, and GDP grew at a rate of 3.4 percent, which was below the International Monetary Fund's expectations of 4.0 percent. Despite this trend, the automotive production and construction sectors performed relatively well, while the demand for oil and gas pipes contracted.

In the United States, the steel market was driven by automotive production and tubes consumption in the oil and gas industries. Tentative signs of a residential housing market recovery appeared as prices began to rebound and the supply of new housing began to increase. Political tensions over the fiscal cliff

diminished confidence in the US economy; however, the political agreement reached in the beginning of 2013 eased investor concerns with little macroeconomic impact globally.

The following table sets forth certain information for Russia and the United States as at and for the dates indicated:

	For the year ended 31 December		
	2010	2011	2012
Russia			
GDP growth[1]	4.5%	4.3%	3.4%
Percent change in consumer price index[1]	8.8%	6.1%	6.6%
United States			
GDP growth[2]	2.4%	1.8%	2.2%
Percent change in consumer price index[3]	1.6%	3.2%	2.1%
Average nominal exchange rates			
Roubles per US dollar[4]	30.37	29.38	31.09

Source:

(1) Russian Federal State Statistics.

(2) Bureau of Economic Analysis, US Department of Commerce.

(3) Bureau of Labor Statistics, US Department of Labor.

(4) CBR.

Exchange rate movements

The majority of the Group's operations are based in Russia, Europe and the United States. The functional currency is determined separately for each of the Group's entities. For all of the Group's Russian entities, the majority of costs and significant portion of revenues are denominated in roubles, and accordingly, their functional currency is the rouble. The functional currency of the Group's entities located in North America is the US dollar.

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 into 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 into 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 translation are recognised in the income statement.

Within Russia, official exchange rates are determined daily by the CBR. Market rates may differ from the official rates although these differences are generally within narrow ranges. However, any conversion of rouble amounts into US dollars should not be construed as a representation that rouble amounts have been, could be or will in the future be, convertible into US dollars at the exchange rates used, or at any other exchange rate. See also *"Exchange Rate Information"* and *"Quantitative and Qualitative Disclosure on Market risk—Foreign currency exchange risk"*.

Commodity price risk

The Group's revenue is exposed to the market risk of price fluctuations related to the sale of steel products. Prices for the steel products that the Group sells both inside and outside of Russia are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of raw material inputs) and global and Russian economic growth.

Over the periods covered by this operating and financial review, fluctuations in market demand for, and market prices of, steel products significantly affected the revenues received by the Group from the sale of steel products. These fluctuations are likely to continue to affect the revenue that the Group receives from the sale of its products. For example, during the global economic downturn, there was a steep decline in the prices of the products that the Group produces. The Group, however, was able to implement cost-cutting initiatives that partially offset the decline in the prices of its products.

Costs

The Group requires substantial amounts of raw materials in the steel production process, in particular iron ore, coal and scrap. Prices for these raw materials experienced dramatic decreases during the global economic crisis in late 2008 and during 2009. However, by the first quarter of 2011, coking coal and iron ore prices exceeded the previous record high prices recorded in 2008, and scrap prices have also increased substantially. During 2012, prices for coking coal, iron ore and scrap have been decreasing, due to a depressing market and weak steel demand.

In furtherance of the Group's vertical integration strategy, it has consolidated Severstal Resources primarily to secure a supply of iron ore and coking coal concentrate at competitive market rates and, to a significant extent, largely to insulate it, on a consolidated basis, from the impact of increases in prices of iron ore and coal. Management believes that cost competitiveness in every region where the Group produces steel is a vital element to strengthen the Group's position over the cycle and industry leading margins. The Group, however, continues to rely on external suppliers for a number of its raw materials.

The Group also consumes large volumes of electricity and natural gas, which are largely supplied to Severstal Russian Steel and Severstal Resources by monopoly providers in Russia, while North America businesses are supplied by certain local utilities. From 2008 to the date of this Base Prospectus, natural gas and electricity tariffs in Russia have been steadily increasing, and the Group does not expect this trend to change. The rates of increase may be higher than the rates at which the Group is able to increase its steel prices. In addition, competition in the railway transport industry in Russia is limited and the Group is, in part, dependent on the monopoly railway service provider for delivery of both raw materials and products. The Russian monopoly railway service providers regularly increase tariffs for their services at a rate that may be higher than the rate at which the Group is able to increase the price of its steel products.

M&A activities

The Group pursues M&A opportunities which are in line with its corporate strategy. The Group aims to capitalise on its high level of vertical integration, cost competitiveness and a high level of producer concentration in its main regional markets. Assets and companies that provide significant upside in line with these key industrial objectives and which are expected to deliver considerable synergies with the Group's core production facilities are considered as possible M&A targets.

In 2008, the Group increased its presence in North America via acquisitions of North American steel and mining companies. In 2009, the Group slowed its M&A activity, instead focusing on the optimisation of the Group's production processes. This optimization process culminated in March 2011 with the sale of several of the Group's facilities in North America: 100.0 percent stakes in Severstal Sparrows Point, Severstal Warren, Severstal Wheeling and a 50.0 percent stake in MSC.

In 2009, the Group also adopted a new corporate strategy, including a new set of financial and industrial targets. The Group's key financial objective was to become one of the global industry leaders by EBITDA, while further improving margins and returns on investment.

The Group's top investment priority is to expand its steel and raw materials business in Russia and other CIS countries and explore business opportunities in other high-growth emerging markets. In particular, the Group continues to consider growth opportunities in Africa.

Mining Business

Following the successful acquisitions of mining assets, PBS Coals and Severstal Liberia Iron Ore Ltd., in 2008 and 2010, the Group intends to expand its iron ore and coal production, as well as its other mining operations, including a significant expansion of its mining operations in Russia, the CIS and other emerging markets with the aim of increasing its cost competitiveness and its global level of vertical integration.

RECENT DEVELOPMENTS

Since 31 December 2012, the following significant developments have occurred:

- 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 on that date, the Group lost its significant

influence in Lucchini and began to account for its investment at fair value. No gains or losses were recognised as a result of this event.

- In February 2013, there was an accident involving an explosion at the Vorkutinskaya mine that resulted in 19 fatalities and three casualties and the temporary suspension of mining. The Vorkutinskaya mine has returned to production following a full health and safety audit of the mine faces. The mine's ventilation system is running at full capacity. The facility has resumed the extraction of coal at the longwall face 1022 in its central section in the Fourth seam, while the production unit affected by the accident has been permanently decommissioned following a full examination of the affected area by an investigating commission established by the Russian Government for the purpose of investigating the accident. Management has also decided to discontinue production at the longwall face 832 in the Triple seam as the residual capacity of the face is less than 100 thousand tonnes of coal. The mine's south section will resume extracting coal in the near future and a program is currently being developed to prepare an installation chamber and machinery for a new longwall face 932 in the Triple seam. The capacity of the new longwall face is more than 600 thousand tonnes of coal. The work of the commission established to investigate the cause of the accident is ongoing. With full support from the staff at Vorkutinskaya, the commission is also assessing the mine's safety systems, its maintenance and production supervision and will develop recommendations for measures to prevent any incident of this kind occurring in the future.

Operational Outlook

Since 31 December 2012, the Group has continued to perform generally in line with management's expectations.

Assuming stable financial markets and an improving economic and fiscal situation in Europe, global GDP growth is estimated to accelerate by approximately 2 percent in 2013 as compared to 2012, driven by China and other emerging economies beginning to recover from recent slow downs. Steel production and consumption is expected to grow between 2 and 4 percent, up from 1.2 percent in 2012 according to worldsteel, driven mainly by China and India.

The global steelmaking utilisation rate is expected to improve slightly but remain below 80 percent in 2013. Yearly average raw material prices, including steel prices, expected to either remain stable or increase slightly in 2013 compared to the average level in 2012. The first half of 2013 is expected to experience higher prices compared to the second half of 2012 based on seasonality trends due to an active construction season.

According to Rosstat, Russia's GDP increased by 3.4 percent in 2012, which was below the 4.3 percent GDP growth rate in 2011; as a result of economic deceleration in 2012 caused primarily by global economic problems in Europe and China that increased investor uncertainty. The International Monetary Fund reduced its forecasts for Russia's GDP growth in 2013 from 3.9 to 3.7 percent.

According to Metal Expert data, Russia's domestic steel demand increased by 2.4 percent in 2012 compared to the 14.7 percent increase in demand in 2011 and reached 41.8 million tonnes. Russian steel consumption is expected to continue to grow in 2013 with a growth rate ranging from 2.4 to 4.3 percent driven by construction growth trends which began in the end of 2012. Pipes and tubes consumption are expected to increase due to the start of new gas pipeline construction, while the automotive industry is likely to decelerate to approximately 4 percent growth from double-digit growth in previous years due to the saturation of the domestic Russian market. In addition, the Group also believes that export markets will continue to be an important source of sales for Severstal Russian Steel.

The Group's capital expenditures continue to be generally in accordance with the Group's investment programme.

Description of the Group's Income Statement Line Items

The following discussion provides a description of the composition of the principal line items on the Group's income statement for the periods presented.

Revenue

The Group generates revenue primarily through the manufacture and sale of a wide range of iron and steel products: cold-rolled sheet, colour-coated sheet, metalware products, large diameters pipes, long

products, hot-rolled strip and plate, pellets and iron ore, large group of coke products and by products and sale of other raw materials.

Cost of sales

Cost of sales includes raw materials, consumables, energy costs, repair and maintenance expenses, labour costs, geological services and the majority of depreciation and amortisation charges.

Gross profit

Gross profit represents the Group's total revenue less cost of sales. Gross margin is gross profit divided by revenue.

General and administrative expenses

General and administrative expenses consist of a wide range of administrative costs and the cost of general management and related depreciation and amortisation. General and administrative expenses primarily include labour costs, repair services, insurance expenses and material and fuel expenses related to administrative and managerial activities of the Group.

Distribution expenses

Distribution expenses consist primarily of expenses related to selling activities of the Group. Distribution expenses include depreciation and amortisation of assets related to selling activities, advertising expenses, freight insurance expenses, commercial credit insurance, transportation expenses and other distribution expenses.

Other taxes and contributions

Other taxes and contributions consist of taxes other than income tax. Primarily indirect taxes and contributions include extraction taxes on the extracted coal and iron ore concentrate and property tax payable on property, plant and equipment used in operations.

Share of associates' and joint ventures' profit

Associates are those enterprises in which the Group has significant influence, but does not have control over the financial and operating policies. The Annual Financial Statements include the Group's share of the total recognised gains and losses of associates accounted for on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. 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. Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

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 ventures are recognised in its financial statements and classified according to their nature. 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 share of net assets of the joint venture. The income statement reflects the Group's share of the result of the operations of the joint venture.

Loss on remeasurement and disposal of financial investments

Loss on remeasurement and disposal of financial investments consists primarily of gain/loss on held-for-trading securities, gain/loss on held-to-maturity securities and originated loans and gain/loss on available-for-sale financial assets.

Loss on disposals of property, plant and equipment and intangible assets

Loss on disposals of property, plant and equipment and intangible assets arises when the derecognition of an item of property, plant and equipment and intangible assets occurs and the loss is calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Net other operating income/(expenses)

Net other operating income/(expenses) consist primarily of profit/loss from the sale of inventory, fines and penalties for breach of contracts and changes in provision for contingencies.

Profit from operations

Profit from operations is calculated by subtracting net operating expenses from gross profit.

(Impairment)/reversal of impairment of non-current assets

The carrying amounts of the Group's non-current assets are reviewed annually to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

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 amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Net other non-operating expenses

Net other non-operating expenses consist primarily of social expenditure, charitable donations and gain/(loss) on disposal of subsidiaries and associates.

Profit before financing and taxation

Profit before financing and taxation is calculated by subtracting net non-operating expenses from profit from operations.

Net financing expense

Net financing expense comprises interest income, interest expense, including amortisation of transaction costs, and foreign exchange gains or losses. Interest income consists primarily of interest earned on bank deposits and originated loans. Interest expense consists primarily of interest accrued on the Group's borrowings (including public debt presented by bonds and private debt consisting of bank borrowings, finance leases and loans), interest expense on pension liability, expense on tax restructuring and expense on dismantlement provisions.

Profit before income tax

Profit before income tax is profit before financing and taxation adjusted by interest income, interest expense and foreign exchange differences.

Income tax expense

Taxes on income include current income taxes, deferred income taxes and corrections to prior years' current tax charges. Current income taxes include all domestic and foreign income taxes which are calculated in accordance with the rules established by the taxation authorities in the jurisdictions in which the Group operates. Deferred income taxes reflect the temporary differences between the carrying values of assets and liabilities and their respective tax bases, as well as unused tax loss and tax credit carry-forwards, on which deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which those assets can be utilised. The Group's overall income tax rate varies due to different tax rates in jurisdictions where the Group conducts business, the proportion of income earned in each such jurisdiction and the varying tax treatment of costs and expenses.

Profit from continuing operations

Profit from continuing operations is profit before income tax less income tax expense.

Profit/(loss) from discontinued operations

Profit/(loss) from discontinued operations results from the disposal of a separate business for which the related assets, liabilities and operating results can be distinguished operationally and for financial reporting purposes. The results of discontinued operations, net of taxes and the gain or loss on their disposal are presented separate from continuing operations in the income statements.

Profit/(loss) for the period

Profit/(loss) for the period is calculated by adding profit or subtracting loss from discontinued operations to profit from continuing operations.

RESULTS OF OPERATIONS

For the years ended 31 December 2011 and 2012

The following discussion is based on, and should be read in conjunction with, the Group's Annual Financial Statements, included in this Base Prospectus beginning on page F-2.

The following table sets forth the Group's consolidated income statements for the years ended 31 December 2011 and 2012:

	Year ended 31 December		Year on year change	Year on year percent change
	2011	2012		
	(US$ millions)			
Revenue				
Revenue—third parties	15,573.1	13,915.6	(1,657.5)	(10.6)%
Revenue—related parties	239.3	188.1	(51.2)	(21.4)%
	15,812.4	**14,103.7**	**(1,708.7)**	**(10.8)%**
Cost of sales	(10,903.2)	(10,785.3)	117.9	(1.1)%
Gross profit	**4,909.2**	**3,318.4**	**(1,590.8)**	**(32.4)%**
General and administrative expenses	(725.0)	(754.6)	(29.6)	4.1%
Distribution expenses	(1,101.2)	(1,048.4)	52.8	(4.8)%
Other taxes and contributions	(145.9)	(134.3)	11.6	(8.0)%
Share of associates' and joint ventures' profit	7.3	2.0	(5.3)	(72.6)%
Loss on remeasurement and disposal of financial investments	(4.7)	(6.6)	(1.9)	40.4%
Loss on disposal of property, plant and equipment and intangible assets	(20.9)	(26.0)	(5.1)	24.4%
Net other operating (expenses)/income	(1.4)	20.3	21.7	—
Profit from operations	**2,917.4**	**1,370.8**	**(1,546.6)**	**(53.0)%**
Reversal of impairment/(impairment) of non-current assets	0.4	(54.1)	(54.5)	—
Net other non-operating expenses	(65.4)	(70.5)	(5.1)	7.8%
Profit before financing and taxation	**2,852.4**	**1,246.2**	**(1,606.2)**	**(56.3)%**
Interest income	49.7	68.2	18.5	37.2%
Interest expense	(436.1)	(440.9)	(4.8)	1.1%
Foreign exchange differences	(37.0)	163.4	200.4	—
Profit before income tax	**2,429.0**	**1,036.9**	**(1,392.1)**	**(57.3)%**
Income tax expense	(466.0)	(263.5)	202.5	(43.5)%
Profit from continuing operations	**1,963.0**	**773.4**	**(1,189.6)**	**(60.6)%**
Profit from discontinued operations	210.7	46.4	(164.3)	(78.0)%
Profit for the period	**2,173.7**	**819.8**	**(1,353.9)**	**(62.3)%**

Revenue

The Group's consolidated revenue decreased by US$1,708.7 million, or 10.8 percent, from US$15,812.4 million in the year ended 31 December 2011 to US$14,103.7 million in the year ended 31 December 2012. The decrease was primarily due to a US$1,929.7 million decrease in revenue of the Severstal Russian Steel segment, a US$706.8 million decrease in revenue of the Severstal Resources segment, partially offset by a US$456.4 million increase in revenue of the Severstal International segment. The decrease in revenue was also partially offset by a US$471.4 million decrease in intersegment transactions. Changes in the prices of the Group's various products were generally consistent with the prevailing market trends for each such product.

The Group's revenue from related parties decreased by US$51.2 million, or 21.4 percent, from US$239.3 million in the year ended 31 December 2011 to US$188.1 million in the year ended 31 December 2012. See "*Related Party Transactions*". The decrease in revenue from related parties is in line with the overall decrease of the Group's revenue.

Revenue by product

The following table sets forth the Group's revenue by product for the years ended 31 December 2011 and 2012:

	Year ended 31 December		Year on year change	Year on year percent change
	2011	2012		
	(US$ millions)			
Hot-rolled strip and plate	5,002.6	4,541.3	(461.3)	(9.2)%
Galvanised and other metallic coated sheet[1]	1,998.1	2,022.6	24.5	1.2%
Cold-rolled sheet	1,655.2	1,406.3	(248.9)	(15.0)%
Large diameter pipes	1,006.7	562.3	(444.4)	(44.1)%
Metalware products	964.4	967.6	3.2	0.3%
Coal and coking coal concentrate	843.2	697.4	(145.8)	(17.3)%
Semi-finished products	769.5	460.0	(309.5)	(40.2)%
Shipping and handling costs billed to customers	876.1	875.9	(0.2)	—
Pellets and iron ore	725.8	668.1	(57.7)	(7.9)%
Long products	595.2	547.2	(48.0)	(8.1)%
Other tubes and pipes, formed shapes	511.8	482.7	(29.1)	(5.7)%
Colour-coated sheet	305.8	428.6	122.8	40.2%
Scrap	76.8	17.3	(59.5)	(77.5)%
Others	481.2	426.4	(54.8)	(11.4)%
Revenue	**15,812.4**	**14,103.7**	**(1,708.7)**	**(10.8)%**

(1) Hereinafter referred to as "Galvanised sheet".

Revenue by delivery destination

The following table sets forth the Group's revenue by delivery destination for the years ended 31 December 2011 and 2012:

	Year ended 31 December		Year on year change	Year on year percent change
	2011	2012		
	(US$ millions)			
Russian Federation	7,476.4	6,412.7	(1,063.7)	(14.2)%
North America	3,912.2	4,138.3	226.1	5.8%
Europe	2,506.4	1,959.0	(547.4)	(21.8)%
China and Central Asia	735.7	571.7	(164.0)	(22.3)%
The Middle East	446.9	329.5	(117.4)	(26.3)%
Central and South America	335.1	458.3	123.2	36.8%
South-East Asia	273.4	136.0	(137.4)	(50.3)%
Africa	126.3	98.2	(28.1)	(22.2)%
Revenue	**15,812.4**	**14,103.7**	**(1,708.7)**	**(10.8)%**

Revenue by segment

The following table sets forth the Group's revenue by segment for the years ended 31 December 2011 and 2012:

	Year ended 31 December		Year on year change	Year on year percent change
	2011	2012		
	(US$ millions)			
Severstal Resources segment	3,711.4	3,004.6	(706.8)	(19.0)%
Severstal Russian Steel segment	10,546.8	8,617.1	(1,929.7)	(18.3)%
Severstal International segment	3,422.1	3,878.5	456.4	13.3%
Intersegment transactions	(1,867.9)	(1,396.5)	471.4	(25.2)%
Revenue	**15,812.4**	**14,103.7**	**(1,708.7)**	**(10.8)%**

Severstal Resources segment

The Severstal Resources segment's revenue decreased by US$706.8 million, or 19.0 percent, from US$3,711.4 million in the year ended 31 December 2011 to US$3,004.6 million in the year ended 31 December 2012. Included in these amounts are intersegment revenue, primarily to the Severstal Russian Steel segment, of US$1,789.8 million in the year ended 31 December 2011 and US$1,301.0 million in the year ended 31 December 2012. Excluding intersegment revenue, revenue of the Severstal Resources segment decreased by US$218.0 million, or 11.3 percent, from US$1,921.6 million in the year ended 31 December 2011 to US$1,703.6 million in the year ended 31 December 2012. The decrease was primarily due to a decrease in the average price per tonne, which was partially offset by an increase in revenue by volume. Decrease in the prices of Severstal Resources's various products was generally consistent with the prevailing market trends for each product.

Set forth below is a discussion of the revenue, excluding intersegment revenue, of the Severstal Resources segment by product:

Pellets and iron ore. Revenue from pellets and iron ore sales decreased by US$57.7 million, or 7.9 percent, from US$725.8 million in the year ended 31 December 2011 to US$668.1 million in the year ended 31 December 2012. The decrease was primarily due to a market-driven decrease in the average price per tonne, which was partially offset by an increase in revenue by volume. The increase in revenue by volume was primarily due to an increase in revenue by volume to Europe as well as to Russia, specifically due to the entering into the new agreement with OJSC Magnitogorsk Iron & Steel Works and an increase in demand from Evraz.

Coal and coking coal concentrate. Revenue from coal and coking coal concentrate sales decreased by US$145.8 million, or 17.3 percent, from US$843.2 million in the year ended 31 December 2011 to US$697.4 million in the year ended 31 December 2012. This decrease was primarily due to a market-driven decrease in the average price per tonne.

Severstal Russian Steel segment

The Severstal Russian Steel segment's revenue decreased by US$1,929.7 million, or 18.3 percent, from US$10,546.8 million in the year ended 31 December 2011 to US$8,617.1 million in the year ended 31 December 2012. Included in the above amounts are intersegment revenue of US$78.1 million in the year ended 31 December 2011 and US$95.5 million in the year ended 31 December 2012. This decrease was primarily due to the market-driven decrease in the average price per tonne, a decrease in demand in the export market, especially in Europe, and a decrease in revenue by volumes of steel products as described below.

Set forth below is a discussion of the revenue, excluding intersegment revenue, of the Severstal Russian Steel segment by product:

Hot-rolled strip and plate. Revenue from hot-rolled strip and plate sales decreased by US$678.7 million, or 20.0 percent, from US$3,395.1 million in the year ended 31 December 2011 to US$2,716.4 million in the year ended 31 December 2012. The decrease was primarily due to a decrease in the average price per tonne and a decrease in revenue by volume due to the market-driven decrease in demand.

Cold-rolled sheet. Revenue from cold-rolled sheet sales decreased by US$280.2 million, or 23.4 percent, from US$1,197.9 million in the year ended 31 December 2011 to US$917.7 million in the year ended 31 December 2012. This decrease was primarily due to the market-driven decrease in revenue by volume and a decrease in the average price per tonne.

Galvanised sheet. Revenue from galvanised sheet sales decreased by US$205.6 million, or 26.4 percent, from US$778.2 million in the year ended 31 December 2011 to US$572.6 million in the year ended 31 December 2012, primarily due to a decrease in revenue by volume. The decrease in revenue by volume was due primarily to the improvement of the galvanised metal sales portfolio by switching to more profitable thin gauges, and secondly, to a market-driven decrease in the average price per tonne. The production of thin gauges is more time consuming and resulted in lower output by volume.

Semi-finished products. Revenue from semi-finished products sales decreased by US$309.5 million, or 40.2 percent, from US$769.0 million in the year ended 31 December 2011 to US$459.5 million in the year ended 31 December 2012. This decrease was primarily due to a decrease in revenue by volume and a decrease in the average price per tonne due primarily to the change in product mix from primary products to high value-added products, and secondly, to the market-driven decrease in demand.

Large diameter pipes. Revenue from large diameter pipes sales decreased by US$444.4 million, or 44.1 percent, from US$1,006.7 million in the year ended 31 December 2011 to US$562.3 million in the year ended 31 December 2012. This decrease was primarily due to a decrease in revenue by volume and a decrease in the average price per tonne. The decrease in revenue by volume was primarily due to the market-driven decrease in demand, specifically due to the decrease in demand from Gazprom, the Group's main customer of pipes.

Colour-coated sheet. Revenue from colour-coated sheet sales increased by US$122.8 million, or 40.2 percent, from US$305.8 million in the year ended 31 December 2011 to US$428.6 million in the year ended 31 December 2012. This increase was primarily due to an increase in revenue by volume, which was partially offset by a decrease in the average price per tonne. The increase in revenue by volume was primarily due to the recycling of galvanised sheets to colour-coated sheets production following the commissioning of the second colour-coating line.

Scrap. Revenue from scrap sales decreased by US$59.5 million, or 77.5 percent, from US$76.8 million in the year ended 31 December 2011 to US$17.3 million in the year ended 31 December 2012. This decrease was primarily due to the market-driven decrease in revenue by volume and a decrease in the average price per tonne due to the decrease of global ferriferous raw materials prices.

Severstal International segment

Severstal International's revenue increased by US$456.4 million, or 13.3 percent, from US$3,422.1 million in the year ended 31 December 2011 to US$3,878.5 million in the year ended 31 December 2012. The increase was primarily due to the general economic recovery in the North American market, which led to increased consumption of steel by the US automotive industry converter and service centers, supported by increased production capacity.

Set forth below is a discussion of the revenue, excluding intersegment revenue, of Severstal International by product:

Hot-rolled strip and plate. Revenue from hot-rolled strip and plate sales increased by US$217.4 million, or 13.5 percent, from US$1,607.5 million in the year ended 31 December 2011 to US$1,824.9 million in the year ended 31 December 2012. The increase was primarily due to an increase in revenue by volume due to the market-driven recovery of demand, supported by increased production capacity.

Galvanised sheet. Revenue from galvanised sheet sales increased by US$230.1 million, or 18.9 percent, from US$1,219.9 million in the year ended 31 December 2011 to US$1,450.0 million in the year ended 31 December 2012. The increase was primarily due to the market-driven increase in revenue by volume supported by the commissioning of the new production line and increased production capacity.

Cold-rolled sheet. Revenue from cold-rolled sheet sales increased by US$31.3 million, or 6.8 percent, from US$457.3 million in the year ended 31 December 2011 to US$488.6 million in the year ended 31 December 2012. The increase was primarily due to an increase in revenue by volume due to the

completion of the modernisation project that increased production capacity and also an increase in the average price per tonne due to the market-driven recovery of demand.

Shipping and handling costs billed to customers. Revenue from shipping and handling costs billed to customers increased by US$25.7 million, or 44.9 percent, from US$57.3 million in the year ended 31 December 2011 to US$83.0 million in the year ended 31 December 2012. This increase was primarily due to an increase in revenue by volume and shipping rates.

Revenue by delivery destination

Changes in the regional revenue structure resulted in the increase of revenue to North, Central and South America, and the decrease in revenue to Russia, Europe, the Middle East, South East Asia, China and Central Asia and Africa in the year ended 31 December 2012 compared to the year ended 31 December 2011, primarily due to the market-driven change in demand and respective reallocation of sales from one region to another.

Cost of sales

The Group's cost of sales decreased by US$117.9 million, or 1.1 percent, from US$10,903.2 million in the year ended 31 December 2011 to US$10,785.3 million in the year ended 31 December 2012. This decrease was primarily due to a US$1,037.3 million decrease in the Severstal Russian Steel segment's cost of sales and a US$20.6 million decrease in the Severstal Resources segment's cost of sales, partially offset by a US$483.4 million increase in cost of sales of the Severstal International segment and a US$456.6 million decrease in intersegment transactions.

Cost of sales by segment

The following table sets forth the Group's cost of sales by segment for the years ended 31 December 2011 and 2012:

	Year ended 31 December		Year on year change	Year on year percent change
	2011	2012		
		(US$ millions)		
Severstal Resources segment	(1,745.5)	(1,724.9)	20.6	(1.2)%
Severstal Russian Steel segment	(7,748.7)	(6,711.4)	1,037.3	(13.4)%
Severstal International segment	(3,291.5)	(3,774.9)	(483.4)	14.7%
Intersegment transactions	1,882.5	1,425.9	(456.6)	(24.3)%
Cost of sales	**(10,903.2)**	**(10,785.3)**	**117.9**	**(1.1)%**

Severstal Resources segment

The Severstal Resources segment's cost of sales decreased by US$20.6 million, or 1.2 percent, from US$1,745.5 million in the year ended 31 December 2011 to US$1,724.9 million in the year ended 31 December 2012. This decrease was primarily due to a decrease in service expenses, which was partially offset by an increase in labour costs and related tax expense, an increase in depreciation and amortisation expenses and an increase in fuel material and energy expenses.

Fuel and energy expense. The increase in fuel and energy expenses was primarily due to the increase in energy tariffs and fuel prices.

Labour and related tax expense. The increase in labour cost and related tax expense was primarily due to the increase in the average number of employees and an increase the average salaries of employees compared to the year ended 31 December 2011, which is generally consistent with wage inflation during the period. The increase in the average number of employees was due to the increase in transportation, repair and drilling staff in order to optimise transportation, repair and drilling outsourcing services.

Service expense. The decrease in service expenses was primarily due to the decrease in transportation and repairs outsourcing services due to cost-cutting initiatives.

Depreciation and amortisation expense. The increase in depreciation and amortisation expenses was primarily due to the commissioning of the new equipment.

Severstal Russian Steel segment

The Severstal Russian Steel segment's cost of sales decreased by US$1,037.3 million, or 13.4 percent, from US$7,748.7 million in the year ended 31 December 2011 to US$6,711.4 million in the year ended 31 December 2012. The decrease was primarily due to a decrease in raw materials expenses and a decrease in fuel and energy expenses, which was partially offset by an increase in labour cost and related tax expense and a decrease in work-in-progress balances.

Raw materials expense. The decrease in raw materials expense was in line with a decrease in revenue by volume and a corresponding decrease in production volumes in the year ended 31 December 2012 compared to the year ended 31 December 2011. A decrease in prices for raw materials also contributed to the decrease in the cost of sales.

Fuel and energy expense. The decrease in fuel and energy expenses was primarily due to a decrease in production volumes and a corresponding decrease in fuel and energy consumption and due to an increase in the division's internal production of electric power at the Cherepovets Steel Mill in the year ended 31 December 2012.

Labour and related tax expense. The increase in labour costs and related tax expense was primarily due to the increase in the average salaries of employees which increased in line with inflation.

Work-in-progress. The decrease in work-in-progress balances as at 31 December 2012 compared to 31 December 2011 was primarily due to the decrease in production volumes as a result of decrease in demand.

Severstal International segment

Severstal International's cost of sales increased by US$483.4 million, or 14.7 percent, from US$3,291.5 million in the year ended 31 December 2011 to US$3,774.9 million in the year ended 31 December 2012. The increase was primarily due to the increase in raw material, fuel and energy expenses as a result of increased production and sales and due to the increase in prices for fuel and energy, and an increase in depreciation and amortisation expenses due to the commissioning of new production equipment to increase production capacity.

Profit from operations

For the reasons described above, compared to the prior year, the Group's profit from operations decreased by US$1,546.6 million from US$2,917.4 million in the year ended 31 December 2011 to US$1,370.8 million in the year ended 31 December 2012. The decrease was due to a US$1,590.8 million decrease in gross profit due to the factors described above, offset by a US$44.2 million decrease in net operating expenses.

The decrease in net operating expenses was primarily due to a US$52.8 million decrease in distribution expenses, a US$11.6 million decrease in other taxes and contributions and a US$21.7 million decrease in net other operating expense, which was partially offset by a US$29.6 million increase in general and administrative expenses, a US$5.3 million decrease in share of associates' and joint ventures' profit, and a US$5.1 million increase in loss on disposal of property, plant and equipment and intangible assets.

The following table sets forth the Group's net operating expenses for the years ended 31 December 2011 and 2012:

	Year ended 31 December		Year on year change	Year on year percent change
	2011	2012		
	(US$ millions)			
General and administrative expenses	(725.0)	(754.6)	(29.6)	4.1%
Distribution expenses	(1,101.2)	(1,048.4)	52.8	(4.8)%
Other taxes and contributions	(145.9)	(134.3)	11.6	(8.0)%
Share of associates' and joint ventures' profit	7.3	2.0	(5.3)	(72.6)%
Loss on remeasurement and disposal of financial investments	(4.7)	(6.6)	(1.9)	40.4%
Loss on disposal of property, plant and equipment and intangible assets	(20.9)	(26.0)	(5.1)	24.4%
Net other operating (expenses)/income	(1.4)	20.3	21.7	—
Net operating expenses	**(1,991.8)**	**(1,947.6)**	**44.2**	**(2.2)%**

Severstal Resources segment

The Severstal Resources segment's profit from operations decreased by US$643.6 million, from US$1,394.2 million in the year ended 31 December 2011 to US$750.6 million in the year ended 31 December 2012. The decrease in profit from operations was due to a US$686.2 million decrease in gross profit, as a result of the factors described above, which was offset by a decrease of US$42.6 million in net operating expenses. The decrease in net operating expenses was due to a US$12.7 million decrease in distribution expenses as a result of a decrease in export sales which was partially offset by an increase in railway tariffs; a US$8.0 million increase in gain on remeasurement and disposal of financial investment as a result of intersegment dividend income received from the Severstal Russian Steel segment in the year ended 31 December 2012; and a US$14.5 million decrease in net other operating expenses mostly due to the loss recognised in the year ended 31 December 2011 by PBS Coals in relation to a derivative instrument that related to PBS Coals' operating activity. According to the Group's accounting policy, dividend income is included in the line item "loss on remeasurement and disposal of financial investments," which is itself part of profit/loss from operations.

Severstal Russian Steel segment

The Severstal Russian Steel segment's profit from operations decreased by US$459.8 million from US$1,450.0 million in the year ended 31 December 2011 to US$990.2 million in the year ended 31 December 2012. The decrease in profit from operations was due to a US$892.4 million decrease in gross profit, as a result of the factors described above, partially offset by a US$432.6 million decrease in net operating expenses.

The decrease in the Severstal Russian Steel segment's net operating expenses was primarily due to a US$386.2 million decrease in the loss on remeasurement and disposal of financial investments, mostly as a result of an increase in intersegment dividend income received from the Severstal Resource segment in the year ended 31 December 2012, and due to a US$45.3 million decrease in distribution expenses as a result of export sales volume decrease.

Severstal International segment

The Severstal International segment's profit from operations decreased by US$68.4 million from a US$61.5 million profit in the year ended 31 December 2011 to a US$6.9 million loss in the year ended 31 December 2012. This decrease was due to a US$27.0 million decrease in gross profit and a US$41.4 million increase in net operating expenses. The decrease in gross profit was a result of the factors described above.

The increase in net operating expenses was primarily due to a US$8.4 million increase in general and administrative expenses, a US$13.1 million decrease in share of associates' and joint ventures' profit and a US$12.0 million decrease in net other operating income.

The increase in general and administrative expenses was primarily due to an increase in the average salaries which increased in line with inflation, and an increase in legal, tax and environmental consulting services within the normal course of business.

The decrease in share of associates' and joint ventures' profit was primarily due to losses recognised in 2012 in Severstal Dearborn's share in MSC, one of the Group's joint ventures. The decrease in net other operating income was primarily due to insurance recovery received by Severstal International in the year ended 31 December 2011.

Profit before financing and taxation

Compared to the prior period, the Group's profit before financing and taxation decreased by US$1,606.2 million from US$2,852.4 million in the year ended 31 December 2011 to US$1,246.2 million in the year ended 31 December 2012. This decrease was due to a US$1,546.6 million decrease in profit from operations, as described above, and a US$54.5 million increase in impairment of non-current assets, and a US$5.1 million increase in net other non-operating expenses.

The following table sets forth the Group's net non-operating expenses for the years ended 31 December 2011 and 2012:

	Year ended 31 December		Year on year change	Year on year percent change
	2011	2012		
	(US$ millions)			
Reversal of impairment/(impairment) of non-current assets	0.4	(54.1)	(54.5)	—
Net other non-operating expenses	(65.4)	(70.5)	(5.1)	7.8%
Net non-operating expenses	**(65.0)**	**(124.6)**	**(59.6)**	**91.7%**

Reversal of impairment/(impairment) of non-current assets

Impairment of non-current assets for the year ended 31 December 2012 mainly consists of a US$48.7 million impairment loss accrued by Severstal Resources segment in respect of PBS Coals and was allocated fully to goodwill.

Profit for the year

Compared to the prior year, the Group's profit for the year decreased by US$1,353.9 million, or 62.3 percent, from a profit of US$2,173.7 million in the year ended 31 December 2011 to a profit of US$819.8 million in the year ended 31 December 2012. The decrease was primarily due to a US$1,606.2 million decrease in profit before financing and taxation, which was partially offset by a US$214.1 million decrease in net financing expense; a US$202.5 million decrease in income tax expense; and due to a US$164.3 million decrease in profit from discontinued operations. The decrease in profit from discontinued operations was due to a decrease in the Gold segment profit and impairment allowance in respect of consideration in other financial assets receivable from the sale of the North America disposal group recognised in 2012. The decrease in profit before financing and taxation was primarily due to the factors described above.

Net financing expense

Net financing expense decreased by US$214.1 million from US$423.4 million in the year ended 31 December 2011 to US$209.3 million in the year ended 31 December 2012. This decrease was primarily due to a US$200.4 million decrease in the foreign exchange loss, from a loss of US$37.0 million in the year ended 31 December 2011 and to a gain of US$163.4 million in the year ended 31 December 2012; and due to a US$18.5 million increase in interest income from US$49.7 million in the year ended 31 December 2011 to US$68.2 million in the year ended 31 December 2012, that was partially offset by a US$4.8 million increase in interest expense from US$436.1 million in the year ended 31 December 2011 to US$440.9 million in the year ended 31 December 2012.

The increase in interest income was primarily due to the increase in average amounts placed on short-term deposit accounts during the year ended 31 December 2012 compared to the year ended 31 December 2011.

Foreign exchange loss decreased by US$200.4 million in the year ended 31 December 2012 compared to the year ended 31 December 2011, primarily due to the appreciation of the rouble against the US dollar in 2012.

Income tax expense

Income tax expense decreased by US$202.5 million, from US$466.0 million in the year ended 31 December 2011 to US$263.5 million in the year ended 31 December 2012. The decrease was primarily due to a US$1,392.1 million decrease in profit before income tax.

For the years ended 31 December 2010 and 2011

The following discussion is based on, and should be read in conjunction with, the Group's Annual Financial Statements, included in this Base Prospectus beginning on page F-2.

The following table sets forth the Group's consolidated income statement for the years ended 2010 and 2011:

	Year ended 31 December		Year on year change	Year on year percent change
	2010	2011		
		(US$ millions)		
Revenue				
Revenue—third parties	12,756.8	15,573.1	2,816.3	22.1%
Revenue—related parties	62.3	239.3	177.0	—
	12,819.1	**15,812.4**	**2,993.3**	**23.4%**
Cost of sales	(8,716.7)	(10,903.2)	(2,186.5)	25.1%
Gross profit	**4,102.4**	**4,909.2**	**806.8**	**19.7%**
General and administrative expenses	(585.0)	(725.0)	(140.0)	23.9%
Distribution expenses	(990.7)	(1,101.2)	(110.5)	11.2%
Other taxes and contributions	(136.6)	(145.9)	(9.3)	6.8%
Share of associates' profit	20.4	7.3	(13.1)	(64.2)%
Loss on remeasurement and disposal of financial investments	(146.3)	(4.7)	141.6	(96.8)%
Loss on disposal of property, plant and equipment and intangible assets	(42.8)	(20.9)	21.9	(51.2)%
Net other operating expenses	(16.1)	(1.4)	14.7	(91.3)%
Profit from operations	**2,205.3**	**2,917.4**	**712.1**	**32.3%**
(Impairment)/reversal of impairment of non-current assets	(80.1)	0.4	80.5	(100.5)%
Net other non-operating expenses	(43.6)	(65.4)	(21.8)	50.0%
Profit before financing and taxation	**2,081.6**	**2,852.4**	**770.8**	**37.0%**
Interest income	100.6	49.7	(50.9)	(50.6)%
Interest expense	(617.8)	(436.1)	181.7	(29.4)%
Foreign exchange differences	109.7	(37.0)	(146.7)	(133.7)%
Profit before income tax	**1,674.1**	**2,429.0**	**754.9**	**45.1%**
Income tax expense	(427.3)	(466.0)	(38.7)	9.1%
Profit from continuing operations	**1,246.8**	**1,963.0**	**716.2**	**57.4%**
(Loss)/profit from discontinued operations	(1,761.4)	210.7	1,972.1	(112.0)%
(Loss)/profit for the year	**(514.6)**	**2,173.7**	**2,688.3**	**—**

Revenue

The Group's consolidated revenue increased by US$2,993.3 million, or 23.4 percent, from US$12,819.1 million in the year ended 31 December 2010 to US$15,812.4 million in the year ended 31 December 2011. This increase was primarily due to a US$1,732.0 million increase in revenue of the Severstal Russian Steel segment, a US$979.4 million increase in revenue of the Severstal Resources segment and a US$510.6 million increase in revenue of the Severstal International segment. The increase

in revenue was partially offset by a US$228.7 million increase in intersegment revenue. Changes in the prices of the Group's various products were generally consistent with the prevailing market trends.

The Group's revenue from related parties increased by US$177.0 million from US$62.3 million in the year ended 31 December 2010 to US$239.3 million in the year ended 31 December 2011. The Group's revenue from related parties comprised 0.5 percent and 1.5 percent of the Group's total revenue in the year ended 31 December 2010 and in the year ended 31 December 2011, respectively. The increase in revenue from related parties primarily relates to sales to Lucchini S.p.A and MSC which were consolidated entities in 2010 and become related parties in 2011 as a result of their partial disposal.

Revenue by product

The following table sets forth the Group's revenue by product for the years ended 31 December 2010 and 2011:

	Year ended 31 December		Year on year change	Year on year percent change
	2010	2011		
	(US$ millions)			
Hot-rolled strip and plate	3,964.5	5,002.6	1,038.1	26.2%
Cold-rolled sheet	1,587.1	1,655.2	68.1	4.3%
Galvanised and other metallic coated sheet	1,532.8	1,998.1	465.3	30.4%
Large diameter pipes	961.3	1,006.7	45.4	4.7%
Metalware products	832.4	964.4	132.0	15.9%
Coal and coking coal concentrate	686.2	843.2	157.0	22.9%
Shipping and handling costs billed to customers	678.0	876.1	198.1	29.2%
Semi-finished products	635.1	769.5	134.4	21.2%
Long products	470.0	595.2	125.2	26.6%
Pellets and iron ore	383.7	725.8	342.1	89.2%
Other tubes and pipes, formed shapes	347.8	511.8	164.0	47.2%
Colour-coated sheet	288.1	305.8	17.7	6.1%
Scrap	98.2	76.8	(21.4)	(21.8)%
Others	353.9	481.2	127.3	36.0%
Revenue	**12,819.1**	**15,812.4**	**2,993.3**	**23.4%**

Revenue by delivery destination

The following table sets forth the Group's consolidated revenue by delivery destination for the years ended 31 December 2010 and 2011:

	Year ended 31 December		Year on year change	Year on year percent change
	2010	2011		
	(US$ millions)			
Russian Federation	5,811.7	7,476.4	1,664.7	28.6%
North America	3,131.8	3,912.2	780.4	24.9%
Europe	1,979.6	2,506.4	526.8	26.6%
China and Central Asia	469.2	735.7	266.5	56.8%
South-East Asia	454.8	273.4	(181.4)	(39.9)%
The Middle East	437.8	446.9	9.1	2.1%
Central and South America	422.5	335.1	(87.4)	(20.7)%
Africa	111.7	126.3	14.6	13.1%
Revenue	**12,819.1**	**15,812.4**	**2,993.3**	**23.4%**

Revenue by segment

The following table sets forth the Group's revenue by segment for the years ended 31 December 2010 and 2011:

	Year ended 31 December		Year on year change	Year on year percent change
	2010	2011		
	(US$ millions)			
Severstal Resources segment	2,732.0	3,711.4	979.4	35.8%
Severstal Russian Steel segment	8,814.8	10,546.8	1,732.0	19.6%
Severstal International segment	2,911.5	3,422.1	510.6	17.5%
Intersegment transactions	(1,639.2)	(1,867.9)	(228.7)	14.0%
Revenue	**12,819.1**	**15,812.4**	**2,993.3**	**23.4%**

Severstal Resources segment

The Severstal Resources segment's revenue increased by US$979.4 million, or 35.8 percent, from US$2,732.0 million in the year ended 31 December 2010 to US$3,711.4 million in the year ended 31 December 2011. Included in these amounts are intersegment revenue, primarily to the Severstal Russian Steel segment, of US$1,496.4 million in the year ended 31 December 2010 and US$1,789.8 million in the year ended 31 December 2011. Excluding intersegment revenue, revenue of the Severstal Resources segment increased by US$686.0 million, or 55.5 percent, from US$1,235.6 million in the year ended 31 December 2010 to US$1,921.6 million in the year ended 31 December 2011. The increase was primarily due to an increase in the average price per tonne and an increase in sales volume as described below.

Set forth below is a discussion of the revenue, excluding intersegment revenue, of the Severstal Resources segment by product:

Pellets and iron ore. Revenue from pellets and iron ore sales increased by US$342.1 million, or 89.2 percent, from US$383.7 million in the year ended 31 December 2010 to US$725.8 million in the year ended 31 December 2011. This increase was primarily due to a market-driven increase in revenue by volume and an increase in the average price per tonne.

Coal and coking coal concentrate. Revenue from coal and coking coal concentrate sales increased by US$157.0 million, or 22.9 percent, from US$686.2 million in the year ended 31 December 2010 to US$843.2 million in the year ended 31 December 2011. The increase was primarily due to an increase in the average price per tonne due to changes in the sales structure of coal and coking coal concentrate from steam coal to a coking coal concentrate with the higher average price.

Severstal Russian Steel segment

The Severstal Russian Steel segment's revenue increased by US$1,732.0 million, or 19.6 percent, from US$8,814.8 million in the year ended 31 December 2010 to US$10,546.8 million in the year ended 31 December 2011. Included in the above amounts are intersegment revenue of US$142.8 million in the year ended 31 December 2010 and US$78.1 million in the year ended 31 December 2011. This increase was primarily due to the market-driven increase in the average price per tonne and an increase in revenue by volume as described below.

Set forth below is a discussion of the revenue, excluding intersegment revenue, of the Severstal Russian Steel segment by product:

Hot-rolled strip and plate. Revenue from hot-rolled strip and plate sales increased by US$658.4 million, or 24.1 percent, from US$2,736.7 million in the year ended 31 December 2010 to US$3,395.1 million in the year ended 31 December 2011. This increase was primarily due to an increase in the average price per tonne and revenue by volume. The increase in revenue by volume and the average price per tonne was primarily due to the market-driven recovery of demand and due to changes in product mix resulting in higher revenue from hot-rolled strip and plate sales.

Cold-rolled sheet. Revenue from cold-rolled sheet sales increased by US$165.3 million, or 16.0 percent, from US$1,032.6 million in the year ended 31 December 2010 to US$1,197.9 million in the year ended 31 December 2011. The increase was primarily due to an increase in the average price per tonne,

partially offset by a decrease in revenue by volume due to changes in the sales structure from a cold-rolled sheet to a galvanised sheet after the commissioning of the reconstructed hot-dip galvanising line with increased capacity in December 2010 at the Cherepovets Steel Mill.

Galvanised sheet. Revenue from galvanised sheet sales increased by US$321.2 million, or 70.3 percent, from US$457.0 million in the year ended 31 December 2010 to US$778.2 million in the year ended 31 December 2011. This increase was primarily due to an increase in the average price per tonne and revenue by volume. The increase in revenue by volume and the average price per tonne was primarily due to the market-driven recovery of demand and due to the commissioning of the reconstructed hot-dip galvanising line with increased capacity in December 2010 at the Cherepovets Steel Mill.

Semi-finished products. Revenue from semi-finished products sales increased by US$134.4 million, or 21.2 percent, from US$634.6 million in the year ended 31 December 2010 to US$769.0 million in the year ended 31 December 2011. The increase was primarily due to an increase in the average price per tonne due to the market-driven recovery of demand for steel and semi-finished products on export markets.

Colour-coated sheet. Revenue from colour-coated sheet sales increased by US$17.7 million, or 6.1 percent, from US$288.1 million in the year ended 31 December 2010 to US$305.8 million in the year ended 31 December 2011. The increase was primarily due to an increase in the average price per tonne due to the market-driven recovery of demand, mostly in the domestic Russian construction industry.

Long products. Revenue from long products sales increased by US$125.2 million, or 26.6 percent, from US$470.0 million in the year ended 31 December 2010 to US$595.2 million in the year ended 31 December 2011. This increase was primarily due to an increase in the average price per tonne and revenue by volume. The increase in revenue by volume and the average price per tonne was primarily due to the market-driven increase in demand, mostly in the domestic Russian construction industry. The construction industry and steel service centres are the main customers of long products.

Metalware products. Revenue from metalware products sales increased by US$132.0 million, or 15.9 percent, from US$832.4 million in the year ended 31 December 2010 to US$964.4 million in the year ended 31 December 2011. The increase was primarily due to an increase in the average price per tonne due to the market-driven recovery of demand, specifically in the domestic Russian construction and automotive markets.

Large diameter pipes. Revenue from large diameter pipes sales increased by US$45.4 million, or 4.7 percent, from US$961.3 million in the year ended 31 December 2010 to US$1,006.7 million in the year ended 31 December 2011. The increase was primarily due to an increase in revenue by volume due to the market-driven recovery of demand, specifically due to the increase in demand from Gazprom and OAO AK Transneft, the Group's main customers of pipes and was partially offset by a decrease in the average price per tonne.

Severstal International segment

Severstal International's revenue increased by US$510.6 million, or 17.5 percent, from US$2,911.5 million in the year ended 31 December 2010 to US$3,422.1 million in the year ended 31 December 2011. The increase in revenue was primarily due to an increase in the average price per tonne and increase in revenue by volume, primarily due to a market-driven recovery of demand resulting from the increase in the consumption of steel by major US customers.

Set forth below is a discussion of the revenue, excluding intersegment sales, of Severstal International by product:

Hot-rolled strip and plate. Revenue from hot-rolled strip and plate sales increased by US$379.7 million, or 30.9 percent, from US$1,227.8 million in the year ended 31 December 2010 to US$1,607.5 million in the year ended 31 December 2011. This increase was primarily due to an increase in the average price per tonne and an increase in revenue by volume due to the market-driven recovery of demand by major US customers.

Cold-rolled sheet. Revenue from cold-rolled sheet sales decreased by US$97.2 million, or 17.5 percent, from US$554.5 million in the year ended 31 December in 2010 to US$457.3 million in the year ended 31 December 2011. The decrease was primarily due to a decrease in revenue by volume due to the Northern Steel Group divestiture in 2010, which was partially offset by an increase in the average price

per tonne resulting from the general economic recovery and increased consumption of steel by the US automotive industry.

Galvanised and other metallic coated sheet. Revenue from galvanised and other metallic coated sheet sales increased by US$144.1 million, or 13.4 percent, from US$1,075.8 million in the year ended 31 December 2010 to US$1,219.9 million in the year ended 31 December 2011. This increase was primarily due to a market-driven increase in the average price per tonne and an increase in revenue by volume resulting from the economic recovery in the North American market.

Revenue by delivery destination

Changes in the regional sales structure resulted in an increase in sales to Russia, North America, Europe, China and Central Asia, the Middle East and Africa, and a decrease in sales to South-East Asia and Central and South America in the year ended 31 December 2011, compared to the year ended 31 December 2010, mainly due to the market-driven changes of demand and respective reallocation of sales from one region to another.

Cost of sales

The Group's cost of sales increased by US$2,186.5 million, or 25.1 percent, from US$8,716.7 million in the year ended 31 December 2010 to US$10,903.2 million in the year ended 31 December 2011.

Cost of sales by segment

The following table sets forth the Group's cost of sales by segment for the years ended 31 December 2010 and 2011:

	Year ended 31 December		Year on year change	Year on year percent change
	2010	2011		
	(US$ millions)			
Severstal Resources segment	(1,387.1)	(1,745.5)	(358.4)	25.8%
Severstal Russian Steel segment	(6,006.4)	(7,748.7)	(1,742.3)	29.0%
Severstal International segment	(2,909.3)	(3,291.5)	(382.2)	13.1%
Intersegment transactions	1,586.1	1,882.5	296.4	18.7%
Cost of Sales	**(8,716.7)**	**(10,903.2)**	**(2,186.5)**	**25.1%**

Severstal Resources segment

The Severstal Resources segment's cost of sales increased by US$358.4 million, or 25.8 percent, from US$1,387.1 million in the year ended 31 December 2010 to US$1,745.5 million in the year ended 31 December 2011. The increase was primarily due to a US$61.6 million increase in raw materials expense, a US$75.7 million increase in fuel and energy, a US$66.7 million increase in services cost, a US$115.8 million increase in labour cost and related tax expenses and a US$33.9 million increase in the use of integral implements and spare parts.

Raw materials expense. The increase in raw materials expense was primarily due to the increase in production volumes in the year ended 31 December 2011 compared to the year ended 31 December 2010.

Fuel and energy expense. The increase in fuel and energy expenses was primarily due to the increased production volumes and the increase in energy tariffs and fuel prices.

Integral implements and spares. The increase in integral implements and spares was primarily due to the increased production volumes and repair services in the year ended 31 December 2011 compared to the year ended 31 December 2010.

Service cost. The increase in service cost was primarily due to the increased production volumes and repair services in the year ended 31 December 2011 compared to the year ended 31 December 2010.

Labour cost and related tax expense. The increase in labour cost and related tax expenses was primarily due to the increase in the average salaries of employees, which was in line with inflation.

Severstal Russian Steel segment

The Severstal Russian Steel segment's cost of sales increased by US$1,742.3 million, or 29.0 percent, from US$6,006.4 million in the year ended 31 December 2010 to US$7,748.7 million in the year ended 31 December 2011. The increase was primarily due to an increase in raw materials expense, an increase in services cost, an increase in fuel and energy and an increase in labour cost and related tax expenses.

Raw materials expense. The increase in raw materials expense was due to the increase in revenue by volume and a corresponding increase in production volumes.

Fuel and energy expense. The increase in fuel and energy expense was due to the increase in energy tariffs and fuel prices.

Labour cost and related tax expense. The increase in labour cost and related tax expense was due to the increase in the average salaries of employees, which was in line with inflation.

Services cost. The increase in service cost was primarily due to the increased production volumes and repair services in the year ended 31 December 2011 compared to the year ended 31 December 2010.

Severstal International segment

Severstal International's cost of sales increased by US$382.2 million, or 13.1 percent, from US$2,909.3 million in the year ended 31 December 2010 to US$3,291.5 million in the year ended 31 December 2011. The increase in cost of sales was primarily due to the increased production volumes, which was in line with sales increase and due to the increased prices for raw materials.

Profit from operations

The Group's profit from operations increased by US$712.1 million, or 32.3 percent, from US$2,205.3 million in the year ended 31 December 2010 to US$2,917.4 million in the year ended 31 December 2011. The increase was due to a US$806.8 million increase in gross profit, due to the factors discussed above, and offset by a US$94.7 million increase in net operating expenses, primarily driven by a US$140.0 million increase in general and administrative expenses and a US$110.5 million increase in distribution expenses, which was partially offset by a US$141.6 million decrease in loss on remeasurement and disposal of financial investments.

The following table sets forth the Group's net operating expenses for the years ended 31 December 2010 and 2011:

	Year ended 31 December		Year on year change	Year on year percent change
	2010	2011		
	(US$ millions)			
General and administrative expenses	(585.0)	(725.0)	(140.0)	23.9%
Distribution expenses	(990.7)	(1,101.2)	(110.5)	11.2%
Other taxes and contributions	(136.6)	(145.9)	(9.3)	6.8%
Share of associates' profit	20.4	7.3	(13.1)	(64.2)%
Loss on remeasurement and disposal of financial investments	(146.3)	(4.7)	141.6	(96.8)%
Loss on disposal of property, plant and equipment and intangible assets	(42.8)	(20.9)	21.9	(51.2)%
Net other operating expenses	(16.1)	(1.4)	14.7	(91.3)%
Net operating expenses	**(1,897.1)**	**(1,991.8)**	**(94.7)**	**5.0%**

Severstal Resources segment

The Severstal Resources segment's profit from operations increased by US$442.8 million, or 46.5 percent, from US$951.4 million in the year ended 31 December 2010 to US$1,394.2 million in the year ended 31 December 2011. The increase in profit from operations was due to a US$621.0 million increase in gross profit, as a result of the factors discussed above, which was offset by an increase of US$178.2 million in net operating expenses.

The increase in the Severstal Resources segment's net operating expenses was primarily due to a US$116.0 million increase in distribution expenses, a US$75.9 million increase in general and administrative expenses, partially offset by a US$18.1 million decrease in loss on disposal of property, plant and equipment and intangible assets. The increase in distribution expenses was primarily due to increased shipments and increase in tariff charges in line with inflation. General and administrative expenses primarily increased due to the changes in doubtful debt provision charges, and due to the increase in the average wages and salaries which were in line with inflation and the increase in consulting services expenses in respect of continuing improvement programmes. The decrease in loss of disposal of property, plant and equipment and intangible assets was primarily due to the write-off of non-productive mineral rights at PBS Coals in 2010.

Severstal Russian Steel segment

The Severstal Russian Steel segment's profit from operations increased by US$82.9 million, or 6.1 percent, from US$1,367.1 million in the year ended 31 December 2010 to US$1,450.0 million in the year ended 31 December 2011. The increase in profit from operations was due to a US$93.2 million decrease in net operating expenses, as a result of the factors described below, partially offset by a US$10.3 million decrease in gross profit.

The decrease in the Severstal Russian Steel segment's operating expenses was primarily due to a US$135.5 million decrease in loss on remeasurement and disposal of financial investments and due to a US$23.5 million decrease in net other operating expenses, partially offset by a US$73.2 million increase in general and administrative expenses.

The decrease in loss on remeasurement and disposal of financial investments was primarily due to a US$134.0 million provision in respect of doubtful deposit account accrued in 2010. The increase in general and administrative expenses was due to an increase in consulting expenses related to the development of the Group's business system and the increase in the average salaries, which was in line with inflation, and performance bonuses. Performance bonuses include bonuses paid to management and administrative employees. The decrease in net other operating expenses was primarily due to decrease in fines and penalties for contract breaches and due to decrease in provision for contingencies accrued in respect of potential claims in 2010.

Severstal International segment

Severstal International's loss from operations decreased by US$120.6 million, from a loss of US$59.1 million in the year ended 31 December 2010 to a profit of US$61.5 million in the year ended 31 December 2011. The decrease was primarily due to a US$128.4 million increase in gross profit due to the factors described above, partially offset by a US$7.8 million increase in net operating expenses.

The increase in net operating expenses was primarily due to a US$4.3 million increase in general and administrative expenses. The increase in general and administrative expenses was driven by two major factors: an increase in doubtful debt provision of US$2.2 million and an increase in corporate wages and fringe benefits of US$2.3 million resulting from higher volumes of activity and better financial results in 2011.

Profit before financing and taxation

Compared to the prior period, the Group's profit before financing and taxation increased by US$770.8 million, or 37.0 percent, in the year ended 31 December 2011. The increase was due to a US$712.1 million increase in profit from operations, and a US$58.7 million decrease in net non-operating expenses.

The increase in profit from operations was due to the factors discussed above. The decrease in net non-operating expenses was primarily due to a US$80.5 million decrease in impairment of non-current assets.

The following table sets forth the Group's net non-operating expenses for the years ended 31 December 2010 and 2011:

	Year ended 31 December		Year on year change	Year on year percent change
	2010	2011		
	(US$ millions)			
(Impairment)/reversal of impairment of non-current assets	(80.1)	0.4	80.5	(100.5)%
Net other non-operating expenses	(43.6)	(65.4)	(21.8)	50.0%
Net non-operating expenses	**(123.7)**	**(65.0)**	**58.7**	**(47.5)%**

(Impairment)/reversal of impairment of non-current assets

Compared to the prior period, the Group's impairment of non-current assets decreased by US$80.5 million or 100.5 percent, in the year ended 31 December 2011. This decrease was due to impairment charges accrued in 2010 in respect of specific items of property, plant and equipment and intangible assets in the Severstal Resources, Severstal Russian Steel and Severstal International segments compared to 2011.

Net other non-operating expenses

Compared to the prior period, the Group's net other non-operating expenses increased by US$21.8 million, or 50.0 percent, in the year ended 31 December 2011. This increase was primarily due to the increase in the Group's social expenditure and charitable donations of US$38.2 million, partially offset by the increase in gain on disposal of subsidiaries of US$21.0 million. The increase in gain on disposal of subsidiaries was due to disposal of OAO Stalmag, SSM RP Holding B.V. and its wholly-owned subsidiary Severstal-Metiz: welding consumables.

(Loss)/profit for the year

The Group's loss for the year decreased by US$2,688.3 million from a loss of US$514.6 million in the year ended 31 December 2010 to a profit of US$2,173.7 million in the year ended 31 December 2011. The decrease was due to a US$770.8 million increase in profit before financing and taxation and a US$1,972.1 million decrease in loss from discontinued operations in the year ended 31 December 2011 compared to the year ended 31 December 2010, which was partially offset by a US$15.9 million increase in net financing expenses and by a US$38.7 million increase in income tax. The increase in profit before financing and taxation is primarily due to the factors described above.

Net financing expense

Net financing expense increased by US$15.9 million, or 3.9 percent, from US$407.5 million in the year ended 31 December 2010 to US$423.4 million in the year ended 31 December 2011. This increase was due to a US$50.9 million decrease in interest income, from US$100.6 million in the year ended 31 December 2010 to US$49.7 million in the year ended 31 December 2011; due to a US$146.7 million change in foreign exchange differences from a gain of US$109.7 million in the year ended 31 December 2010 to a loss of US$37.0 million in the year ended 31 December 2011, which was offset by a US$181.7 million decrease in interest expense from US$617.8 million in the year ended 31 December 2010 to US$436.1 million in the year ended 31 December 2011.

The decrease in interest expense was primarily due to the decrease in the average interest rates as the result of early repayment of the most expensive bilateral facilities and their partial replacement with lower interest bearing public debt (6.25 percent US dollar-denominated loan participation notes maturing in 2016) and due to the decrease of the interest rate under US$494 million rouble-denominated bonds with a two-year put option, maturing in September 2012, from an annual rate of 14.00 percent to 7.50 percent after exercising a put option in September 2011.

The decrease in interest income of US$50.9 million was primarily due to a decrease in the amounts of placed deposits and a decrease in deposit rates during the year ended 31 December 2011 compared to the year ended 31 December 2010.

The decrease in foreign exchange gain of US$146.7 million in the year ended 31 December 2011 compared to the year ended 31 December 2010 was primarily due to the depreciation of the rouble against the US dollar.

Income tax expense

Income tax expense increased by US$38.7 million in the year ended 31 December 2011, primarily due to the increase in profit before income tax of US$754.9 million compared to the year ended 31 December 2010 primarily as a result of the factors described above.

Discontinued operations

The Group's discontinued operations represent the Lucchini segment, Gold segment and North America disposal group. The loss from discontinued operations decreased by US$1,972.1 million, from a loss of US$1,761.4 million in the year ended 31 December 2010 to a profit of US$210.7 million in the year ended 31 December 2011. The decrease in loss was due to the decrease in loss on the remeasurement of the Lucchini and North America disposal groups to fair value less costs to sell recognised in 2010 in the amounts of US$1,010.3 million and US$289.8 million, respectively, due to the increase in the Gold segment's profit for the period and due to the disposition of the North America entities and the Lucchini segment at the beginning of 2011.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2012, the Group had total cash and cash equivalents of US$1,726.3 million. As at 31 December 2011 and 2010, the Group had total cash and cash equivalents of US$1,863.5 million and US$2,012.7 million, respectively.

The Group has financed and expects to continue to finance its operations and capital expenditures primarily through the Group's operating cash flows and, to the extent required, through borrowings or capital raising activities, including going forward, the offering of notes from time to time pursuant to the Programme. Historically, a significant portion of the Group's capital expenditures has been related to the modernisation of the Group's producing assets. For a discussion of the Group's historical and expected capital expenditures, see *"Business—Severstal Russian Steel Division—Capital Expenditures; Business—Severstal International—Capital Expenditures; Business—Severstal Resources—Capital Expenditures"*.

Cash flows

For the years ended 31 December 2011 and 2012

The following table sets forth the Group's consolidated cash flow for the year ended 31 December 2011 and 2012:

	Year ended 31 December		Year on year change	Year on year percent change
	2011	2012		
	(US$ millions)			
Net cash from operating activities				
Profit before financing and taxation	2,852.4	1,246.2	(1,606.2)	(56.3)%
Adjustments to reconcile profit to cash generated from operations	701.4	938.0	236.6	33.7%
Changes in operating assets and liabilities	(421.4)	190.1	611.5	(145.1)%
Interest paid	(441.3)	(424.3)	17.0	(3.9)%
Income tax paid	(514.2)	(191.4)	322.8	(62.8)%
Net cash from operating activities—continuing operations	**2,176.9**	**1,758.6**	**(418.3)**	**(19.2)%**
Net cash from/(used in) operating activities—discontinued operations	402.5	(8.2)	(410.7)	(102.0)%
Net cash from operating activities	**2,579.4**	**1,750.4**	**(829.0)**	**(32.1)%**
Net cash used in investing activities				
Capital expenditures[1]	(1,716.2)	(1,448.2)	268.0	(15.6)%
Net decrease in short-term bank deposits	13.2	—	(13.2)	(100.0)%
Additions to financial investments and associates, net of proceeds from disposal	(32.7)	260.3	293.0	—
Net cash inflow from disposal of subsidiaries	97.0	—	(97.0)	(100.0)%
Other	89.3	128.4	39.1	43.8%
Cash used in investing activities—continuing operations	**(1,549.4)**	**(1,059.5)**	**489.9**	**(31.6)%**
Cash used in investing activities—discontinued operations	(352.1)	(42.5)	309.6	(87.9)%
Cash used in investing activities	**(1,901.5)**	**(1,102.0)**	**799.5**	**(42.0)%**
Net cash used in financing activities				
Proceeds from debt finance	2,000.4	2,825.8	825.4	41.3%
Repayment of debt finance	(2,010.3)	(3,098.2)	(1,087.9)	54.1%
Repayments under lease obligations	(8.0)	(4.5)	3.5	(43.8)%
Dividends paid	(380.2)	(344.4)	35.8	(9.4)%
Acquisitions of non-controlling interests	(3.0)	(193.9)	(190.9)	—
Contributions from non-controlling interests	13.7	—	(13.7)	(100.0)%
Repurchase of issued shares	—	(19.9)	(19.9)	—
Cash used in financing activities—continuing operations	**(387.4)**	**(835.1)**	**(447.7)**	**115.6%**
Cash used in financing activities—discontinued operations	(151.6)	—	151.6	(100.0)%
Cash used in financing activities	**(539.0)**	**(835.1)**	**(296.1)**	**54.9%**
Effect of exchange rates on cash and cash equivalents	(70.9)	7.3	78.2	(110.3)%
Net increase/(decrease) in cash and cash equivalents	**68.0**	**(179.4)**	**(247.4)**	**(363.8)%**
Less change in cash and cash equivalents of discontinued operation	—	42.2	42.2	—
Less cash and cash equivalents of discontinued operations and assets held for sale at the end of the period	(217.1)	—	217.1	(100.0)%

(1) Consisting of cash outlays for purchases of property, plant and equipment and intangible assets.

Net cash from operating activities decreased by US$829.0 million, or 32.1 percent, from a cash inflow of US$2,579.4 million in the year ended 31 December 2011 to a cash inflow of US$1,750.4 million in the year ended 31 December 2012.

The decrease was due to a decrease in cash inflow from operating activities—continuing operations of US$418.3 million, from a cash inflow of US$2,176.9 million in the year ended 31 December 2011 to a cash inflow of US$1,758.6 million in the year ended 31 December 2012 and due to a decrease in cash inflow from operating activities—discontinued operations of US$410.7 million, from a cash inflow of US$402.5 million in the year ended 31 December 2011 to a cash outflow of US$8.2 million in the year ended 31 December 2012.

The decrease in cash inflow from operating activities—continuing operations was primarily attributable to a US$1,606.2 million decrease in profit before financing and taxation, which was partially offset by an increase in movements in provisions for inventories, receivables and other provisions of US$94.0 million and an increase in impairment of non-current assets of US$54.5 million, which were added back to profit before financing and taxation for cash flow purposes, and was partially offset by changes in operating assets and liabilities of US$611.5 million and a decrease in income tax paid of US$322.8 million.

The decrease in profit before financing and taxation was due to the factors discussed above. Changes in operating assets and liabilities were primarily affected by a US$689.7 million change in inventories from an increase of US$535.8 million for the year ended 31 December 2011 to a decrease of US$153.9 million for the year ended 31 December 2012, a US$570.7 million change in trade accounts receivable, including accounts receivable from related parties, from an increase of US$340.4 million to a decrease of US$230.3 million and were partially offset by a US$440.0 million change in trade accounts payable, including accounts payable to related parties, from an increase of US$284.2 million for the year ended 31 December 2011 to a decrease of US$155.8 million for the year ended 31 December 2012.

The increase in impairment of non-current assets mainly related to a US$48.7 million of impairment loss accrued by the Severstal Resources segment in respect of PBS Coals and was allocated fully to goodwill in the year 31 December 2012.

The increase in provisions for inventories, receivables and other provisions mainly related to an additional allowance accrued by the Severstal Russian Steel segment in respect of inventories (primarily spare parts) in the amount of US$114.8 million in the year ended 31 December 2012.

The decrease in inventories and accounts payable was primarily related to the decrease in prices for main raw materials and the decrease in production and corresponding purchase volumes as a result of decreased demand during the year ended 31 December 2012 compared to the year ended 31 December 2011. The decrease in changes in trade accounts receivable were primarily related to the decrease in sales of steel and other products as a result of decreased demand during the year ended 31 December 2012 compared to the year ended 31 December 2011.

Net cash from operating activities—continuing operations was also affected by a US$322.8 million decrease in income tax paid due to a decrease in taxable profit for the year ended 31 December 2012 compared to the year ended 31 December 2011.

The decrease in cash from operating activities—discontinued operations of US$410.7 million was primarily due to the disposal of the Gold segment in March 2012 following the management's decision to separate the segment.

Net cash used in investing activities decreased by US$799.5 million, or 42.0 percent, from US$1,901.5 million for the year ended 31 December 2011 to US$1,102.0 million for the year ended 31 December 2012. The decrease was due to a decrease in net cash used in investing activities—continuing operations of US$489.9 million and a decrease in cash used in investing activities—discontinued operations of US$309.6 million.

The decrease in net cash used in investing activities—continuing operations was primarily attributable to a decrease in capital expenditures, decrease in additions to financial investments and associates, net of proceeds from disposal, an increase in interest received, which was partially offset by a decrease in cash inflow from disposal of subsidiaries.

The decrease in additions to financial investments and associates, net of proceeds from disposal, of US$293.0 million, from a cash outflow of US$32.7 million in the year ended 31 December 2011 to a cash

inflow of US$260.3 million in the year ended 31 December 2012, was primarily attributable to cash received from the repayment of loans by the Gold segment's entities and due to sale of interest in Intex Resources ASA, the Group's associate, in the amount of US$20.0 million during the year ended 31 December 2012.

The increase in interest received of US$61.6 million from US$44.2 million for the year ended 31 December 2011 to US$105.8 million for the year ended 31 December 2012 was mainly attributable to interest received on loans repaid by the Gold segment's entities.

The Group's capital expenditures were below the approved budgeted capital expenditures of US$1,669 million for 2012. Budgeted capital expenditures for 2011 were US$1,727 million.

The decrease in cash inflow from disposal of subsidiaries of US$97.0 million was due to the sale of the North America disposal group and SSM RP Holding B.V. and its wholly owned subsidiary Severstal-Metiz: welding consumables during the year ended 31 December 2011.

The decrease in cash used in investing activities—discontinued operations of US$309.6 million was primarily due to the disposal of the Gold segment in March 2012 following the management's decision to separate this segment.

Net cash used in financing activities increased by US$296.1 million or 54.9 percent, from a cash outflow of US$539.0 million for the year ended 31 December 2011 to a cash outflow of US$835.1 million for the year ended 31 December 2012. This increase related to the increase in cash used in financing activities—continuing operations of US$447.7 million and was partially offset by a decrease in cash used in financing activities—discontinued operations of US$151.6 million.

The increase in cash used in financing activities—continuing operations of US$447.7 million was primarily attributable to an increase in cash spent on the acquisitions of non-controlling interests of US$190.9 million, to an increase in repayment of debt financing, net of proceeds, of US$262.5 million and to a repurchase of issued shares of US$19.9 million which was partially offset by a US$35.8 million decrease in dividends paid.

The increase in cash spent on the acquisitions of non-controlling interests mainly related to the acquisitions of non-controlling interests in AS Severstallat, Severstal Liberia Iron Ore Ltd and JSC Vorkutaugol in the amounts of US$7.8 million, US$115.0 million and US$70.9 million, respectively, during the year ended 31 December 2012 compared to US$3.0 million of cash spent on the acquisition of non-controlling interest in Severstal Ukraine LLC during the year ended 31 December 2011.

The increase in repayment of debt financing, net of proceeds, of US$262.5 million was mainly due to repayment of rouble bonds and the early repayment of pre-export syndicated facility.

The repurchase of issued shares of US$19.9 million was a result of the buy back of OAO Severstal shares during June-July 2012. The decrease in dividends paid of US$35.8 million was in line with the decrease in the Group's profit.

The decrease in cash used in financing activities—discontinued operations of US$151.6 million mainly related to the acquisitions of non-controlling interests in the Gold segment during the year ended 31 December 2011 and cash used on the repayment of debt by the Gold segment and the North America disposal group's entities during the year ended 31 December 2011.

For the years ended 31 December 2010 and 2011

The following table sets forth the Group's consolidated cash flow for the years ended 31 December 2010 and 2011.

	Year ended 31 December		Year on year change	Year on year percent change
	2010	2011		
	(US$ millions)			
Net cash from operating activities				
Profit before financing and taxation	2,081.6	2,852.4	770.8	37.0%
Adjustments to reconcile profit to cash generated from operations	886.2	701.4	(184.8)	(20.9)%
Changes in operating assets and liabilities	(566.6)	(421.4)	145.2	(25.6)%
Interest paid	(551.9)	(441.3)	110.6	(20.0)%
Income tax paid	(310.0)	(514.2)	(204.2)	65.9%
Net cash from operating activities—continuing operations	**1,539.3**	**2,176.9**	**637.6**	**41.4%**
Net cash (used in)/from operating activities—discontinued operations	(280.1)	402.5	682.6	(243.7)%
Net cash from operating activities	**1,259.2**	**2,579.4**	**1,320.2**	**104.8%**
Net cash used in investing activities				
Capital expenditures[1]	(1,075.4)	(1,716.2)	(640.8)	59.6%
Net (increase)/decrease in short-term bank deposits	(46.7)	13.2	59.9	(128.3)%
Additions to financial investments and associates, net of proceeds from disposal	(41.7)	(32.7)	9.0	(21.6)%
Net cash outflow on acquisitions of subsidiaries	(7.5)	—	7.5	(100.0)%
Net cash inflow from disposals of subsidiaries	118.6	97.0	(21.6)	(18.2)%
Other	102.8	89.3	(13.5)	(13.1)%
Cash used in investing activities—continuing operations	**(949.9)**	**(1,549.4)**	**(599.5)**	**63.1%**
Cash used in investing activities—discontinued operations	(549.4)	(352.1)	197.3	(35.9)%
Cash used in investing activities	**(1,499.3)**	**(1,901.5)**	**(402.2)**	**26.8%**
Net cash used in financing activities				
Proceeds from debt finance	3,478.4	2,000.4	(1,478.0)	(42.5)%
Acquisitions of non-controlling interests	(113.3)	(3.0)	110.3	(97.4)%
Disposal of non-controlling interests	5.8	—	(5.8)	(100.0)%
Repayment of debt finance	(3,218.3)	(2,010.3)	1,208.0	(37.5)%
Repayments under lease obligations	(4.3)	(8.0)	(3.7)	86.0%
Dividends paid	(130.1)	(380.2)	(250.1)	192.2%
Contributions from non-controlling interests	—	13.7	13.7	—
Cash from/(used in) financing activities—continuing operations	**18.2**	**(387.4)**	**(405.6)**	**—**
Cash used in financing activities—discontinued operations	(306.1)	(151.6)	154.5	(50.5)%
Cash used in financing activities	**(287.9)**	**(539.0)**	**(251.1)**	**87.2%**
Effect of exchange rates on cash and cash equivalents	(104.7)	(70.9)	33.8	(32.3)%
Net (decrease)/increase in cash and cash equivalents	**(632.7)**	**68.0**	**700.7**	**(110.7)%**
Less cash and cash equivalents of discontinued operations and assets held for sale at the end of the period	(208.0)	(217.1)	(9.1)	4.4%

(1) Consists of cash outlays for purchases of property, plant and equipment and intangible assets.

Net cash from operating activities increased by US$1,320.2 million, or 104.8 percent, from a cash inflow of US$1,259.2 million in the year ended 31 December 2010 to a cash inflow of US$2,579.4 million in the year ended 31 December 2011.

The increase was due to an increase in cash inflow from operating activities—continuing operations of US$637.6 million, from a cash inflow of US$1,539.3 million in the year ended 31 December 2010 to a cash inflow of US$2,176.9 million in the year ended 31 December 2011, and a change in cash from operating activities—discontinued operations of US$682.6 million, from a cash outflow of US$280.1 million in the year ended 31 December 2010 to a cash inflow of US$402.5 million in the year ended 31 December 2011.

The increase in cash inflow from operating activities—continuing operations was primarily due to a US$770.8 million increase in profit before financing and taxation, a US$110.6 million decrease in interest paid and due to a US$145.2 million change in operating assets and liabilities, partially offset by a US$80.6 million decrease in impairment of non-current assets and a US$141.7 million decrease in loss on remeasurement and disposal of financial investments, which were added back to profit before financing and taxation for cash flow purposes, and a US$204.2 million increase in income tax paid.

The change in operating assets and liabilities of US$145.2 million was primarily due to the decrease in restricted financial assets and the increase in trade accounts payable, including accounts payable to related parties, and was partially offset by the change in inventory and trade accounts receivable, including accounts receivable from related parties.

The decrease in restricted financial assets primarily related to the decrease in restricted cash balances during the year ended 31 December 2011, which was within the normal course of business.

The increase in trade accounts payable and increase in inventory was mainly driven by the increase in production volumes, as the result of sales increase driven by the increase in demand.

The increase in trade accounts receivable primarily related to the increase in sales driven by the increase in demand.

The decrease in impairment of non-current assets of US$80.6 million was due to the impairment charges accrued in 2010 in respect of specific items of property, plant and equipment and intangible assets in the Severstal Resources, Severstal Russian Steel and Severstal International segments compared to 2011.

The decrease in loss on remeasurement and disposal of financial investments of US$141.7 million mainly related to the provision accrued in 2010 in respect of doubtful deposit account in the amount of US$134.0 million.

Net cash from operating activities—continuing operations was also affected by a US$204.2 million increase in income tax paid mainly due to an increase in taxable profit for the year ended 31 December 2011 compared to the year ended 31 December 2010.

The decrease in interest paid of US$110.6 million was primarily due to the decrease in the average interest rates as the result of the partial replacement of more expensive public debt (9.75 percent US dollar-denominated loan participation notes maturing in 2013) with lower interest-bearing public debt (6.7 percent US dollar-denominated loan participation notes maturing in 2017) and early repayment of the most expensive bilateral facilities.

The increase in cash from operating activities—discontinued operations of US$682.6 million related to Lucchini segment, North America disposal group and the Gold segment and was mainly explained by the increase in Gold segment's profitability and a corresponding increase in cash from operating activity in 2011 year compared to 2010 year and decrease in Lucchini and North America disposal group's losses and a corresponding decrease in cash used in operating activities as a result of their disposal at the beginning of 2011 year.

Net cash used in investing activities increased by US$402.2 million from US$1,499.3 million in the year ended 31 December 2010 to US$1,901.5 million in the year ended 31 December 2011. The increase was primarily due to an increase in net cash used in investing activities—continuing operations of US$599.5 million and a decrease in net cash used in investing activities—discontinued operations of US$197.3 million.

The increase in net cash used in investing activities—continuing operations was attributable to the increase in capital expenditures of US$640.8 million which was in line with the Group's budgeted capital

expenditures of US$1,727 million for 2011 compared to US$1,400 million for 2010, decrease in net cash inflow from disposals of subsidiaries of US$21.6 million, which was partially offset by a decrease in short-term bank deposits of US$59.9 million. The decrease in short-term bank deposits was primarily due to the shift of the Group's available cash from term deposits to deposits which may be withdrawn upon demand and which were classified as cash equivalents in accordance with IFRS.

The decrease in proceeds from disposals of subsidiaries of US$21.6 million from US$118.6 million in the year ended 31 December 2010 to US$97.0 million in the year ended 31 December 2011 was related to the sale of the North America disposal group and SSM RP Holding B.V. and its wholly owned subsidiary Severstal-Metiz: welding consumables during the year ended 31 December 2011.

The decrease in cash used in investing activities—discontinued operations of US$197.3 million was mainly attributable to the acquisition of interests in Crew Gold during the year ended 31 December 2010.

Net cash used in financing activities increased by US$251.1 million or 87.2 percent, from US$287.9 million in the year ended 31 December 2010 to US$539.0 million in the year ended 31 December 2011. This change relates to the decrease in cash from financing activities—continuing operations of US$405.6 million and a decrease in cash used in financing activities—discontinued operations of US$154.5 million.

Decrease in cash from financing activities—continuing operations of US$405.6 million was primarily attributable to the decrease in proceeds from debt financing, net of repayments, of US$270.0 million, increase in dividends paid of US$250.1 million and was partially offset by a decrease in cash spent on the acquisitions of non-controlling interests of US$110.3 million and an increase in contributions from non-controlling interests of US$13.7 million.

The decrease in proceeds from debt financing, net of repayments, in the year ended 31 December 2011 compared to the year ended 31 December 2010 was primarily due to the long-term borrowings made during 2010 year, including the rouble denominated bonds issued by the Company in the amount of US$498.0 million in February 2010, bonds issued by Severstal Columbus in the amount of US$525.0 million in February 2010 and US$1,000 million bonds issued by the Company in October 2010, compared to the bonds issued by the Company in the amount of US$500.0 million in July 2011.

The increase in dividends paid of US$250.1 million reflected payment of dividends accrued for the nine month 2010 financial results, for the year 2010 and for the first quarter and six months of 2011 year.

The decrease in cash spent on the acquisitions of non-controlling interests relates to the acquisition of non-controlling interest in Severstal-Ukraine LLC in the amounts of US$3.0 million during the year ended 31 December 2011 compared to US$113.3 million of cash spent on the acquisition of non-controlling interest in Lucchini S.p.A. during the year ended 31 December 2010.

The increase in contribution from non-controlling interests of US$13.7 million represents cash received from Severstal Liberia Ore Ltd minority shareholders.

The decrease in cash used in financing activities—discontinued operations of US$154.5 million mainly related to the decrease in proceeds from debt finance, net of repayments, in the North America disposal group's entities during the year ended 31 December 2011 compared to the year ended 31 December 2010 and a decrease in the acquisitions of non-controlling interests in Crew Gold Corporation and High River Gold Mines Ltd during the year ended 31 December 2011 compared to the year ended 31 December 2010.

INDEBTEDNESS

The following table sets out the Group's indebtedness as at 31 December 2012 and 2011:

	31 December 2012	31 December 2011
	(US$ millions)	
Eurobonds 2013[1]	543.6	543.6
Eurobonds 2014[1]	375.0	375.0
Eurobonds 2016[1]	500.0	500.0
Eurobonds 2017[1]	1,000.0	1,000.0
Convertible bonds 2017[1]	475.0	—
Eurobonds 2022[1]	750.0	—
Rouble bonds 2012[1]	—	465.9
Rouble bonds 2013[1]	493.9	465.9
Severstal Columbus bonds[1]	525.0	525.0
Other issued notes and bonds[1]	—	1.8
Bank financing[1]	991.4	2,017.2
Factoring of receivables[1]	9.6	—
Other financing[1]	60.2	44.1
Accrued interest	110.7	110.7
Discounting	(71.1)	—
Unamortised balance of transaction costs	(53.8)	(73.1)
Total debt financing	**5,709.5**	**5,976.1**

(1) Excludes accrued interest.

Major Indebtedness

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 5 November 2012. The bonds bear an interest rate of 1.0 percent 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 percent 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 percent 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$66.8 million was recognised in equity, determined based on the market rate of 5.3 percent per annum. As at 31 December 2012, the amount outstanding under this facility was US$ 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 percent 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 31 December 2012, the amount outstanding under this facility was US$750.0 million.

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 percent 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 utilised to refinance short-term loan facilities. As at 31 December 2012, the amount outstanding under this facility was US$500.0 million.

In October 2010, the Group issued US$1,000 million US dollar-denominated bonds maturing in 2017. These bonds bear an interest rate of 6.7 percent 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$3,000 million Loan Participation Note Programme. As at 31 December 2012 the amount outstanding under this facility was US$1,000 million. 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 of the Group's other debts.

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

In February 2010, the Group's subsidiary Severstal Columbus issued US dollar-denominated bonds in an aggregate principal amount of US$ 525.0 million maturing in 2018. These bonds bear an interest rate of 10.25 percent per annum, which is payable semi-annually in February and August each year, beginning in August 2010. As at 31 December 2012, the amount outstanding under this facility was US$ 525.0 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 percent per annum which is payable semi-annually in January and July each year. As at 31 December 2012, the amount outstanding under this facility was US$543.6 million.

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 amortised from 2009 until the expiration date and bear interest at EURIBOR six month plus 2.0-2.2 percent. As at 31 December 2012, the amount outstanding under this facility was US$349.2 million.

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 percent payable semi-annually in April and in October each year. As at 31 December 2012, the amount outstanding under this facility was US$375.0 million.

Total debt was contractually repayable as at the following dates:

	31 December 2012	31 December 2011
	(US$ millions)	
Less than one year	1,382.1	1,185.5
Between one and five years	3,070.6	3,256.9
After more than five years	1,256.8	1,533.7
Total debt financing	**5,709.5**	**5,976.1**

Commitments and contingencies

As at 31 December 2012, the Group had capital commitments of US$777.0 million.

In the normal course of business, the Group enters into long-term contracts for supply of raw materials and sales of its products. These contracts allow for periodic adjustments in prices depending on prevailing market conditions.

Guarantees

As at 31 December 2012, the Group had US$39.1 million of guarantees issued compared to US$88.2 million as at 31 December 2011.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ON MARKET RISK

The Group's risk management policies are established to identify and analyse 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, currency and interest rate risk arises in the normal course of the Group's business. Management believes that 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 the Group's financial position or results of operations.

The Group believes that the fair value of its financial assets and liabilities as at 31 December 2012 approximates the respective carrying amounts, except for the following borrowings:

	As at 31 December 2012		
	Market value	Book value	Difference
		(US$ millions)	
Eurobonds 2013[(1)]	569.6	543.6	26.0
Eurobonds 2014[(1)]	409.2	375.0	34.2
Eurobonds 2016[(1)]	535.8	500.0	35.8
Eurobonds 2017[(1)]	1,096.9	1,000.0	96.9
Convertible bonds 2017[(1)]	480.3	475.0	5.3
Eurobonds 2022[(1)]	759.6	750.0	9.6
Rouble bonds 2013[(1)]	492.1	493.9	(1.8)
Severstal Columbus bonds	553.9	525.0	28.9
	4,897.4	**4,662.5**	**234.9**

(1) Excludes 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 Rouble bonds was determined based on MICEX.

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. The Group has developed policies and procedures for the management of credit exposures, including the establishment of credit committees that actively monitor credit risk.

Liquidity risk

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

Foreign currency exchange risk

The Group incurs foreign currency exchange risk when the Group's entities enter into transactions and balances not denominated in their functional currency. The Group has assets and liabilities denominated in several foreign currencies. Foreign currency exchange 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 management performs foreign currency exchange rate sensitivity analysis on a yearly basis. For an analysis of such results for 31 December 2010, 2011 and 2012, see note 30 to the Annual Financial Statements beginning on page F-78 of this Base Prospectus.

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). The Group's 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 favourable to the Group over the expected period until maturity.

The following table sets forth the amount of variable rate instruments as at 31 December 2012:

	(US$ millions)
Variable rate instruments	
Financial assets	44.2
Financial liabilities	(978.0)
	(933.8)

All of the Group's other interest bearing financial assets and liabilities are at fixed rate.

A change of 100 basis points in interest rates at 31 December 2012 would have increased/(decreased) equity and profit by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Net profit	
	100 bp increase	100 bp decrease
	(US$ millions)	
Variable rate instruments		
Financial assets	0.4	(0.4)
Financial liabilities	(8.9)	8.9
Cash flow sensitivity (net)	(8.5)	8.5

SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The Group believes that its most significant accounting policies and it critical accounting judgments and estimates are those described below.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled, directly or indirectly, by the Parent Company. The financial statements of subsidiaries are included in the 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 unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements; unrealised 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 recognises 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 recognised at their book values. The components of equity of the acquired companies are added to the same components within the Group's 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 recognised as a liability to or a reduction of receivables from related parties, with a corresponding reduction in equity, from the date the acquired company is included in the consolidated financial statements until the cash consideration is paid. Parent Company shares issued in consideration for the acquired companies are recognised from the moment the acquired companies are included in the financial statements.

No goodwill is recognised 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 recognised 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 recognises 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 recognised 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.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised 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 recognised 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 recognised 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 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.

Unrealised 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; unrealised 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 recognised 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 recognised 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 recognised 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 recognised in the income statement at the date of the acquisition.

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 recognised in the income statement.

Exploration for and evaluation of mineral resources

Expenditures associated with search for specific mineral resources are recognised 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 analysing 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 capitalised 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.

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 capitalised 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.

Stripping costs

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

- Stripping activity assets; and
- Current stripping costs.

Stripping activity assets are 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 the current period.

The Group recognises 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.

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 capitalised. 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 recognised 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 derecognised. Repair and maintenance expenses are charged to the income statement as incurred. Gains or losses on disposals of property, plant and equipment are recognised 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

Leases

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 recognised 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 recognised 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.

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 amortisation and accumulated impairment losses.

Intangible assets are amortised 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 amortisation 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 capitalised favourable contracts and land lease rights. Amortisation of intangible assets is included in the captions "Cost of sales" and "General and administrative expenses" in the consolidated income statement.

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 recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Calculation of recoverable amount

For financial assets carried at amortised 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 recognised. 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 amortisation, if no impairment loss had been recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable 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.

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

Income is recognised 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 recognised in profit or loss. The net gain or loss recognised 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 amortised 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 amortised cost using the effective interest method, less any impairment. Interest income is recognised 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 recognised in other comprehensive income with the exception of impairment losses, which are recognised directly in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the equity is included in the income statement for the period.

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

Derecognition of financial assets

The Group derecognises 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.

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 recognised in profit or loss. The net gain or loss recognised 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 capitalised as a part of the cost of the asset they are financing.

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

Derecognition of financial liabilities

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

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 recognised 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 recognised 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 recognised 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 recognised 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 recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Dividends payable

Dividends are recognised as a liability in the period in which they are authorised by the shareholders.

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.

Income tax

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which these assets can be utilised. 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 realised.

Deferred tax is not recognised 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.

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 recognised 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 recognised in other comprehensive income.

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

Decommissioning liability

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of certain of its production sites. Decommissioning liabilities are estimated case-by-case based on available information, taking into account applicable local legal requirements. The estimation is made using existing technology, at current prices, and discounted using a real discount rate. Future decommissioning costs, discounted to net present value, are capitalised and the corresponding decommissioning liability raised as soon as the constructive obligation to incur such costs arises. Future

decommissioning costs are capitalised 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 recognised in the consolidated income statement as an interest expense. Ongoing rehabilitation costs are expensed when incurred.

Onerous contracts

A provision for onerous contracts is recognised 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 recognises any impairment loss on the assets associated with that contract.

Other provisions

Other provisions are recognised 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.

Share capital

Ordinary shares

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

Repurchase of issued shares

When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognised 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 recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

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 the Group's other 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.

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 recognised 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 recognised by reference to the stage of completion of the contract.

Interest income

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

Interest expense

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

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), realised and unrealised gains on financial assets at fair value through profit or loss, realised gains and impairment losses on available-for-sale and held-to-maturity investments.

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 the consolidated financial statements.

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.

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 recognised 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.

Government grants

Government grants are recognised 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.

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 realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are 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 recognised 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 recognising 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 utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation 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 utilisation of deferred tax assets must be reduced, this reduction will be recognised in the income statement.

Functional and presentation currency

The presentation currency of the Annual 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 rouble. 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 recognised 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.

INDUSTRY

The following information includes extracts from publicly available information, data and statistics and has been extracted from official sources and other sources the Company believes to be reliable. The Company accepts responsibility for accurately reproducing such information, data, and statistics and, as far as the Company is aware, no facts have been omitted that would render such information misleading. The Company accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers.

STEEL INDUSTRY

Global Overview

The global steel industry is affected by a combination of factors, including periods of economic growth or recession, worldwide production capacity and the existence of, and fluctuations in, steel imports and protective trade measures. Steel prices respond to supply and demand and fluctuate in response to general and industry specific economic conditions.

The steel industry is cyclical and highly competitive and historically has been characterised by excess world supply. From 1997 to 2001, the business environment in the steel industry was challenging, resulting in financial difficulties for a number of steel companies. At the same time, difficult market conditions encouraged several companies to implement operational efficiency programmes in order to improve their respective financial profiles. By 2004, worldwide supply and demand were more in balance and supply was constrained by the availability of raw materials largely due to growing demand in China. This led to substantial price increases that continued into early 2005. In the second half of 2005, there was downward pressure on prices due in part to increased steel production in China. Prices have strengthened again recently as worldwide supply and demand have returned to a more balanced position. At the same time, the steel sector faced increasing raw materials and energy costs, particularly for iron ore and coal towards the end of 2007 and into 2008. In the first half of 2008, the steel market had experienced a significant increase in steel prices, reflecting both rising demand and raw material costs. The second half of 2008 brought the global economic downturn and a significant decline in the steel market. The downturn continued through the end of 2008 and early 2009. Steel prices started to recover in the second half of 2009, due to the beginning of the economic recovery, an inventory restocking cycle and the unprofitability of many steel producers resulting in a renegotiation of pricing contracts. A further restocking cycle in 2010, together with rising raw material costs and a slow bringing on-line of idle capacity resulted in robust growth in steel prices in 2010. The steel industry operates predominantly on a regional basis as a result of the high cost of transporting steel. However, despite the limitations associated with transportation costs, as well as the restrictive effects of protective tariffs, duties and quotas, levels of global imports and exports have generally increased in the last decade as production has shifted towards low-cost production regions such as China and the CIS, which includes Russia, Ukraine and other former Soviet states. In the beginning of 2011 the global steel industry experienced considerable growth, resulting in increased demand for steel and price increases. However, in the second half of 2011, a cooldown in China's property market, a tightening of Chinese monetary policy, and increased Chinese governmental actions aimed at combating bubbles caused a deceleration in Chinese steel consumption and production growth. As China represents the major buyer on seaborne iron ore market, global raw material prices decreased significantly. While steel production has historically been concentrated in the EU, North America, Japan and the former Soviet Union, steel production in China and elsewhere in Asia has grown in importance over the past decade. In 2012, China was the largest single producer of steel in the world, producing 716.5 million tonnes of crude steel, as well as the largest consumer of steel, consuming approximately 623.9 million tonnes of finished steel. According to worldsteel, China's steel production in 2012 increased by 3.1 percent from 2011, accounting for 47.2 percent of global steel production. This represents a decrease in the rate of growth from the 7.3 percent growth rate achieved in 2011, the 9.3 percent growth rate in 2010 and the 13.5 percent growth rate in 2009, but represents an increase in growth from the 1.1 percent growth rate in 2008, 17.1 percent in 2007 and 18.9 percent in 2006. According to worldsteel, world crude steel output was 1,547.8 million tonnes in 2012, representing an increase of 1.2 percent compared to output in 2011. The five largest steel producers in the world in 2012 were China (producing 716.5 million tonnes), Japan (producing 107.2 million tonnes), the USA (producing 88.6 million tonnes), India (producing 76.7 million tonnes) and Russia (producing 70.6 million tonnes).

The following table sets forth estimated crude steel production data by country or region from 2008 to 2012:

World Crude Steel Production	2008	2009	2010	2011	2012
			(million tonnes)		
European Union (consisting of 27 countries)	198.2	139.4	172.6	177.6	169.4
Other Europe	31.7	29.1	33.6	37.1	39.9
CIS	114.3	97.6	108.2	112.7	111.3
US	91.4	58.2	80.5	86.4	88.6
North America (excluding the US)	33.1	24.4	31.1	33.0	33.3
South America	47.4	37.8	43.9	48.4	46.9
Middle East/Africa	33.6	33.1	36.6	33.7	39.9
China	512.3	577.1	638.7	694.8	716.5
Japan	118.7	87.5	109.6	107.6	107.2
India	57.8	63.5	68.3	73.6	76.7
Asia (excluding China, India and Japan)	94.2	82.3	99.2	101.9	112.3
Oceania	8.5	5.9	8.2	7.2	5.8
World total	**1,341.2**	**1,235.9**	**1,430.5**	**1,529.2**	**1,547.8**
Annual change (percent)	*(0.4)*	*(7.9)*	*15.7*	*6.1*	*1.2*

Source: worldsteel

While production in Europe, Japan and the United States remains significant, steel producers in those regions have increasingly focused on rolling and finishing of semi-finished products. The industry is currently seeing a shift in demand from "commodity steel" to "high value-added steel" or "specialised steel" in developed markets.

The term "commodity steel" refers to low-grade steel used primarily for construction and in other basic structural components. Asian steel producers have emerged as the largest producers of commodity steel, as the majority of consumption of commodity steel is in Asian and other emerging markets. The terms "high value-added steel" or "specialised steel" refer to high-grade steel, typically produced with varying alloys to improve strength and/or durability. High value-added steel is used primarily by the automotive, aerospace and railway industries. Prices and margins for high value-added steel tend to be higher than for commodity steel due to the unique structural/chemical characteristics of high value-added steel which end users of high value-added steel typically require.

The following table sets forth estimated finished steel consumption data by country or region from 2007 to 2011.

World Finished Steel Consumption	2007	2008	2009	2010	2011
			(million tonnes)		
European Union (consisting of 27 countries)	200.6	182.5	117.2	147.3	154.3
Other Europe	31.6	28.8	23.9	29.7	33.2
CIS	56.3	50.0	36.0	48.2	54.6
US	108.3	98.4	59.2	79.9	89.1
North America (excluding the US)	36.0	34.8	26.4	34.1	35.1
South America	38.5	41.2	31.6	42.4	43.1
Middle East/Africa	63.6	71.4	70.7	72.9	72.9
China	418.4	446.9	551.4	587.6	623.9
Japan	81.2	77.9	52.8	63.5	64.1
India	51.5	51.4	57.9	64.9	67.8
Asia (excluding China and Japan)	125.7	128.4	107.7	128.2	135.4
Oceania	8.5	8.5	6.1	7.8	6.8
World total	**1,220.2**	**1,220.2**	**1,140.9**	**1,306.5**	**1,380.3**
Annual change (percent)	*7.0*	*0.0*	*(6.5)*	*14.5*	*5.6*

Source: worldsteel

According to worldsteel, world finished steel consumption was 1,380.3 million tonnes in 2011, representing an increase of 5.6 percent compared to consumption in 2010. All major steel consuming

countries demonstrated growth in steel consumption, including China, which achieved a 6.2 percent steel consumption growth rates in 2011 compared to 2010. Major traded steel products worldwide include semi-finished products, hot and cold-rolled sheets and coils, steel tubes and fittings, galvanised sheet, wire rod and angles and sections.

The strategy and product mix of steel producers generally varies between producers in industrial countries and producers in emerging markets. Historically, commodity steel producers in industrialised countries had limited export markets due to the high cost of transporting steel relative to the low value of commodity steel grades. In the second half of the twentieth century, producers in emerging markets began to compete with steel producers in industrialised countries by taking advantage of the lower manufacturing costs in their countries to offset high transportation costs. In response, producers in Western Europe and Japan invested heavily in new technology and capacity to produce high value-added steel grades in order to differentiate their product portfolio and protect their margins by reducing their exposure to commodity steel prices. However, these similar and simultaneous investments resulted in production overcapacity and put pricing pressures on value added segments. Recently, the growth and consolidation of both steel consumers and raw material suppliers has weakened the bargaining power of steel producers and put further pressure on their margins. Steel producers have responded with a phase of industry consolidation. In 2002, Usinor, Arbed and Aceralia in Europe merged to form Arcelor, and Kawasaki Steel and NKK in Japan merged to form JFE. In 2002, Nucor acquired the assets of Birmingham Steel and International Steel Group (***ISG***), acquired the assets of Acme, LTV and Bethlehem Steel in the United States. In 2004, Ispat International NV and LNM Holdings NV, which comprised the LNM Group, merged to form Mittal Steel, and in early 2005 Mittal Steel merged with ISG.

The ArcelorMittal merger in 2006 reflects the desire of many steel companies to integrate and consolidate in order to maintain pricing power and margin stability through the business cycle. The steel industry remains one of the most fragmented industrial sectors and is widely affected by economic cycles. The Group's management expects that further merger and acquisition activity will occur in the future, as industry players look to acquire greater influence over market pricing, thereby reducing their vulnerability to future declines in demand. Industries including automotive and aerospace are similarly affected by economic cycles and have sought to consolidate in order to minimise fluctuations in prices and margins throughout the cycle.

The wave of consolidation has continued between 2006 and 2012. In 2007, Indian steelmaker Tata Steel purchased a 100.0 percent stake in the Corus group. During the period from 2007 to the first half 2011, Russian steelmakers also closed a number of deals. OJSC Novolipetsk Steel (***NLMK***) acquired control over both Maxi-Group and VIZ Stal in Russia, Evraz Group SA (***Evraz***) acquired control over Claymont Steel and Oregon Steel in the United States, Mechel acquired Laminorul Braila metallurgical plant located in Romania and NLMK took over control of Steel Invest and Finance (***SIF***), its joint venture with Duferco Group. There is also an ongoing consolidation of the Chinese steel industry, led by Baosteel, Hebei Steel, Wuhan Steel and Shandong Steel Groups. In October of 2012 Japan's largest steel maker Nippon Steel Corporation merged with Sumitomo Metal Industries to form one of the world's largest steel firms, Nippon Steel & Sumitomo Metal Corporation (NSSMC).

Consolidation has enabled steel companies to lower their production costs, has allowed for more stringent supply-side discipline, including through selective capacity closures, and has enabled some steel companies to maintain pricing power. Despite the recent consolidation, the global steel market remains highly fragmented. According to worldsteel, in 2011, the five largest producers—ArcelorMittal (97.2 million tonnes); Hebei I&S (44.4 million tonnes); Baosteel (43.3 million tonnes); POSCO (39.1 million tonnes) and Wuhan Steel (37.7 million tonnes)—accounted for approximately 17.2 percent of total worldwide steel production, with ArcelorMittal, the largest, accounting for 6.4 percent. The 20 largest steel producers accounted for approximately 40.3 percent of total global steel production in 2011. However, taking into account the NSSMC merger described above, the list of top five largest steel producers is expected to change when results for 2012 are published.

Competition

The Group faces competition from a number of steel makers in the global steel industry. The following table sets forth some of the competitors of the Group in the global steel industry.

Competitors of the Group—Global Steel Industry

Company	Year ended 31 December 2011
	(million tonnes)
Estimated worldwide crude steel production	1,517.9
Including:	
—ArcelorMittal (Luxemburg)	97.2
—Hebei I&S (China)	44.4
—Baosteel (China)	43.3
—POSCO (South Korea)	39.1
—Wuhan (China)	37.7

Source: worldsteel

Russian Steel Industry

The Soviet Union produced approximately 160 million tonnes of crude steel a year at the end of the 1980s. Following the collapse of the Soviet Union, the steel industry suffered a substantial decline in production, to about 75 million tonnes of crude steel for all the newly independent states combined in 1997. At that point, Russia was producing approximately 38 million tonnes of rolled products annually.

However, steel production started to recover following the devaluation of the rouble in 1998, due in part to the significant cost benefits that steel exporters experienced in 1999 and 2000. While the major mills were export oriented and their sales receipts were mostly US dollar based, their operating costs fell substantially in US dollar terms following the devaluation. In addition, the strength of steel prices in 2000 led to increased capacity utilisation rates, even at technologically inferior mills. Though steel prices decreased in the second half of 2001 and the first half of 2002, beginning in the third quarter of 2002, the steel market demonstrated robust recovery in terms of both prices and volumes. According to worldsteel, in 2005, 2006 and 2007 production of steel grew approximately 0.8 percent, 7.1 percent, and 2.3 percent, respectively, compared to the previous year. Production of steel in 2008 decreased approximately 5.4 percent, the production of steel in 2009 decreased by approximately 12.4 percent, in response to the global economic downturn, and the steel production in 2010 recovered to climb by 11.7 percent, and in 2011, production increased by 3.0 percent. In 2012, production in Russia of crude steel continued to rise by 2.5 percent, but growth was less than expected.

Privatisation of the Russian steel industry

Privatisation of the Russian steel industry began in 1993 and was primarily "insider" focused, meaning that factories were sold to their employees and management. The privatisation programme provided for Roskommetallurgiya (successor to the USSR Ministry of Metals) to supervise the privatisation process, but no special regime was implemented for the privatisation of the steel industry and, accordingly, the number of state owned steel companies declined rapidly so that, by mid-1994, the state's shareholding in iron and steel production companies ranged only from 15.0 to 25.0 percent. By the end of 1995, control over most of the largest Russian steel producers such as the Group, OJSC Magnitogorsk Iron & Steel Works (***MMK***), OAO Mechel (***Mechel***) and NLMK, was transferred to private management and ownership. However, because no plan for the privatisation of the steel industry was ever put in place, the state failed to attract the required investment, technology and know-how into this sector. Therefore, starting in 1995, the Russian Government changed the method of privatisation to attract strategic investors into the sector. Pursuant to an edict of President Yeltsin, a holding company, OAO Rossiyskaya Metallurgiya, was established, to which 10.0 percent stakes in steel producing companies remaining in state ownership and 100.0 percent stakes in five leading steel production scientific research institutes were transferred. The Russian Government intended to sell 49.0 percent of shares in OAO Rossiyskaya Metallurgiya, thus retaining control over the companies and attracting investments at the same time. However, investors did not show any interest in the project and OAO Rossiyskaya Metallurgiya was liquidated in 1997. Stakes in several companies were sold in cash auctions. Stakes in the remaining companies were retransferred into the ownership of the Ministry of Property Relations.

The Russian steel industry is now consolidated among six large producers including the Group, Evraz, NLMK, MMK, Metalloinvest and Mechel. These producers largely control the domestic Russian market.

Russian steel production

In 2012, Russia ranked as the world's fifth largest producer of steel, producing 70.6 million tonnes of steel, or approximately 4.6 percent of global production, according to worldsteel. The metals and mining sector is one of the most important sectors of the Russian economy. Russian enterprises produce a wide range of metal products for the domestic economy, in particular for the oil and gas, defence and construction industries.

Russian market

Russian steel production decreased from 1991 to 1998 as a result of the general economic decline in Russia during this period and the consequent reduced demand from the primary steel product consumers: the construction, infrastructure and engineering industries and the military sector. Consumption of rolled steel products in Russia has followed a U-shaped trend since 1990. Consumption was 65 million tonnes in 1990 and then declined steadily, due to reduced consumption by heavy industry, to only 18 million tonnes in 1998. However, the devaluation of the rouble in 1998 resulted in economic growth and a sharp increase in domestic demand for steel products, and by 2007, Russia's total steel consumption had increased to 40.4 million tonnes, decreasing in 2009 to 24.9 million tonnes and increasing in 2010 to 35.6 million tonnes and in 2011 to 40.5 million tonnes according to worldsteel. In 2012, steel consumption in Russia has continued to increase and reached 41.8 million tonnes, according to Metal Expert.

Export market

Asia, the Middle East and the EU are the primary export destinations for Russian steel producers. In 2012, Russian exports remained at the approximately same level as a year ago—at 25 million tonnes of semi-finished and finished steel products, according to preliminary estimates worldsteel.

Steel Production Process

The key stages of the steel production process are coke making, iron making, steelmaking and steel rolling. Steel companies actively seek captive iron ore and coking coal resources to ensure a secure supply of raw materials for their steel production.

The following is a brief summary of these processes:

Coke making

Coke is a solid product of coal coking. Coke usually contains 84.0 to 91.0 percent carbon and is used as the main fuel in blast furnaces. Coke is produced by heating the prepared coal charge in the absence of oxygen at temperatures of 900 to 1,200°C (pyrolysis) for 14 to 18 hours in the coke-ovens. After discharge from the ovens, coke is delivered to the blast furnaces for further use in iron making.

Other products of the traditional by-product coking process include coke-oven gas and various by-products separated from the coke-oven gas. Coke-oven gas may be used as gaseous fuel in coking and other shops of the steel plant, as well as in adjacent power generation. The other by-products are further processed by the designated on-site shops and eventually sold to the third-party customers.

Iron making

Prepared iron ore raw materials (sinter and pellets) and coke are used for hot metal production. Coke and natural gas serve as fuel for the blast furnaces. Coke-oven gas, together with top gas from the blast furnaces, is used as fuel for the heating of the stoves. Sinter, pellets and coke are layered and fed into a blast furnace from the top. Fuel combustion, reduction of iron from oxides, carbonisation of iron with partial reduction of silicon and manganese, melting of all components of burden and slag-making all occur inside a blast furnace.

Once formed, hot metal sinks to the bottom of the blast furnace where it is tapped off into the torpedo cars and delivered to the steel making shop to be converted into steel. Hot metal can also be delivered to a pig iron casting machine that produces pig iron for sale as a semi-finished product. Slag from the blast furnaces is recycled and further used in a variety of industries.

At many steel plants, top gas generated in the blast furnaces during the iron making process is also used as a fuel for stoves, coke-ovens, boilers, rolling mills and other purposes.

Steel making

Steel is produced from hot metal and/or steel scrap and scrap substitutes using one of the following three technologies.

*Basic oxygen furnace (**BOF**)*

The oxygen converter process is based on the interaction of process oxygen (practically pure oxygen) with the molten charge bath. By blowing oxygen through the bath, the carbon content is reduced and the charge is transformed into low-carbon steel.

Scrap and hot metal are charged into the vessel and oxygen is then blown via a lance into the vessel, oxidising carbon and other impurities (silicon, manganese, etc.), thus lowering the carbon content of the molten charge and partially removing undesired chemical elements. Fluxes, such as burnt lime and dolomite, are fed into the vessel to form slag, which absorbs undesired impurities during the steel making process. The steel is then poured into a steel ladle where alloying materials can be added.

The oxygen converter process is generally considered to be the most efficient steelmaking route for producing large volumes of high-quality steel.

*Electric arc furnace process (**EAF**)*

In electric arc furnaces the scrap and other charge elements are being melt by the heat generated by electricity arcing between graphite electrodes and the metallic charge. The key equipment components of the EAF are: a furnace shell, a retractable roof, a graphite electrode arm, a tilting device and a furnace transformer.

The EAF production process consists of charging, melting, oxidation and tapping.

The EAF charge consists of scrap and scrap substitutes, such as DRI/HBI or pig iron, and sometimes hot metal, as well as fluxes. In some furnace designs, charge materials can be added in batches or continuously fed during the melting process.

Once the melting stage is completed, the steel is tapped out into a preheated ladle. Some liquid steel is often left in the furnace to facilitate the melting of the next charge.

Open hearth process

In the open hearth process the steel is produced by melting scrap, hot metal and other charge components by the radiation heat of the burners positioned above the charge materials surface.

Scrap and other components are charged into the furnace prior to heating. Fuel (such as natural gas, fuel oil, etc.) is burned to heat the scrap, hot metal is charged and slag is formed and flushed. During melting, the oxidation of carbon and other impurities (such as silicon and manganese) takes place. Fluxes, such as metallurgical lime and other, are used to form slag, which absorbs impurities during the steel making process.

Generally speaking, open hearth furnaces are disadvantaged by relatively high operating costs due to high levels of energy consumption, relatively low productivity, as well as prevailing combination with the ingot cast route. At the same time, open hearth allows higher flexibility in the raw materials used and under certain circumstances may be economically compatible with both EAF and BOF. The tendency of the world steel making industry has been gradual substitution of the open hearth production with either BOF or EAF methods.

Steel rolling

Cast steel is a relatively weak mass of coarse uneven metal crystals or ‘‘grains’’. Rolling the steel makes this coarse grain structure re-crystallise into a much finer grain structure, giving greater toughness, shock resistance and tensile (stress) strength. Rolling is also the main method used to shape steel into different products.

Flat rolling process consists of passing the steel between two rolls revolving at the same speed but in opposite directions. The gap between the rolls is less than the thickness of the steel being rolled, resulting in the steel being reduced in thickness, at the same time, lengthened. In addition to hot-rolling, where steel

is reheated prior to rolling, it may also be further reduced without preheating in the process called cold-rolling, resulting in a different set of properties.

MINING INDUSTRY

Iron Ore

The global iron ore industry is characterised by a high degree of consolidation, with BHP Billiton, Vale, and Rio Tinto accounting for approximately 60.0 percent of the global seaborne iron ore trade. The major iron ore producing countries are Australia, Brazil and China. In 2012, Australia increased its iron ore production by 8 percent compared to the previous period and in the period from 2008 to 2012 its iron ore output has increased by 53 percent. India is another large producer with 125.2 Mt iron ore output in 2012 according to CRU (Commodities Research Unit), a British analytical agency. Compared to previous period in 2012 India's iron ore production decreased by 27 percent because to an export ban to China and illegal mining controls. In 2012 China decreased its production of crude ore by 9 percent as compared to 2011.

Industry

The dominance of the major producers in the market has led to significant changes recently. 2008 was a particularly strong year in terms of pricing, with iron ore spot prices rising well above the established annual contract prices. This led to losses in potential profits of the major iron ore producers, as they sold iron ore based on annual contracts. In response to this, in the second quarter of 2010, major producers introduced a new quarterly pricing mechanism based on the spot price over the previous three months. Due to high market volatility caused by global economic instability, producers with increasing frequency are using monthly spot rates to determine prices.

The following table sets forth iron ore production by country or region from 2008 to 2012:

Iron ore production	**2008**	**2009**	**2010**	**2011**	**2012**
			(million tonnes)		
China	293.2	272.7	320.0	335.8	307.2
Brazil	302.4	263.5	307.8	335.4	328.8
Australia	344.2	400.9	440.5	484.7	525.9
CIS	176.2	165.7	179.2	186.5	190.7
India	186.8	203.0	196.5	171.7	125.2
US	51.0	27.6	42.0	46.9	49.6
South Africa	40.5	52.8	56.8	61.7	70.6
European Union (consisting of 27 countries)	29.0	23.7	31.3	31.0	28.8
Other Europe	5.5	6.5	6.8	7.2	7.3
South America (excluding Brazil)	26.6	19.7	21.8	26.3	28.5
North America (excluding US)	51.0	50.9	53.9	56.9	57.7
Other	49.2	56.1	73.3	83.8	97.8
World Total	**1,555.6**	**1,543.3**	**1,729.8**	**1,827.9**	**1,818.1**
Annual Change (percent)	*1.5*	*(0.8)*	*12.1*	*5.7*	*(0.5)*

Source: CRU

Historically, Europe, Japan and China have been the major iron ore consumption centers. Following an economic slowdown in 2001 and corresponding reduction in iron ore demand, markets rebounded in 2002, with China and certain countries in the CIS showing significant increases in demand in connection with increases in steel production in these countries. Since that time, global consumption of steel, and thus of iron ore, has significantly increased. After the world economic crisis in 2008, China became the global leader for economic growth rates, steel production volumes and iron ore consumption primarily due to increasing imports. The major exporting countries of iron ore globally include Australia, Brazil and India. In 2012 exports from India decreased significantly because of a governmental export ban. The major importers are major steel producing countries: China, Japan, South Korea and Germany.

Russian market

According to Rudprom, total iron ore production in Russia in 2012 was 96.2 million tonnes. Total iron ore exports were approximately 25.3 million tonnes excluding HBI, and total imports were approximately 10.0 million tonnes, consisting primarily of iron ore concentrate and pellets from ENRC's Sokolov-Sarbai Mining Production Association (Kazakhstan) (***SSGPO***). Imports to Russia are generally limited by high transportation costs and the lack of port facilities in the Far East and on the Black Sea that are capable of handling large sizes of ore carrying vessels. Russian steel producers have increasingly sought to acquire control of iron ore production assets, and attained control over nearly all of the major Russian producers of iron ore by the end of 2004. For example, in 2003 Mechel acquired control over Korshunovksy GOK, during 2004, Evraz acquired control over KGOK, NLMK acquired control over Stoilensky GOK, and Ural Steel acquired control over Mikhailovsky GOK and Lebedinsky GOK (***KGOK***). Production of iron ore in Russia is concentrated in the Kursk region, representing the majority of Russian production, as well as in the northwest, Urals and Siberian districts. Iron ore produced in Russia is mainly magnetite, not hematite, which is common in Australia and Brazil.

Production process

Approximately 90.0 percent of iron ore mined in Russia is extracted by open-pit methods, with the balance extracted from underground mines. After extraction, the ore is processed further in order to increase its iron concentration. The iron ore is then crushed to a powder-like consistency, and iron-rich particles are separated from the waste rock by magnetic separation to produce iron ore concentrate. This concentrate is then formed into pellets or sinter that are suitable for use as blast furnace feed.

To produce sinter, iron ore, iron ore concentrates and iron-bearing materials (blast furnace dust, screenings of sinter and pellets, scale, waste and slime), flux (limestone) and coke breeze are weighed and mixed to form sinter burden. This sinter burden is then granulated and laid in two layers in sinter machines. The sinter burden becomes sinter at temperatures of 1,070-1,200°C through the combustion of carbon from the coke breeze, while air is simultaneously drawn through the sinter burden by means of exhausters. After crushing, screening and cooling the sinter is ready for delivery to blast furnaces.

In producing iron ore pellets, iron ore concentrate is mixed with water and other additives, such as hentonite and limestone. The resulting slurry is baked at approximately 1,300°C. After the pellets have been screened and undersized material removed, they are prepared for use in blast furnaces.

Coal

Coal may be divided into steam (thermal) coal and coking (metallurgical) coal. Steam coal is used in electricity generation and industrial applications, while coking coal is used to manufacture coke for use in blast furnaces and other metallurgical applications. Coking coal swells when heated in coke-ovens to produce hard coke, which characteristic is essential in steel making operations. Approximately 400-500 kilograms of coke is used per tonne of hot metal. Coke is supplemented by the direct injection of PCI at rates of 100 to 200 kilograms per tonne of hot metal. PCI uses less expensive semi-soft coking coal to reduce costs.

In recent years, the global coal industry has consolidated, partly as a result of oil companies and other non-mining companies exiting the sector. As a result of consolidation, coal suppliers have gained more pricing power.

Historically, Australia, China, Indonesia and South Africa have been the largest coal-producing countries, with Russia increasing its share of world supply in recent years.

Russian market

Russia has the world's second largest coal reserves after the United States. Its proven coal reserves total approximately 157 billion tonnes, accounting for 19.0 percent of the world's proven coal reserves. In 2012, Russia exported 15.9 million tonnes of coal, according to RASMIN.

Coal production in Russia is concentrated in the Kuznetsk Basin and the Kansko Achinskii Basin, which are east of the Ural Mountains, and Pechorskii Basin, which is northeast of European Russia, and collectively account for the majority of Russia's total coal production.

There was a consolidation boom in Russian coal industry in 2005-2007, as Evraz acquired a 100.0 percent stake in Yuzhkuzbassugol (owner and operator of coal mines in Novokuznetsk, Russia),

Mechel acquired a 100.0 percent stake in Yakutugol (owner and operator of coal deposits in Sakha Republic of Russia) and the Group consolidated Severstal Resources, which included the significant coal mining operations of Vorkutaugol and, at that time, Kuzbassugol. In 2012, Evraz increased its stake in Raspadskaya up to 82.0 percent.

Producers

The following table presents the largest Russian coking coal producers in 2012:

Company	Production (million tonnes)	Share in total production (percent)
Mechel	14.5	20.0
Severstal	9.6	13.2
Evraz	8.5	11.8
Sibuglemet	8.3	11.5
Raspadskaya	7.0	9.6
Kuzbassrazrezugol	5.7	7.9
Belon	4.0	5.5
Stroyservis	3.8	5.3
SUEK	3.0	4.2
SDS-Holdinh	2.0	2.8
PMH	0.9	1.2
Others	5.1	7.0
Totals	**72.4**	**100.0**

Source: CDU TEK

Production process

Approximately two-thirds of the coal mined in Russia is extracted by open pit methods, with the balance extracted from underground mining. At surface mines, a combination of shovels and draglines is used for moving coal and overburden after drilling and blasting. Production at underground mines in Russia is predominantly from long-wall mining. After mining, depending upon the amount of impurities in the coal, the coal is processed in a wash plant, where it is crushed and beneficiated. Coking coal is then transported to steel plants for conversion to coke for use in steel making. Steam coal is shipped to utilities that use it in boilers to generate steam used in producing electricity.

Russian Methodologies for Reserve and Resource Reporting

Severstal Resources has traditionally used Russia's long-established system of reserve and resource reporting, set forth by the Russian Federation Ministry of Natural Resources. In 2005, Severstal Resources began voluntarily using the internationally recognised JORC code of reserves and resource reporting (see *"—International Reporting Methodologies"*). All data relating to Severstal Resources' iron ore and coal reserves and resources summarised in this Base Prospectus is calculated by reference to estimates contained in a report issued by IMC Consulting Limited dated June 2006 (adjusted for actual production since January 2006, and as further adjusted for the disposal of Kuzbassugol in April 2008), which was prepared in accordance with JORC reporting standards except Severstal Resources' expected reserves extension based on adjacent reserves acquisition. Reserves and resource estimations for the Severstal Resources' PBS Coals operations have been prepared under SEC and CMI Canadian Institute of Mining standards and for the Putu Range Project under the guidelines of Samrec which is the standard of public disclosure of information relating to mineral properties in South Africa and adopted in Liberia and is essentially similar to the Australian JORC standard. Reports for the Putu Range Project have been prepared by SRK Consulting. The primary difference between Russian and international methodologies is that Russian methodologies rely on "geometrical" methods to determine reserves, as compared to international methodologies, which utilize sampling and extrapolation techniques.

According to the Russian system, deposits are classified into one of four classes, based on the complexity of their geological structure. This classification may take into account quantitative results measuring the inconsistencies in the basic features of mineralization. This initial classification is intended to identify those resources warranting further study. Depending on the extent of further exploration,

mineral resources are subsequently divided into "explored" and "evaluated" deposits. Explored deposits have been sufficiently explored to proceed with a feasibility study relating to commercial development, and evaluated deposits have been explored to the extent necessary to determine whether continued exploration is warranted. Resources that do not meet the standards for explored or evaluated deposits are classified as projected resources. Explored and evaluated deposits are further classified based on the type, quantity and quality of the measurements taken to evaluate the reserves.

Category A reserves include only explored deposits, and must meet the following criteria:

- the sizes, forms and bedding conditions of the mineral body have been determined; the nature and regularities in their morphology and internal fabric have been studied; the barren and off-grade segments within the mineral bodies have been detected and mapped; and the locations and fault amplitudes of dislocations with a break have been identified;
- the natural varieties of the minerals within the body have been determined; its categories and grades have been identified and mapped; its compositions and properties have been verified; and the quality of all categories and grades of the identified minerals have been characterized in terms of all parameters stipulated by industrial regulations;
- the distribution and forms of those valuable and noxious components found in the mineral body and products of its processing have been investigated; and
- the mineral reserves have been mapped based on test wells, mine workings and detailed trial runs.

Category B reserves include only explored deposits. Category B reserves have been subject to a high level of investigation, though their boundaries have been determined with less accuracy than Category A reserves. Category B reserves meet the criteria established for Category A reserves, except that Category B reserves may contain a limited extrapolation zone that is substantiated on the basis of geological criteria and geophysical and geochemical research.

Category C1 reserves are characterised by a lower level of accuracy than the determination of Category B reserves. Most explored deposits are Category C1 reserves. Category C1 reserves meet the criteria established for Category B, except that additional extrapolation is permitted in mapping the mineral deposit.

Category C2 reserves consist of evaluated deposits. Category C2 reserves must meet the criteria established for Category C1, except that:

- the sizes, forms, internal fabric and bedding conditions of the mineral body are confirmed by means of only a limited number of test wells and core samples; and
- the boundaries of the deposit (including core samples and outcroppings) are mapped based on data gathered from only a limited number of test wells, and a geologically substantiated extrapolation of deposit parameters is permitted.

Resources that do not meet the standards for classification as A, B, C1 or C2 reserves may be classified as probable resources, in Category P1, P2 or P3. Such deposits have undergone some exploration, but require further geological work in order to be upgraded to A, B, C1 or C2 reserves.

While a direct comparison between international and Russian reporting methodologies is difficult because each is founded on different principles, it is often the case that categories A and B Russian reserves correlate to proved reserves, and C1 Russian reserves to probable reserves. However, these relationships may vary among deposits, and at different times for the same deposits.

International Reporting Methodologies

Several codes exist for reporting reserves in the international mining industry. The technical differences between these codes are minor, and results are generally comparable regardless of which methodology is employed in assessing a particular deposit. The principal reporting codes in current use are:

- United States Geologic Survey Circular 831 (United States);
- Ontario Securities Commission Instrument 43-101 (Canada);
- Australasian Joint Ore Reserves Committee (JORC) Code (Australia);

- Institute of Materials, Minerals and Mining Reporting Code (United Kingdom and Ireland); and
- South African Institute of Mining and Metallurgy Reporting Code (South Africa).

Each of these codes recognises the difference between mineral resources and reserves. Conversion from a mineral resource to an ore reserve requires the application of ''modifying factors'', including mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. A ''resource'' is geologically defined; it becomes a ''reserve'' when the modifying factors, especially technical and economic factors, are taken into account. Each of these codes also includes strict guidelines for data quality and reporting in mining commodities.

The Council of Mining and Metallurgical Institutions (***CMMI***), which includes representatives of the major international standard setting organisations, is currently working to establish a common international reporting code standard. CMMI has promulgated common definitions that have been adopted by each of its member organisations in their respective reporting codes, including the principal reporting codes noted above, and these definitions are also incorporated into reporting standards that have been adopted by the United Nations Economic Commission for Europe.

A *mineral resource* is a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust, or deposit, in such a form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are subdivided, in order of increasing geological confidence, into inferred, indicated and measured categories. Portions of a deposit that do not have reasonable prospects for eventual economic extraction are not included as mineral resources.

An *inferred mineral* resource is that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity, and based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which is limited or of uncertain quality and/or reliability.

An *indicated mineral resource* is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are too widely or inappropriately spaced to confirm geological continuity and/or grade continuity, but are spaced closely enough for continuity to be assumed.

A *measured mineral resource* is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

Ore reserves are the economically mineable parts of an indicated or measured mineral resource. Ore reserves take account of diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out on the deposit and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments establish that at the time of reporting extraction is reasonably justified.

A *probable ore reserve* is the economically mineable part of an indicated and, in some circumstances, a measured mineral resource.

Overview of the Group

The Group is an international, vertically-integrated steel and mining company that sells high quality metal and mining products to customers across the world. According to worldsteel, the Group was the world's twenty-third largest producer of crude steel in 2011 by volume of production with 15.3 million tonnes of total crude steel output. In 2012, crude steel production of the Group was 15.1 million tonnes. The Group is a full production cycle operation which includes iron ore, coal, scrap collection, steel mills and rolled product plants, downstream production and distribution businesses. The Group's primary production facilities are geographically diversified with locations in Russia, the United States and a number of other countries. With a focus on high value-added products in attractive niche markets, the Group's corporate strategy is to become one of the global industry leaders in terms of EBITDA and to sustain a leading position in terms of both profitability margins and return on investment as a vertically-integrated steel and steel-related mining company.

As at 31 December 2012 the Group comprises three business divisions: Severstal Resources, Severstal Russian Steel, Severstal International.

Severstal Russian Steel. In 2012, Severstal Russian Steel produced approximately 14.9 percent of total Russian crude steel production, based on data from worldsteel. Severstal Russian Steel revenue accounted for 60.4 percent of the Group's total revenues. According to calculations by the Group's management based on publicly released data, Severstal Russian Steel was the fourth largest producer of crude steel products in Russia by volume of production in 2012. Severstal Russian Steel is comprised of the following: steel products production, pipes production, metalware production, scrap collection and processing and trading and service companies.

- The production of steel products occurs primarily at the Cherepovets Steel Mill, including a number of its workshops, among which there are high grade automotive galvanising facilities at Severgal and Rolling Mill 5000, as well as a number of other facilities located primary in the northwestern region of Russia. These facilities jointly constitute the full production cycle, from the creation of crude steel to production of high value-added products, such as electric welded pipes for construction or coated flat products for the automotive industry. Severstal Russian Steel produced 10.55 million tonnes of crude steel in 2012 and achieved total steelmaking capacity of approximately 92 percent.
- Pipes production is carried out at the Izhora Pipe Mill, a large diameter pipe mill. The Izhora Pipe Mill has production capacity of up to 600 thousand tonnes of pipe per year depending on the diameter of pipe produced and in 2012 averaged approximately 54 percent of total pipe making capacity achieved on produced assortment.
- Metalware production is carried out at Severstal-Metiz which comprises wire drawing and metalware manufacturing businesses in Russia, Ukraine and Italy, and had total sales of 660 thousand tonnes in 2012. According to calculations by the Group's management based on publicly available data, the Group's metalware market share in 2012 represented approximately 21 percent of the domestic Russian market, approximately 36 percent of the Ukrainian metalware market in low carbon products and approximately 20 percent of the Italian metalware market in steel-wire ropes.
- Scrap collection and processing is a ferrous scrap metal recycling business, which supplies scrap metal to Cherepovets Steel Mill and other companies. It consists of companies located in several Russian regions.
- Trading and service companies comprise trading companies in both Russia and abroad. The main purpose of the service companies is to service and maintain the production processes of the Cherepovets Steel Mill by providing equipment repairing services.

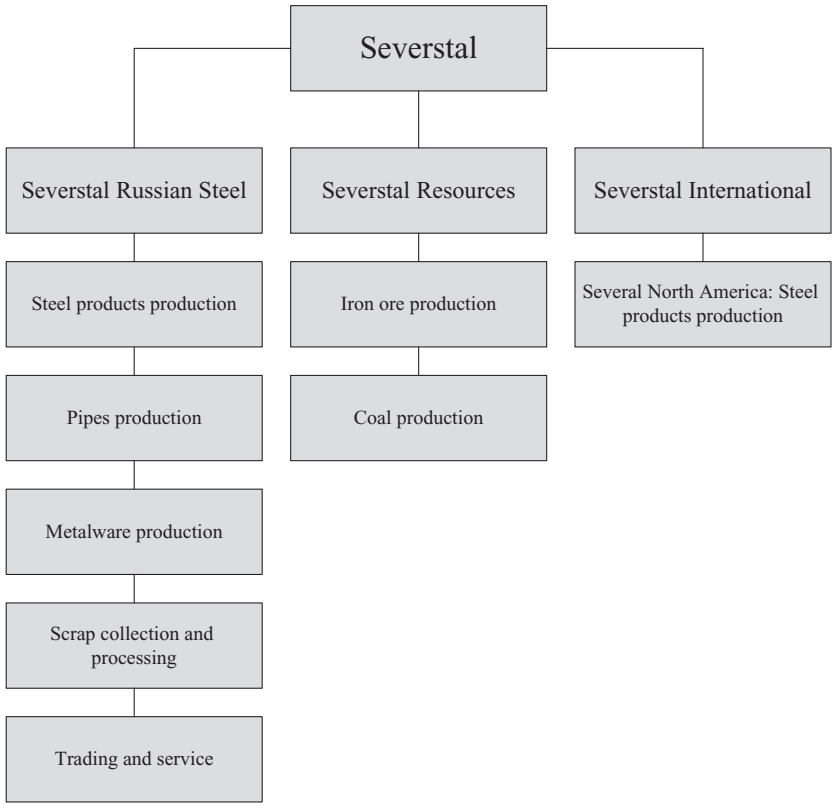
Severstal International. Severstal International is comprised of Severstal Dearborn, Severstal Columbus and holding companies—Severstal US Holdings LLC, Severstal US Holdings II LLC and Severstal Columbus Holdings LLC. According to the Group's estimates, these companies comprised the fourth largest steelmaking company in the United States in 2012 (excluding the RG Steel facilities that were closed as at 31 December 2012). Severstal International produces high-quality, flat-rolled products and has 5.3 million tonnes of annual crude steel making capacity.

Severstal Resources. Severstal Resources comprises iron ore production and coal production.

- The Group's iron ore business comprises two iron ore extracting complexes: Karelsky Okatysh, which produces iron ore pellets, and Olkon, which produces iron ore concentrate. The Group's iron ore business is also focused on two iron ore projects: the Group's investment in the Putu Range Project in south eastern Liberia, for which the Group has signed a Mineral Development Agreement with the Government of Liberia and has recently completed a pre-feasibility study, and the Group's investment in a project in the Brazilian city of Macapa, SPG, which owns a number of high potential iron ore licenses in the area of Tartarugalzinho, Amapa state. Karelsky Okatysh, located in the Karelia Republic, produces iron ore pellets and had an annual iron ore output of 33 million tonnes in 2012 and plans to remain at the same levels until 2017 and estimated JORC iron ore reserves and resources of approximately 415.3 million tonnes and 1,138.3 million tonnes, respectively. Olkon, located in the Murmansk region of Russia, produces iron ore concentrate and had an annual iron ore output of 15.5 million tonnes in 2012 and plans to increase it to 16.7 million tonnes by 2017 and estimated JORC iron ore reserves and resources of approximately 276.2 million tonnes and 629.7 million tonnes, respectively. Liberia's Putu Range has estimated resources of 4,455 million tonnes based on a report issued by SRK Consulting Ltd. in September 2012 prepared under the Guidelines of Samrec. The Core Mining Avima tenement is a prospective early stage project in the Democratic Republic of Congo.
- The Group's Coal business comprises Vorkutaugol, PBS Coals and two greenfields—Tsentralny field and Usinskoye-1 field. Vorkutaugol comprises five longwall mines, an open pit mine, and three washing plants. It extracts both coking and steam coal. Vorkutaugol, located in the Komi Republic, produces coking and steam coal and had ROM of 13 million tonnes in 2012 and plans to increase it to 16 million tonnes by 2017 and estimated JORC coal reserves of approximately 247 million tonnes. PBS Coals, located in the southwest of Pennsylvania in the United States, operates open mines and deep room and pillar mines. It extracts coking and steam coal, and produces coking coal concentrate. PBS Coals produced 4.1 million tonnes of ROM in 2012 and plans to increase it to 6.7 million tonnes by 2017. PBS Coals has estimated coal reserves and resources of approximately 77 million tonnes and 125 million tonnes, respectively. Tsentralny field is a greenfield project located in the Tyva Republic and according to its acquired state license, has total resources approximating 639 million tonnes of coking coal of C1 and C2 categories, according to the Russian classification system. Usinskoye-1 field is a greenfield project located in the Republic of Komi near the existing Vorkutaugol operation, with estimated resources of 603 million tonnes of coking coal of A, B and C1 categories, according to the Russian classification system. See "*Industry—Mining Industry—Russian Methodologies for Reserve and Resource Reporting*".

Severstal Resources was the second largest producer of hard coking coal and iron ore pellets in Russia in 2012, respectively, according to RudProm and Rasmin. With the capacity to supply all of the current iron ore and hard coking coal needs of Severstal Russian Steel, Severstal Resources forms the basis of the Group's balanced and vertically-integrated business model. With a focus on high value-added products, such as export quality iron ore pellets and hard coking coal concentrate, Severstal Resources had 48.7 million tonnes of iron ore output and ROM of 17.1 million tonnes of coal in 2012. Severstal Resources estimates that, as at 31 December 2012, it had iron ore reserves and resources of approximately 691.5 million tonnes and 6,223 million tonnes, respectively, and coal reserves and resources of approximately 323.8 million tonnes and 125 million tonnes, respectively, based on reports issued by IMC Montan dated February 2013, IMC Consulting Ltd. dated June 2006, prepared in accordance with JORC reporting standards (assets in Russia), by SRK Consulting Ltd. dated September 2012 prepared under the Guidelines of Samrec (Putu deposit, Liberia) and by PBS internal experts dated 31 March 2012 in accordance with JORC reporting standards.

The Group's Business Divisions



The Group originally consisted of its core Russian steelmaking business, which was state owned until its privatisation in 1993. Since that time, the Group has expanded by identifying attractive acquisition opportunities and by consolidating all of the steel and mining assets of the Group's Majority Shareholder into its business. In addition to acquiring numerous production facilities in Russia in 2004, the Group acquired substantially all of the principal steelmaking and finishing assets of US steel producer Rouge Steel Company (***Rouge Steel***), subsequently renamed Severstal Dearborn.

In June 2006, the Group acquired controlling interests in Karelsky Okatysh, Olkon, Vorkutaugol, OAO Mine Pervomaiskaya and OAO Mine Berezovskaya, the last two of which were disposed of in the second quarter of 2008. In October 2006, the Group acquired a controlling interest in European steel producer Lucchini, then increasing its interest to 100.0 percent in March 2010 before selling 50.8 percent of its interest in June 2010 to the Group's Majority Shareholder. See "*—Discontinued Operations—Lucchini segment*".

In January 2008, the Group acquired a controlling interest in Severstal Columbus, a steel mill in Columbus, Mississippi. In May 2008, the Group acquired ArcelorMittal's Sparrows Point facility, subsequently renamed Severstal Sparrows Point LLC. In July 2008, the Group acquired WCI Steel Inc. (***WCI***) (renamed Severstal Warren). In August 2008, the Group acquired all of the steel production assets of Esmark Inc., a manufacturer and distributor of flat-rolled and other steel products in the United States. These assets included Severstal Wheeling, as well as a number of steel servicing companies that have since been divested. In March 2011, the Group sold its 100.0 percent stake in Sparrows Point, Severstal Warren, Severstal Wheeling and a 50.0 percent stake in MSC. See "*—Discontinued Operations—North America disposal group*".

In 2007, the Group purchased Neryungri—Metallic, ZAO Rudnik Aprelkovo (***Aprelkovo***) and Celtic gold mining operations in Russia, as well as gold mining licences in Russia. In January 2008, the Group completed the acquisition of Celtic. In August 2008, the Group acquired Semgeo. In November 2008, the Group acquired a 53.8 percent stake in High River Gold and increased its stake to 72.6 percent through a series of transactions in 2010. In November 2011, the Group made the decision to separate the Gold segment by an exchange of 100.0 percent shares of Nord Gold, the segment's holding company, for the Company's shares and GDRs based on the relative fair values, which was completed in March 2012.

In 2010 the Group obtained a licence for further exploration and coal extraction at the Tsentralny field, and signed a MOU to establish a 50:50 joint venture with NMDC, the leading iron ore producer in India, with the objective of building an integrated steel plant in India.

In 2011, the Group announced that its indirect subsidiary Lybica Holdings B.V. entered into a legally binding heads of terms agreement with Afferro and its wholly owned subsidiary Mano River, for the purchase of a 38.5 percent interest in Severstal Liberia Iron Ore Ltd. In 2012, the Group completed the purchase and consolidated 100.0 percent of Severstal Liberia Iron Ore Ltd., the legal entity that owns the Putu Range assets in Liberia.

For more information, see "*—History and Development of the Group*" and "*—Recent Developments*".

Competitive Strengths

The Group has developed a variety of competitive strengths, which it believes provide it with a greater resilience to the cyclical nature of the steel industry than some of its competitors and a basis on which to build its position as a global metals and mining company. The Group's distinct business model is focused on global cost leadership through efficient vertical integration, presence in the concentrated and structurally attractive steel markets and focus on client service. Consequently, the Group remains one of the global leaders by profitability margins and returns on investment. Financial resilience remains a top priority and the Group currently has one of the strongest balance sheets and lowest leverage in the industry, providing a strong cushion against market volatility.

Vertically-Integrated Business with Access to Iron Ore, Coal and Scrap

The Group is a vertically-integrated steel producer operating on a global scale. Its facilities span the full production cycle from iron ore and coal mining operations to steel mills and rolled product plants as well as downstream production and distribution businesses. Its mining operations, conducted by Severstal Resources, provide supplies of iron ore and coal to its production facilities in Russia and to a lesser extent in the United States and also have the capacity to supply iron ore and coal to third parties, which they do. The Group has its own scrap collection and processing facilities. The Group is approximately 94 percent and 107 percent self-sufficient in iron ore and coking coal, respectively.

Severstal Resources was the second largest producer of hard coking coal and iron ore pellets in Russia in 2012 respectively, according to Rasmin and RudProm. As a result, Severstal Russian Steel's operations with respect to iron ore and coal are economically fully self-sufficient, as Severstal Resources' overall production volumes are able to cover in full the overall consumption volumes of Severstal Russian Steel, without taking into account the chemical features of the particular coal and iron ore mix required. However, Severstal Russian Steel does source a portion of its iron ore and coal requirements from third party suppliers primarily due to its requirements for materials with different chemical features and to take advantage of beneficial prevailing prices.

Severstal Resources' deposits have technical characteristics enabling it to produce a relatively wide range of products for customers in the metallurgical industries, in addition to the Group's steel operations. Its reserves of iron ore and coal are significant, with estimated mine lives exceeding several decades. The Group considers mining to be one of its core businesses.

Currently, the Group's North American business units are economically fully self-sufficient in metallurgical coke, and it sources iron ore and other raw materials from domestic suppliers under a variety of arrangements aimed at ensuring a reliable long-term supply of raw materials at competitive prices. This includes a long-term contract with Cliffs Natural Resources for the supply of iron ore to Severstal Dearborn until 2022. Severstal International also indirectly sources approximately 20 percent of its coking coal needs from its sister company PBS Coals, located in Somerset, Pennsylvania. Additionally, annual contracts are in place for approximately 100 percent of the remaining coking coal requirements. Severstal Dearborn owns 50.0 percent of MSC, one of the largest coking plants in North America, to support blast furnace operations. The balance of Severstal International's coke requirements, if any, is purchased on the spot markets.

The vertically-integrated nature of the Group enables it to secure raw material supplies for its operations while reducing the Group's exposure to raw material price fluctuations, resulting in increased efficiencies.

Global Cost Competitiveness

Globally, Russia is one of the lowest cost regions for steel production in the world, and the Group occupies one of the most favourable positions on the global hot-rolled coil cost curve, according to worldsteel. With its largest production facilities located in northwest Russia, the Group benefits from relatively low-cost supplies of electricity and natural gas, as well as low transportation fees, given the proximity of its production facilities to producers of raw materials in that region and major steel-consuming markets in the central European part of Russia and the ports of the St. Petersburg region. In addition to these cost advantages, as one of the largest producers of steel in Russia, the Group benefits from economies of scale in both production and negotiation power with its suppliers, including third-party suppliers of raw materials. This cost competitiveness is particularly valuable in granting the Group flexibility to shift its sales focus between the Russian domestic market and the export market depending on relative demand for steel and mining products domestically and globally.

In order to maintain its cost competitiveness, the Group has made and continues to make investments to upgrade its facilities in the pursuit of increased productivity and cost efficiency. For example, in 2012, the Group's largest steel production facility, located in Cherepovets, was estimated to be approximately 58.9 percent self-sufficient in terms of its own generation and consumption of electricity. See "—*Strategy—Pursue Lower-Cost Steel Production*".

Geographically Diversified Business with a Broad Range of Products

The Group's production facilities are geographically diversified, with locations in Russia, the United States and a number of other countries. The majority of the Group's key steel and mining assets are located within Russia. The Group also continues to develop its mining businesses in low-cost regions such as various regions in Africa. The Group's largest steel production facility, located in Cherepovets in northwest Russia, provides it with access to the Russian, CIS, Western and Eastern European, MENA, Central and South-East Asia and other regional steel markets. Furthermore, the Group believes that, as a result of its presence in the United States, it benefits from greater access to the technologically advanced North American markets, which assists the Group in understanding the needs of its customer base and in tailoring its products accordingly. The global diversified nature of the Group has also enabled it to benefit from the sharing of industry know-how and best practices across business divisions. Extensive experience in mining operations in various regions aids the Group's strategy to pursue further expansion of its mining operations internationally through a combination of M&A and greenfield investments.

Investment in Modernisation and Advanced Technological Processes

The Group has made significant investments into modernisation programmes at its main steel production facilities and mining facilities in Russia and in the United States, aimed at expanding production and achieving operational efficiencies. In 2012, the Group's capital expenditure at its three business divisions amounted to US$1.5 billion. As a result, the majority of the Group's capital assets are currently in good condition and do not require significant investments in the near-term. The Group intends to invest approximately US$1.3 billion in 2013 and an additional US$6.1 billion (provided that the Group undertakes the expansion projects contemplated by its current business plan and subject to then-prevailing market conditions), during the period from 2014 to 2017 as part of its continuing capital expenditure programme, with current investment priorities focused on facilitating the expansion of the Group's mining businesses in Russia, Africa and the United States, and expanding the Group's share of the Russian domestic steel products market, aided by the Balakovo project and new galvanising and colour coating lines. The Group completed a new PLTCM line on the Severstal Dearborn facility which is expected to result in a reduction in costs and improvements in energy efficiency, while also upgrading product quality and yields. Investments in the Phase II expansion at Severstal Columbus doubled its production capacity, reduced costs and increased the facility's ability to produce value-added products.

Ongoing investments in upgrading facilities, customer care projects and research and development efforts are expected to help the Group maintain a leading position in the Russian high-quality value-added steel sector. The Group specialises in producing advanced steel grades for the oil and gas, shipbuilding and automotive industries in Russia. The Group has also sought to adopt new technological processes when operationally convenient to do so, such as the introduction of PCI technology into blast furnace "C" at the Severstal Dearborn facility in connection with the rebuilding of that blast furnace in 2007. In addition, capital expenditure on maintenance for the Group is expected to be US$772 million in 2013 and the average yearly capital expenditure on maintenance in 2014 to 2017 is expected to remain at a level lower

than capital expenditure on maintenance in 2013. As a result, the Group believes that its modern production facilities and consistent investment programmes position it well within the high value-added and niche steel product markets, in addition to its other steel and metalware products.

Experienced Management Team

The Group's senior management team combines extensive steel and resources industry knowledge with international management and financial expertise, including valuable insight gained from the five independent non-executive directors on the board of directors. At an operational level, the Group has developed, and continues to refine, a management structure that is focused on improving accountability, clarifying responsibilities and streamlining information reporting and decision-making. Much attention is devoted to efficiently and effectively reporting and communicating the development of a business undertaking at all levels of the production process. Backed by international experience and advanced technical and business qualifications, the management team's ability to successfully manage the performance of the Group's assets is evidenced by the increased operating efficiency in recent years and cost reduction achievements across the divisions.

Business System of Severstal

Business System of Severstal comprises a series of projects and initiatives launched in 2010 and is intended to achieve operational and organisational excellence throughout the Group's value chain, improve customer service, and foster a culture of health and safety within the Group. The Group defines four key projects composing the core of its Business System: Safety, Continuous Improvement, Customer Focus, and People of Severstal. The Business System is intended to become a structural source of long-term competitive advantage for Severstal through transformation of corporate culture. Since the launch of the Business System in 2010, the Group has realised significant improvements in lean production and overall operational efficiency. The Group estimates that the Business System has contributed US$400.7 million to the Company's EBITDA to date. By 2015, the Group expects the total EBITDA contribution to reach approximately US$1-1.2 billion.

Strong Corporate Governance

The Group seeks to adhere to international corporate governance standards. The Group benefits from a culture of independence on its board of directors as a result of both a diverse, multinational membership and the independence of half of its board and chairman (according to UK standards of independence). In addition, the Group has established committees of its board of directors in accordance with the UK Combined Code on Corporate Governance and has implemented other measures aimed at promoting transparency and good corporate governance. These measures include implementing internal control procedures and internal audit functions, publishing quarterly financial statements prepared in accordance with IFRS, publishing regular production updates and requiring the approval of two-thirds of the board of directors for acquisitions with a value in excess of US$500 million and any transaction with a value of more than 10.0 percent of the book value of the Company's assets. In addition, all transactions with affiliates are approved by the board of directors.

STRATEGY

The Group's corporate strategy is based on its model of being a vertically-integrated steel and steel-related mining company. The Group targets to become one of the global industry leaders in terms of EBITDA and to sustain a market-leading position in terms of margins and return on investment while maintaining a strong financial position. The Group has grounded its corporate strategy in the crucial industrial growth drivers of cost competitiveness, vertical integration, presence in consolidated and growing markets and focus on high value-added products in order to build upon and improve its ranking as one of the leading steel companies worldwide. To successfully implement this strategy, the Group intends to pursue the following initiatives:

Capitalise on Presence in Growing Regional and Highly Consolidated Markets

The Group's main regional markets exhibited strong growth rates (CAGR) in 2011 to 2012: steel demand in Russia grew by approximately 8.4 percent, and in the US, by approximately 9.6 percent year-on-year, according to expert estimates. The Group has a positive mid-to-long term growth outlook for steel demand in all the regions in which it has a presence.

The Group's strategy in each of its key regions is as follows:

Russia. The Group views the Russian market for steel products as providing significant growth potential due to rising personal incomes, growing demand for modern housing, cars and the poor state of the country's infrastructure which requires significant investments. The Group plans to continue to invest in its production facilities in Russia, as it expects a steady growth of domestic demand for high-quality steel products due to the large potential of automotive production, oil and gas industry, infrastructure and housing investments. In line with its strategy, the Group is constructing the Balakovo mini-mill in central Russia, with an expected capacity of one million tonnes per year upon completion, which is currently planned for 2013. The Balakovo mini-mill is expected to produce long products for the construction and infrastructure industries.

Additionally, the Group is investing in downstream facilities in order to increase the share of high value-added products in its portfolio and satisfy the growing quality requirements of domestic customers. In June 2010, the Group commenced operations at Severstal TPZ-Sheksna with capacity of 250 thousand tonnes of electrical welded pipes and other welded profiles. In December 2011, the Group launched a second painting line in its Cherepovets facility with a capacity of 200 thousand tonnes. The Group continues to develop effective distribution channels which are able to provide access to high-quality clients such as a service center Severstal-Gonvarri-Kaluga (the Group owns 50.0 percent) and a stampings facility Gestamp-Severstal-Kaluga (the Group owns 25.0 percent) which both commenced operations in 2010. The Group plans to develop a "Steel Solutions" project to include an organisation of dedicated sales and engineering offices as well as the construction of a new industrial complex for the provision of galvanising services and the production of construction materials, heavy and light steel structures and road fences.

USA. As the US economy continues its recovery from the recessionary effects of the global financial crisis, US steel demand is expected to grow steadily, driven by the oil and gas industry (including non-conventional drilling), automotive and manufacturing industries, emerging growth in the construction sector and long-term population growth in addition to the need to build up previously underinvested infrastructure.

Following the sale of the Group's Northern Steel Group Inc. assets in May 2010 and a 100.0 percent stake in Sparrows Point, Severstal Warren, Severstal Wheeling and 50.0 percent stake in MSC in March 2011, the Group plans to focus on developing competitive and efficient steelmaking assets in the United States. With the Group's investments to complete Phase II of the Severstal Columbus expansion, resulting in an expected doubling of that facility's production capacity in 2011, the Group intends to strengthen Severstal Columbus' position as one of the most cost competitive US flat mills. In an environment of rising raw material prices, Severstal Dearborn is expected to benefit from its long-term contract with Cliffs Natural Resources. In addition, investments in the new PLTCM and new HDGL at Severstal Dearborn has further improved its cost position and enabled it to produce advanced automotive steels. The Group's management believes that this will make Severstal Dearborn one of the principal suppliers of high-quality flat products in North America.

Expand Mining Business Globally

The Group believes that its mining activities will provide a strong source of growth and intends to expand its iron ore and coking coal production. Efficient vertical integration is a key part of the Group's business model. The Group is one of the few international steel companies with a strong position in both iron ore and coking coal.

The Group plans to expand its existing iron ore and coking coal mining operations in Russia and the United States and to develop its portfolio of greenfield mining projects with the aim of increasing its cost competitiveness and its global level of vertical integration.

The Group intends to undertake a brownfield expansion of Vorkutaugol through development of the Usinskoye coking coal deposit. The Group is also pursuing several major projects, including exploration and development license opportunities for an iron ore deposit in Putu Range (Liberia); the Tsentralny coking coal field in the Republic of Tyva (Russia); and a project with SPG for the development of an iron ore deposit in Amapa (Brazil).

In 2011, the Group announced that its indirect subsidiary Lybica Holdings B.V. entered into a legally binding heads of terms agreement with Afferro and its wholly owned subsidiary Mano River, for the purchase of a 38.5 percent interest in Severstal Liberia Iron Ore Ltd. in Liberia. In 2012, the Group

completed the purchase and consolidated 100.0 percent of Severstal Liberia Iron Ore Ltd., the legal entity that owns the Putu Range assets in Liberia. The Group undertook the Putu Range Project in order to minimise its exposure to operational and financial risks.

The Group intends to continue its focus on stringent cost control at its operating mining facilities in order to counter the global trend of increasing mining costs.

Pursue Low-Cost Steel Production

The Group believes that cost competitiveness in every region where it produces steel is a vital element of its success. Accordingly, the Group plans to continue to pursue a strategy of lower-cost steel production in relation to its Russian operations (in comparison to global cost levels in steel production), as well as in relation to its US operations (in comparison to regional cost levels in steel production).

Efficient vertical integration is an integral part of the Group's business model. The Group is one of the few international steel companies with a strong position in both iron ore and coking coal. The Group is economically fully self-sufficient in primary steel-related raw materials in Russia, and, in the US, only local coking coal capacities are sufficient to provide full economic integration for steel plants in North America.

The Group believes that a low-cost operating structure can be achieved by a combination of capital expenditure on production facilities, energy efficiency improvements, integration of its raw materials business with steel production and labour productivity gains, the main contributions of which are expected to come from the continuous improvement, purchasing optimisation and other initiatives included in the Business System of Severstal programme. The Group's capital expenditure programme includes various projects to improve operational efficiencies and to reduce raw material consumption.

History and Development of the Group

The Group's predecessor, Cherepovets Metallurgical Works, produced its first cast iron in 1955. Cherepovets Metallurgical Works was 100.0 percent state-owned until it was privatised in 1993 in accordance with the State Programme for the Privatisation of State and Municipal Enterprises in the Russian Federation. The newly privatised entity, the Company, was registered as an open joint stock company in the city of Cherepovets on 24 September 1993. Since 1993, the Group has expanded geographically to include steel operations in North America and Europe and has expanded its corporate vision by entering a number of different businesses, including companies engaged in the mining of iron ore, coal and other minerals, the procurement of scrap, pipe manufacturing, metalware production, the manufacturing of steel furniture and kitchenware, construction and repair.

A brief timeline illustrating the historical development of the Group's current business divisions, Severstal Russian Steel, Severstal International and Severstal Resources is set forth below.

1994-1999 The Group and the Majority Shareholder acquire a combined interest in Karelsky Okatysh, an iron ore pellet producer.

1995 The Company's shares list on the RTS.

1995-2001 The Group and the Majority Shareholder acquire a controlling stake in Olkon, an iron ore producer in the Murmansk region in Russia.

2000 The Group purchases Rolling Mill 5000 from OAO United Heavy Machinery.

2001 The Group and Arcelor formed the Severgal joint venture, which produces high-quality galvanised auto body sheet products.

2001-2003 The Group and the Majority Shareholder acquire Vorkutaugol, which consists of several mines, coking coal production and beneficiation plants in the Republic of Komi in Russia.

2001-2002 The Majority Shareholder acquires a controlling stake in Kuzbassugol, a coal-mining company that includes the Pervomayskaya Mine and the Berezovskaya Mine.

2004 The Group acquires substantially all the assets of Rouge Steel, forming the business formerly called Severstal North America and now called Severstal Dearborn, an integrated steel making facility based in Michigan.

2005 The Group's shares list on MICEX.

The Group acquires a 100.0 percent stake in ZAO Severstal-Metiz, now OAO Severstal-Metiz, from the Majority Shareholder.

SeverCorr LLC (later renamed Severstal Columbus) is formed in order to develop a "next generation" steel plant in Mississippi.

Severstal North America (later renamed Severstal Dearborn) and Wheeling Pittsburgh Steel Corporation form MSC through a 50:50 joint venture.

The Group and the Majority Shareholder acquire Lucchini, an integrated steel making company.

2006 The Group conducts its initial public offering on the LSE.

The Group acquires the majority stake of a number of mining and steel companies (including Lucchini) from the Majority Shareholder.

The Group completes the construction of the Izhora Pipe Mill, which produces large diameter pipes.

The Company approves a new corporate governance system, incorporating independent directors into its Board of Directors.

Severstal-Metiz acquires Dneprometiz.

2007 Severstal Columbus (formerly SeverCorr LLC) mini-mill commences operations.

The Group acquires several scrap processing businesses.

The Group establishes SMZ-Kolpino, a processing service centre.

The Group acquires 86.3 percent of Celtic, a company with subsidiaries holding gold mining assets in Kazakhstan.

The Group establishes LLC Severstal Ukraine to be a distributor in Ukraine and begins expanding its distribution operations in Belarus through ZAO SeverstalBel.

The Group acquires ArcelorMittal's 25.0 percent stake in the Severgal joint venture, taking the Group's stake in Severgal to 100.0 percent.

The Group acquires stevedore company ZAO Neva-Metall.

The Group sells Lucchini Sidermeccanica to members of the founding Lucchini family.

The Group commences development of the mini-mill in Balakovo.

The Group acquires all of the shares in Neryungri Metallic and Rudnik Aprelkovo, each a Russian gold mining company.

2008 The Group acquires 61.5 percent of African Iron Ore Group Ltd. (later renamed Severstal Liberia Iron Ore Ltd.), which owns the exploration rights for an iron ore deposit in the Putu Range area in Liberia.

The Group acquires WCI (later renamed Severstal Warren) based in Ohio.

The Group acquires 100.0 percent of PBS Coals, a coking coal producer located in Pennsylvania.

The Group acquires Esmark Incorporated (later renamed Severstal Wheeling) located in West Virginia, including the remaining 50.0 percent stake in MSC.

The Group acquires 100.0 percent of Sparrows Point based in Maryland.

The Group completes the acquisition of both Olkon and Karelsky Okatysh.

The Group completes the acquisition of Celtic.

The Group sells Kuzbassugol to ArcelorMittal.

The Group acquires a 100.0 percent stake in Redaelli.

The Group acquires 100.0 percent of Semgeo, which includes a gold mine in Kazakhstan.

The Group acquires a 53.8 percent stake in High River Gold, which comprises the Irokinda, Zun-Holba and Berezitovy mines in Russia and the Taparko mine in Burkina Faso.

2009 Following a restructuring, Nordgold acquires all of the Group's gold mining assets.

2010 The Group acquires 20.2 percent of Lucchini bringing its shareholdings in Lucchini to 100.0 percent. The Group later sells 50.8 percent of its stake in Lucchini to the Majority Shareholder. See "*—Discontinued Operations—Lucchini segment*".

The Group acquires a 16.5 percent stake in Core Mining which controls exploration licences for the vima iron ore deposit in the Republic of Congo (Brazzaville) and the Kango iron ore deposit in the Republic of Gabon.

The Group commences operations at its TPZ Sheksna facility with production capacities of electric welded pipes and other profiles.

The Group sells Northern Steel Group, a group of companies within the Severstal International segment.

Through a series of transactions, the Group increases its interest in High River Gold to 72.6 percent.

Through a series of transactions, the Group brings its total interest in Crew Gold to 93.4 percent.

The Group acquires an 11.0 percent stake in SCM, increasing its ownership to 18.1 percent.

The Group obtains a license for further exploration and coal extraction at the Tsentralny field in the western part of the Ulug-Khemskiy basin in the Tyva Republic, Russia.

The Group acquires a 21.7 percent stake in Intex Resources, a public mining and exploration company listed on the Oslo Stock Exchange with its headquarters in Oslo, Norway.

The Group acquires a 25.6 percent stake in IMBS, a research and development company based in Johannesburg, South Africa.

Severstal and NMDC, the leading iron ore producer in India, sign a MOU to establish a 50:50 joint venture company with the objective of building an integrated steel plant in India.

2011 The Group sells its 100.0 percent stake in Sparrows Point, Severstal Warren and Severstal Wheeling and a 50.0 percent stake in MSC.

The Group acquires a 7.4 percent stake in IMBS, increasing its ownership interest to 33.0 percent.

The Group acquires an additional 6.6 percent stake in Crew Gold to increase its ownership interest to 100.0 percent.

The Group acquires an additional 49.0 percent stake in LLC Severstal Ukraine increasing its ownership interest to 100.0 percent.

The Group sells its 100.0 percent stake in SSM RP Holding B.V. and its wholly owned subsidiary Severstal-Metiz: welding consumables.

The Group sells its 91.6 percent stake in OAO Stalmag.

The Group acquires a 25.0 percent stake in SPG Mineracao S.A. The Group also enters into a call option agreement to purchase an additional 50 percent stake, exercisable upon fulfillment of certain future conditions. SPG Mineracao S.A. owns exploration licences for a number of highly prospective iron ore properties in the northern state of Amapa, Brazil.

The Group acquires an additional 2.4 percent stake in High River Gold Mines Ltd., increasing its ownership interest to 75.1 percent.

2012 The Group sells its 21.7 percent stake in Intex Resources ASA.

The Group acquires an additional 15.8 percent stake in AS Severstallat, increasing its ownership interest to 100.0 percent.

The Group completes the separation of its Gold segment by exchanging 100.0 percent of shares of Nord Gold N.V., the segment's holding company, for OAO Severstal shares and GDRs.

The Group acquires an additional 38.5 percent stake in Severstal Liberia Iron Ore Ltd., increasing its ownership interest to 100.0 percent.

ZAO Mine Vorgashorskaya 2 is merged into OAO Vorkutaugol. As a result of this merger, the Group's ownership interest in OAO Vorkutaugol decreases from 88.1 percent to 84.2 percent.

The Group acquires an additional 14.8 percent in OAO Vorkutaugol, increasing its ownership interest to 99.0 percent.

Employees

The following table sets forth the average number of the Group's employees (full-time equivalents) by business division in 2011 and 2012:

Business division	2011	2012
Severstal Russian Steel	50,112	47,573
Severstal International[1]	2,513	2,165
Severstal Resources[2]	16,958	17,559
Total	**69,583**	**67,297**

Notes:

(1) Excludes data for the Group's discontinued operations: Lucchini, Sparrows Point, Severstal Warren, Severstal Wheeling and MSC.

(2) Excludes data for Gold segment.

Health, Safety and Environment

Each of the Group's business divisions operate health and safety management systems which apply a systematic approach to establishing work processes that preserve and enhance their employees' ability to work effectively and safely and are in compliance with applicable legal requirements. Each of the Group's business divisions monitors its compliance with applicable environmental regulations and standards.

In 2010, the Group launched a labour safety project with the ultimate goal to be among the industry leaders in safety by 2014. Under the project, a number of initiatives have been launched to develop and implement an effective safety management system penetrating into every business process and resting on the personal attitude of every worker to his or her own safety.

Insurance

The Group's operations are subject to numerous operating risks, including environmental hazards, industrial accidents, unusual or unexpected geological conditions, labour force disruptions, unavailability of materials and equipment, weather conditions, pit wall failures, rock bursts, cave-ins, flooding, seismic activity, interruptions to power supplies and industrial and other accidents at mills, mines, processing plants or related facilities. While management has set up business continuity management systems to try to prevent and mitigate these events, these risks and hazards could result in damage to, or destruction of mineral properties or processing facilities, personal injury or death, environmental damage, delays in mining and monetary losses and possible legal liability.

The Group's business divisions maintain a level of insurance commensurate with the standards of other leading steel companies in the markets in which it operates.

Legal

Each of the Group's business divisions has been and continues to be the subject of legal proceedings and adjudications from time to time, which are incidental to the Group's business. However, the Group is not aware of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) during the last 12 months, which may have, or have in the recent past, significant effects on the Group's financial position or profitability.

RECENT DEVELOPMENTS

Since 31 December 2012, the following significant developments have occurred:

- 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 for its investment at fair value. No gains or losses were recognised as a result of this event.
- In February 2013, there was an accident involving an explosion at the Vorkutinskaya mine that resulted in 19 fatalities and three casualties and the temporary suspension of mining. The Vorkutinskaya mine has returned to production following a full health and safety audit of the mine faces. The mine's ventilation system is running at full capacity. The facility has resumed the extraction of coal at the longwall face 1022 in its central section in the Fourth seam, while the production unit affected by the accident has been permanently decommissioned following a full examination of the affected area by an investigating commission established by the Russian Government for the purpose of investigating the accident. Management has also decided to discontinue production at the longwall face 832 in the Triple seam as the residual capacity of the face is less than 100 thousand tonnes of coal. The mine's south section will resume extracting coal in the near future and a program is currently being developed to prepare an installation chamber and machinery for a new longwall face 932 in the Triple seam. The capacity of the new longwall face is more than 600 thousand tonnes of coal. The work of the commission established to investigate the cause of the accident is ongoing. With full support from the staff at Vorkutinskaya, the commission is also assessing the mine's safety systems, its maintenance and production supervision and will develop recommendations for measures to prevent any incident of this kind occurring in the future.

Severstal Russian Steel

In 2012, Severstal Russian Steel produced approximately 14.9 percent of total Russian crude steel production, based on data from worldsteel. Severstal Russian Steel revenue accounted for 60.4 percent of the Group's total revenues. According to calculations by the Group's management based on publicly released data, Severstal Russian Steel was the fourth largest producer of crude steel in Russia by volume of production in 2012. Severstal Russian Steel comprises: (i) steel product production which consists primarily of steel production facilities at the Cherepovets Steel Mill with an achieved total steelmaking capacity of 10.55 million tonnes of crude steel per year as at 31 December 2012, including a number of its workshops, among which there are high-grade automotive galvanising facilities at Severgal and Rolling Mill 5000, as well as a number of other facilities located primarily in the northwestern region of Russia; (ii) metalware production with its wire drawing and metalware manufacturing business at several production facilities in Russia and abroad, with over 55 thousand different product types; (iii) pipes production at the Izhora Pipe Mill, a large diameter pipe mill with achieved total pipemaking capacity of up to 600 thousand tonnes; (iv) scrap collection and processing consisting of Severstal Russian Steel's scrap collection and processing companies; and (v) trading and services companies with various supporting functions for trading, maintenance and transportation.

Severstal Russian Steel's primary steel production facility is the Cherepovets Steel Mill, located in Cherepovets, in northwest Russia, approximately 600 kilometres from Moscow and approximately 450 kilometres from St. Petersburg. Severstal Russian Steel also includes a heavy plate mill in Kolpino, which is approximately 26 kilometres from St. Petersburg. The Izhora Pipe Mill is adjacent to Kolpino. Metalware operates out of multiple sites across Russia, Ukraine and Italy. These locations give Severstal Russian Steel strategic proximity to river ports and railways, providing logistically favourable access to raw material sources and customers.

Facilities

The following table sets forth Severstal Russian Steel's major current production capacity and equipment by unit as at 31 December 2012.

Major Steel Production Facilities, Severstal Russian Steel—Achieved Capacity

	As at 31 December 2012	
	Equipment	Capacity
		(million tonnes per year)
Severstal Russian Steel		
Cherepovets Steel Mill		
Coking plant	8 batteries	4.0
Sintering plant	8 machines	9.0
Blast furnace facilities	5 furnaces	8.8
Basic oxygen furnaces	3 furnaces	9.5
EAFs	2 furnaces	2.1
Continuous casters	7 casters	12.1
Hot-rolling mills	4 mills	8.8
Cold-rolling mills	2 mills	2.8
Continuous pickling lines	3 lines	3.3
Hot-dip galvanising lines	2 lines	0.7
Section rolling mills	3 mills	2.3
Cold roll-forming lines	1 line	0.2
Pipe rolling mills	7 mills	0.3
Automotive grade galvanising line (Severgal)	1 line	0.4
SMZ-Kolpino		
Welded I-beam production site	1 line	0.01
Rolled products plasma cutting	4 machines	0.02
Flat-rolled products processing area (shot blasting and prime coating facilities)	1 line	0.04
TPZ Sheksna		
Slitting line	1 line	0.25
Izhora Pipe Mill		
Pipe mill	1 line	0.48
Metalware		
Metalware	N/A	1.50

Cherepovets Steel Mill. The Cherepovets Steel Mill produces almost all of Severstal Russian Steel's crude steel. The facilities' achieved total production capacity is 10.55 million tonnes of crude steel in 2012.

Severstal Russian Steel's steelmaking facilities at the Cherepovets Steel Mill are fully integrated, occupying a site of approximately 30 square kilometres, with coking, sintering, blast furnaces, steel making, casting, hot- and cold-rolling facilities, section and profile-forming mills.

The hot phase at the Cherepovets Steel Mill comprises coking and sintering facilities; five blast furnaces, three oxygen converters, two vacuum degassers, two EAFs, seven continuous casters, two continuous hot strip mills and two plate mills (HSM Mill 2800 and Plate Mill 5000). The cold phase at the Cherepovets Steel Mill consists of three continuous picking lines, two cold-rolling mills and annealing facilities, two tempering mills, two lines for non-grain oriented steel, two galvanising lines, one cold profile bending line, two colour coating lines, seven pipe rolling mills and an automotive grade galvanising line Severgal.

Coke-Ovens and By-products Plant. The coal charge coking process involves heating a charge up to approximately 1,000°C to 1,100°C without air, removing volatile coking products and collecting the resulting solid porous residue (coke). The coking process is conducted in coke chambers, which are combined into coke batteries. The coking facility comprises two coking workshops. Coking workshop No.1 consists of four coking batteries: No. 3 and No. 4 each with 61 ovens; No.5 and No.6 each with 77 ovens. Coking workshop No. 2 also consists of four coking batteries: No. 8, No.9 and No.10 each with 65 ovens and equipped with paired flues systems; and coking battery No.7, which is currently under reconstruction.

Sintering Plant. The sintering facility comprises Sintering Plants 2 and 3 and Charge Preparation Shops 1 and 2. Charge Preparation Shop 1 is a closed warehouse designed for discharging, storing and providing raw materials for Sintering Plant 2 and Sintering Plant 3. Charge Preparation Shop 2 is designed for discharging, storing and providing raw materials for the Blast furnaces and limestone for Sintering Plant 3. Sintering Plant 2 and Sintering Plant 3 produce flux sinter for the Blast furnaces. A mixture of

concentrates, additives and solid fuel is required for the sintering process. Blast furnace coke fines (0-25 mm) are used as fuel for the sintering process, while limestone is used as a fluxing agent. The basisity (CaO/SiO2) of flux sinter is set according to the needs of the blast furnace process.

Blast Furnaces. Hot metal is produced in blast furnaces. There are five blast furnaces at the Cherepovets Steel Mill, with a designed combined capacity of 8.8 million tonnes per year. Blast Furnace 5 was fully refurbished in October 2006. Blast Furnace 4 was reblown in December 2005 after refurbishment and revamping. Blast Furnaces 1 and 2 are the oldest furnaces. Blast Furnace 3 is currently under reconstruction to increase its capacity and efficiency, and is not expected to be completed before 2018. Hot metal is delivered to the electric arc furnaces and pigging machines in 100-tonne ladles, while it is transported to basic oxygen furnaces in 600-tonne torpedo cars.

BOFs and EAFs. Crude steel is melted at the Cherepovets Steel Mill in three BOFs with a combined capacity of 9.3 million tonnes per year, and two EAFs with a combined capacity of 1.7 million tonnes per year.

Continuous Casters. The BOF shop has four 2-strand curve-type casters, capable of casting slabs with cross sections of 200 to 250 mm by 1020 to 1850 mm; and one 2-strand curve-type caster can produce 250 to 315 mm by 1020 to 2000 mm slabs.

The EAF shop has one 2-strand vertical slab caster, capable of casting slabs with sections of 150 to 200 mm by 980 to 1580 mm and one 6-strand radial billet caster, casting 100 mm^2 and 150 mm^2 billets.

Hot-Rolling Mills. There are three hot rolling mills at the Cherepovets Steel Mill with their combined capacity of 8.8 million tonnes per year.

Hot-Rolling Shop 1 has two combined semi-continuous mills. Mill 2800 produces 6.35 to 50 mm thick plates which are used as feedstock for Mill 1700. Mill 1700 produces steel sheets of 0.8 to 8 mm thick and is equipped with four coilers.

Hot-Rolling Shop 2 comprises Hot Strip Mill 2000, a continuous wide-sheet mill four reheating furnaces cutting and slitting lines. Mill 2000 runs in fully automated modes and produces sheet with a thickness of 1.2 to 24 mm.

Hot-Rolling Shop 3 has a Plate Mill 5000 located in Kolpino. Plate Mill 5000 produces plates for shipbuilding applications, as well as skelp for further, pipe manufacturing, including feedstock for the Izhora Pipe Mill.

Cold-Rolling Mills. The Cherepovets Steel Mill has two cold-rolling mills, with a combined capacity of 2.8 million tonnes per year. They are a four-stand continuous Rolling Mill 1700 and a five-stand continuous Rolling Mill 1700. The cold-rolling mills produce cold-rolled sheet with a thickness of 0.25 to 3.2 mm. The cold-rolling mills operate together with two tempering mills, bell-type annealing furnaces and slitting and cutting lines.

Continuous Pickling Lines and Hot-Dip Galvanising Lines. The Cherepovets Steel Mill has three pickling lines with a combined capacity of 3.3 million tonnes per year, as well as two hot-dip galvanising lines with zinc and alumozinc coating with a combined capacity of 720 thousand tonnes per year after reconstruction in 2011.

Section Rolling Mills. The Cherepovets Steel Mill has three section rolling mills with a combined capacity of 2.3 million tonnes per year: a medium section Mill 350, a small section Mill 250 quenching and tempering facilities and a wire rod Mill 150.

Cold Roll-Forming Line. The Cherepovets Steel Mill's cold roll-forming line produces a range of different shaped profiles: closed profile, S-shape profile, E-shape profile, trough shape profile, angle profile and others and has a combined capacity of 200 thousand tonnes per year.

Pipe Rolling Mills. The Cherepovets Steel Mill also has seven pipe rolling mills that can produce pipes with circular, oblong and semi-oblong, square and rectangular cross sections in a wide range of sizes. The seven pipe rolling mills have a combined capacity of 300 thousand tonnes per year.

Automotive grade galvanising line (Severgal). Severgal produces high-quality galvanised auto body sheet products. In commercial operation since December 2005, the galvanising line has a capacity of 400 thousand tonnes per year. Severgal can produce galvanised steel sheet with a thickness of 0.4 to 2.0 mm and a width of 900 to 1,850 mm. The plant produces steel sheet products coated with zinc iron alloy. Severgal is strategically located close to several major domestic automotive "greenfield" production facilities, including Nissan and Toyota in St. Petersburg, Hyundai in Sestroretsk (near St. Petersburg), Alfa Automotive Technologies LLC (a supplier of Renault) in Moscow, Ford and Volkswagen in Kaluga.

SMZ-Kolpino. SMZ-Kolpino applies the primer on shipbuilding plates, produces semi-finished products for machinery and large fabricated sections for the construction industry. The company was certified for compliance with international standards ISO 9001, ISO 14001 and OHAS 18001. SMZ-Kolpino has the following facilities and metal processing services: an automated steel product preservation line (produced by the PME-Group, Finland), distinguished by its shotblasting and protective prime coating, which are sheet metal processing methods designed to prevent corrosion; an automated beam welding line (also produced by the PME-Group, Finland), which produces welded structures such as T-bars and I-bars; and the automated plasma-beam cutting lines (produced by KOIKE, Japan), which conduct sheet metal plasma cutting, including for manufacturing welded structures.

TPZ Sheksna. TPZ Sheksna produces electric welded pipes of various diameters, thickness and length, as well as square and rectangular sections with different cross sections. The plant has a slitting line 2000 to produce skelp and an electric pipe-welded line for the production of round pipes with diameters ranging from 127 to 146 mm with wall thicknesses ranging from 3 to 16 mm. The plant is able to produce circular pipes, square profiles ranging from 100 × 100 mm to 300 × 300 mm and rectangular profiles ranging from 120 × 80 mm to 400 × 200 mm.

Izhora Pipe Mill. The Izhora Pipe Mill in Kolpino produces electric longitudinal welded pipes with a designed diameter of 610 mm, which can be produced with diameters ranging from 1020 to 1420 mm, and 12,000-18,300 mm in length, with outer three layered anti-corrosion coating and inner smooth coating. Construction of the Izhora Pipe Mill was completed in July 2006. Rolling Mill 5000 was modified to produce strips manufactured by its steel business to feed the Izhora Pipe Mill. The Izhora Pipe Mill has an achieved production capacity of up to 600 thousand tonnes of pipes per year.

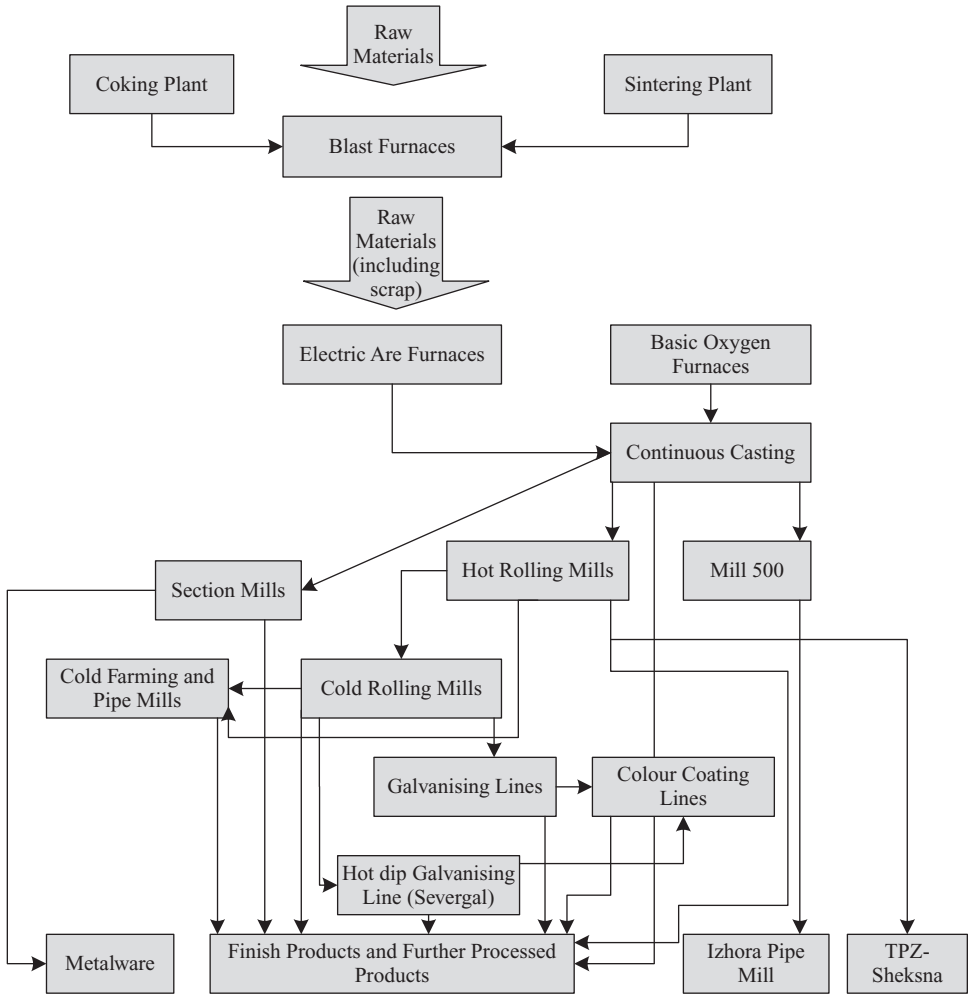
Metalware. The Group's Metalware production business comprises Severstal-Metiz and its subsidiaries: Dneprometiz (Ukraine) and Redaelli (Italy). The Group's Metalware production business currently produces more than 55,000 types of products, including rod, calibrated steel, steel rope, nails, fibre, fastenings, netting, welding materials and metal cord and currently have a total maximum production capacity of more than 1.5 million tonnes per year. In 2012, total metalware sales of Severstal-Metiz reached 660 thousand tonnes.

Severstal-Metiz operates wire and wire goods production facilities in Cherepovets, Orel and Volgograd. In 2006, the Group acquired the Dneprometiz plant in Ukraine. Each of these locations in Russia and Ukraine benefits from developing markets with a high concentration of industrial and retail customers. In addition to enjoying significant geographic coverage, Severstal-Metiz operates in each of the primary parts of the Russian metalware products market, benefitting from the range of products manufactured at the respective plants. Dneprometiz produces wire and certain other processed products at its production facilities located in Ukraine.

Since 31 July 2008, Redaelli (Italy) has been a part of Severstal-Metiz. Redaelli is an Italian company, one of leading manufacturers of special ropes on the global market. The company produces products for a number of industries, including oil and mining, bridge building, electric and power. It is focused on advanced ropes for floating drilling platforms, lifters, stadiums, cable bridges and ropeways. Redaelli has a service and distribution unit and an engineering unit. A new site was opened in Trieste, Italy, on 30 November 2009.

Steel Production Process

The diagram below illustrates the major steps in Severstal Russian Steel's main steel production processes:



Severstal Russian Steel continuously seeks to improve the efficiency of the steel production process through asset modernisation programme.

The steelmaking process at the Cherepovets Steel Mill begins with coal being fed into the coking plant and iron ore concentrate and other materials being fed into the sintering plant to produce coke and sinter, respectively. The mix of sinter, pellets and coke is then fed into the blast furnaces, which operate continuously. During the blast furnace process, the charge is converted into hot metal. Liquid slag, which remains after smelting, is also removed from the blast furnaces. When cooled, the slag is crushed at the slag processing facilities and is then sold domestically by Severstal Russian Steel as road-construction material. Gas produced by the blast furnaces is captured and recovered for further process needs.

The hot metal is transported to the BOF shop and EAFs in railway ladle cars. The basic oxygen steelmaking process is autogenous, or self-sufficient in terms of energy.

The two EAFs at the Cherepovets Steel Mill, 150 tonnes per heat each, do not need to be charged with hot metal, and can be charged with "cold" material, normally steel scrap, recycled goods made from steel which have reached the end of their useful life and solid pig iron. The current proportion of scrap used in the EAFs is approximately 75 percent. Other forms of raw materials may be used, including pig iron from the blast furnaces that has been cast and allowed to go cold. Molten steel produced by the EAFs can either undergo secondary steelmaking or be transported to the continuous caster.

100.0 percent of the liquid steel is fed from the furnaces into continuous casting machines to produce slabs and billets. Continuous casting is the most efficient casting process with the lowest metal consumption per tonne of rolled products, saving approximately 70 kilograms of steel per tonne compared to ingot casting. The slabs are further rolled at the hot-rolling mills into sheet and coils.

Additional processing methods related to cold-rolling further improve the mechanical characteristics of the steel. These additional processing methods include pickling, hydrogen annealing and tempering. Some cold-rolled sheet is galvanised, which involves applying a coat of zinc and aluminium, and some is further colour coated.

Quality control. Severstal Russian Steel has established comprehensive quality control systems at each stage of its production cycle. Severstal Russian Steel employs a wide range of techniques, varying from performance benchmarking to best practices, along with statistical process control, which were initiated by Severstal Russian Steel in 2001. Since 2005, the Company has been developing and implementing a system of statistical production management and in 2009 witnessed a launch of the "Continuous Improvement" project under which a unified model of operational management and continuous quality improvement is being developed and implemented. The main objective of these quality control systems is to enhance the quality of steel by improving technological process parameters. The functioning of current quality control systems is carried out by an internal quality control department with continued support during transportation and loading provided by SGS Vostok Limited, a French based quality surveyor.

In July 2012, the Company passed a surveillance audit conducted by LR EMEA (Lloyd's Register), which resulted in verifying its quality management system's compliance with international specification requirements ISO 9001:2008 and ISO/TS 16949:2009 and extending validity of the quality management system certificates until 23 March 2014. The next compliance audit will take place in March 2013.

The quality control measures currently employed by Severstal Russian Steel, are primarily aimed at making products that meet the high standards applicable in the United States, Japan, EU countries and other developed markets along with the upgraded standards of the Russian oil and pipeline industries. Products made by Severstal Russian Steel have been certified for compliance with the regulations of IACS members, such as the Marine Register of the Russian Federation, Lloyd's Register, the American Bureau of Shipping, Norske Veritas, Germanischer Lloyd, Bureau Veritas, TUV Rheinland Group and the Russian River Register. A number of the Company's products for the construction market were appropriately certified by the Research, Design and Technological Institute of Concrete and Reinforced Concrete named after A.A.Gvozdev (NIIZB named after A.A. Gvozdev) and the Research Institute of Transport Facilities (OAO CNIIS). Severstal Russian Steel metal products are supplied for various offshore projects of development of oil and gas deposits, as well as to the construction markets of the European Union and neighbouring states. As of today the Company has more than 80 current certificates and expert reports attesting to the quality of a wide range of products, including by-products (steel-and-blast-furnace slag stones of different sizes).

The quality management system compliant with GOST R ISO 9000:2008 (a Russian quality standard) was introduced at TPZ Sheksna and is currently awaiting assessment by independent certification authorities. The laboratory of mechanical tests was successfully accredited on the pipe profiling plant Severstal TPZ-Sheksna, and was certified by VNIINMASH in December 2010. In December 2011, Severstal TPZ-Sheksna was certified by Lloyd's Register to conform to EN 10219, demonstrating its production completely corresponds to the basic requirements of the European Union Directives and can, as a result, be exported to the EU market; the certified product mix was extended for the entire family of S355J2H steel square and rectangular sections. In July 2012, the Company successfully passed a regular surveillance audit conducted by Lloyd's Register, in accordance with EN10219, and the scope of certificate and CE products labeling was extended and is valid for S355J2H steel round structural pipes and S235JRH steel square and rectangular sections. In December 2012, the company successfully passed a regular re-certification audit conducted by Lloyd's Register and, in accordance with EN10219, extended the scope of the certificate and CE product labeling for S235JRH steel round pipes. Preliminary work for Severstal TPZ-Sheksna products certification within GOST (National Standards) is being carried out.

The quality management system at the Izhora Pipe Mill has been certified since December 2006, corresponding to requirements of standards ANSI/API Specification Q1, ISO/TS 29001, ISO 9001 as developed, introduced and certified by the American Petroleum Institute (API). The Izhora Pipe Mill has licenses to use the API monogram on its pipes produced for main long distance oil and gas pipelines. In 2012, the scope of the API monogram licence was extended to include design, engineering, manufacturing and control of certain pipes used in transport pipelines. In 2013, it is expected to further extend to apply to the manufacturing of pipes for transport pipelines used in acid environments and offshore operations.

The Izhora Pipe Mill quality management system is compliant with Gazprom STO standard 9001, which is acknowledged by the certificate of conformity, issued by the Certification Association "Russian Register" in 2011.

The Izhora Pipe Mill has a DNV certificate enabling making pipes for offshore pipelines construction.

In 2011, within the GOST Certification System, the Izhora Pipe Mill was issued conformity certificates for the entire family of piping products.

Severstal-Metiz's three plants in Russia have management quality systems certificate, corresponding to the requirements of International Standard ISO 9001:2008, issued by Certification Association "Russian Register". Along with it, Severstal-Metiz has received a certificate of conformity stating that its quality control system is in compliance with the requirements of International Standard ISO/TS 16949:2009 concerning calibrated rolled metal and shaped sections issued by Der Norske Veritas (DNV). Severstal-Metiz testing laboratory based in Cherepovets successfully passed accreditation for conformance to the requirements of ISO17025, and in October 2011, it was issued an accreditation certificate by the Federal Agency for Technical Regulation and Metrology. In addition, Severstal-Metiz has a number of RosTekhNadzor (Russian Technical Supervisory Authority) certificates and permits attesting to the quality of its products, including steel ropes, reinforcing steel cables (PS Strand), railway fasteners, engineering and high strength fasteners, low carbon wire for concrete reinforcement, wire fibre and periodic profile wire (Bp 1).

Supply Chain

The principal raw materials used by Severstal Russian Steel to produce steel include iron ore concentrate and pellets, coking coal, limestone and dolomite, non-ferrous metal and ferro alloys and metal scrap. Severstal Russian Steel maintains a minimum two-week reserve of all the main raw materials used in the production process. This reserve is normally increased to approximately three weeks during the winter to compensate for any potential break in supply due to bad weather and for increased consumption rates experienced during the colder weather. In addition, during the winter, the stocks of ferro alloys and scrap are increased to one and three months, respectively.

Severstal Russian Steel's steel production energy requirements include water, gas, electricity and steam.

Raw materials. Currently Severstal Resources' overall coking coal and iron ore production volumes are able to cover in full the overall consumption volumes of Severstal Russian Steel, without taking into account the chemical features of the particular coal and iron ore mix required. As a result, Severstal Russian Steel's operations with respect to iron ore and coal are economically fully self-sufficient. However, Severstal Russian Steel does source a portion of its iron ore and coal requirements from third-party suppliers primarily due to its requirements for materials with different chemical features and to take advantage of beneficial prevailing prices. In 2012, Severstal Russian Steel's steel operations procured approximately 73 percent of its iron ore, concentrate and pellets, and 63 percent of its coal requirements from Severstal Resources, purchasing its remaining requirements from third-party sources.

In 2012 and 2011, the Cherepovets Steel Mill's raw materials requirements account for approximately 100 percent of Severstal Russian Steel's total raw material requirements.

The following table sets forth a breakdown of the raw materials procured by the Cherepovets Steel Mill in 2011 and 2012.

Procurement of Raw Materials—Cherepovets Steel Mill

	Year ended 31 December	
Raw materials	**2011**	**2012**
	(thousand tonnes)	
Iron ore (concentrate and pellets)	12,621	12,196
Coal	5,351	5,392
Metal scrap	3,005	2,631
Ferro alloys and non-ferrous metals	207	189

Iron ore and pellets. The smelting process at Severstal Russian Steel's blast furnace facilities requires up to 40 percent of the feedstock to be in the form of iron ore pellets, the majority of which are sourced from Severstal Resources. Almost all of the iron ore concentrate and pellets are supplied to Severstal Russian Steel on the basis of contracts, which are considered and reviewed on a monthly basis. All of Severstal Russian Steel's operations contracts with its iron ore suppliers, including those with Severstal

Resources, are concluded on an arm's length basis. Severstal Russian Steel's quality control of iron ore supplies involves verifying suppliers' quality certificates and monitoring the moisture content, iron content and weight of the ore concentrate at laboratories located at each of Severstal Russian Steel's production facilities. Some contract arrangements provide for price adjustments depending on the quality of the concentrate.

In 2011 and 2012, the Cherepovets Steel Mill's iron ore requirements account for approximately 100 percent of Severstal Russian Steel's total iron ore requirements.

The following table sets forth a breakdown of the iron ore procured by the Cherepovets Steel Mill by supplier in 2011 and 2012.

Major Suppliers of Iron Ore Concentrate and Iron Ore Pellets—Cherepovets Steel Mill

Supplier	Year ended 31 December	
	2011	2012
	(thousand tonnes)	
Iron ore concentrate		
Olkon[1]	4,469	4,732
Kovdorsky GOK	2,556	2,606
Yakovlevskaya Ruda	115	308
Others	752	340
Iron ore pellets		
Karelsky Okatysh[1]	4,730	4,210

Note:

(1) Owned by the Group.

Coal. Severstal Russian Steel meets most of its annual coke supply requirements from its own coke batteries, using coal purchased from Severstal Resources, with the remainder sourced from third parties. It receives some additional supplies of coke concentrate from third-party suppliers.

Severstal Russian Steel has long-standing relationships with its key coal suppliers, which consist primarily of companies in Severstal Resources, and, in particular, Vorkutaugol. Vorkutaugol has been supplying coal to Severstal Russian Steel and its predecessors for more than 40 years. Geographically, the Cherepovets Steel Mill is closer to Vorkutaugol than Vorkutaugol's other customers.

All contracts with Severstal Russian Steel's coal suppliers, including those with Severstal Resources, are concluded on an arm's length basis and may be suspended if suitable coal can be purchased from alternative suppliers at lower prices. Contracts are generally concluded for a term of one year, with the intention of ensuring continuity, security and reliability of supplies.

In 2011 and 2012, the Cherepovets Steel Mill's coal requirements account for approximately 100 percent of Severstal Russian Steel's total coal requirements.

The following table sets forth a breakdown of the coal procured by the Cherepovets Steel Mill by supplier in 2011 and 2012.

Major Suppliers of Coal—Cherepovets Steel Mill

Supplier	Year ended 31 December	
	2011	2012
	(million tonnes)	
Vorkutaugol[1]	3,636	3,400
Sibuglemet	136	147
Mechel	242	—
KRU	650	684
Stroyservis	687	1,044
Others	—	264

Note:

(1) Owned by the Group.

Scrap. Severstal Russian Steel is a significant consumer of scrap in Russia and sources its scrap on a spot basis from smaller suppliers and on a contract basis for larger volumes, in part sourced from the Group's own scrap collectors. In 2012, Severstal Russian Steel purchased approximately 2.6 million tonnes of scrap.

Severstal Russian Steel has its own scrap-processing facilities that allow it to utilise a wide range of sizes of steel scrap. These facilities include special cutting and packaging lines for processing the scrap so that it is ready for use in the smelting process. Scrap is sourced both externally, from companies that collect scrap metal, and internally, by using amortisation scrap, which consists of fixed assets that were cut up and melted down at the end of their useful lives, and production waste. Scrap is used in all steel-melting processes; the average proportion of scrap metal in the metal charge used in the smelting process ranges from approximately 25 percent in the oxygen converter and 75 percent in the electric arc shop.

Other raw materials. Severstal Russian Steel sources limestone from its open-pit limestone mines located in the northern part of the Vologda region in Russia, approximately 250 kilometres from Cherepovets.

A wide range of ferro alloys is also used in the steelmaking process. Non-ferrous metals, such as zinc and aluminium, are employed primarily in the production of higher value-added steel products, such as galvanised sheet. Severstal Russian Steel sources most of its ferro alloy requirements from third-party suppliers under annual contracts.

Severstal Russian Steel also imports certain raw materials, such as ferro-alloys and refractory materials, from Norway, France, Austria, China, Ukraine, Germany and Brazil. Contracts are typically for a term of one year, with prices being fixed on a quarterly or on a half-year basis or adjusted monthly by reference to market rates. Prices for non-ferrous metals are generally linked to the London Metal Exchange prices for such metals.

Energy. Cherepovets Steel Mill uses the vast majority of Severstal Russian Steel's electricity requirements. Its electricity requirements total approximately 5.57 billion kilowatt hours per year. In 2012, 58.9 percent of these electricity requirements were provided by two on-site power stations owned by Severstal Russian Steel. The two power stations have a total installed capacity of approximately 421 megawatts. The power stations generate electricity by burning natural gas and waste by-products from the steel mill's production process, such as coke breeze, blast-furnace gas and coke-oven gas. Recycling waste by-products creates significant cost savings. As a result, Severstal Russian Steel uses a relatively low amount of energy coal to generate electricity at its facilities. Severstal Russian Steel covers its remaining electricity requirements through direct contracts to buy electricity in the Russian wholesale electricity market, typically with a term of one year.

In 2011 and 2012, the Cherepovets Steel Mill's energy requirements accounted for a substantial portion of Severstal Russian Steel's total energy requirements.

The following table sets forth a breakdown of the energy consumption of the Cherepovets Steel Mill in 2011 and 2012.

Consumption of Energy—Cherepovets Steel Mill

	Year ended 31 December	
Energy consumption	**2011**	**2012**
Electricity (million kilowatt hours)[(1)]	6,546.0	5,568.9
Natural gas (million cubic metres)	2,229.1	2,220.1
Diesel and fuel oil (thousand tonnes)	30.4	31.2

Note:

(1) Cherepovets Steel Mill's electricity generation facilities generated 3,063.9 million kilowatt hours and 3,279.6 million kilowatt hours in 2011 and 2012, respectively, the majority of which was used by the plant, and some of which was used by other production facilities or lost in transmission. The plant purchased 3,481.9 million kilowatt hours and 2,289.2 million kilowatt hours in 2011 and 2012, respectively.

The Cherepovets Steel Mill purchases a significant amount of electricity on the wholesale market in addition to the amount it produces internally. Prices for electricity in the Russian wholesale market have continued to increase and further increases are expected in line with the liberalisation of the Russian

electricity industry. If prices remain high and if it is economically feasible to do so, Severstal Russian Steel will consider constructing additional generating units, such as is already the case with the replacement of turbine generator 4 which is expected to increase in-house power generating capacity.

To generate heat, the steelmaking facilities within Severstal Russian Steel use blast furnace gas. The gas used is sufficient to meet all of the heat requirements of Severstal Russian Steel, with surplus heat being sold to local utilities.

Natural gas and fuel oil also form part of Severstal Russian Steel's energy requirements. Natural gas is used as a heat source in the blast furnaces, reheating lines and power plants.

The power plants within Severstal Russian Steel operate a combined cycle. These plants burn gases, including natural gas, to generate steam for electricity and burn by-product coal breeze from the coking plants to supplement hot water and industrial steam output. Severstal Russian Steel's power plants use fuel oil only in emergencies.

Starting from 1 January 2013, gas will be supplied by OAO Novatek under the contract concluded with OAO Severstal and Severstal-Metiz in September 2012. Affiliates of Gazprom, LukOil and TNK BP supply fuel oil, typically under contracts with a term of one year, with a price determined monthly.

Products

Steel products

Crude steel products. Severstal Russian Steel had a total crude steel output of 10.55 million tonnes in 2012.

The table below sets forth Severstal Russian Steel's production of crude steel in 2011 and 2012, as well as the estimated aggregate production of crude steel in Russia and Severstal Russian Steel's estimated share of production.

Crude Steel Production—Severstal Russian Steel

Year	2011	2012
Severstal Russian Steel, (million tonnes)	11.4	10.55
Estimated aggregate production of crude steel in Russia, (million tonnes)	68.9	70.6
Severstal Russian Steel's estimated share of production in Russia, (percent)	16.4	14.9

Source: worldsteel.

Semi-finished products. Semi-finished products are intermediary products from the production process and represent generic steel products that have not yet been rolled for a specific application. The Division classifies the following products as "semi-finished".

Finished steel products. Most of Severstal Russian Steel's crude steel production is further processed into finished steel products, which include flat and long products. Flat products include hot-rolled and cold-rolled sheet, plates and coils. Long products include hot-rolled sections, rebar and wire rod.

The following table sets forth Severstal Russian Steel's total output and sales volumes by product category in 2011 and 2012.

Crude steel output and sales volumes by product—Severstal Russian Steel[(1)]

	Year ended 31 December	
	2011	2012
	(thousand tonnes)	
Output volumes		
Crude steel	11,355	10,553
Sales volumes by product		
Hot-rolled strip and plate	4,616	4,482
Large diameter pipes	504	321
Cold-rolled sheet	1,410	1,292
Metalware products	763	829
Galvanised and other metallic coated sheet	761	604
Long products	820	831
Semi-finished products	1,298	932
Other tubes and pipes, formed shapes	589	636
Colour coated sheet	240	368
Scrap	208	57
Total steel products	**11,209**	**10,352**
Other and shipping	—	—
Total sales by products	**11,209**	**10,352**

Note:

(1) Includes intersegment sales.

The Group's high value-added products comprise hot-rolled plates, large diameter pipes, cold-rolled sheet, metalware products, galvanised and other metallic coated sheet, colour coated sheet and other tubes and pipes, formed shapes.

Hot-rolled strip and plate. Hot-rolled flat products include heavy gauge plate and light gauge hot-rolled sheet produced from ordinary and high-quality carbon steel, low-alloy strengthened steel and clad steel. Clad steel includes two- and three-ply steel combined with a corrosion resistant or wear-resistant ply.

Severstal Russian Steel produces hot-rolled plate with a maximum thickness of 450 mm, up to 4,800 mm in width and 20 thousand mm in length, as well as coils for rerolling of up to 36 tonnes. Heavy gauge plate is used to manufacture pipes, oil and gas tanks, ships, bridge structures and railway cars. Light gauge hot-rolled sheet has a minimum thickness of 0.8 mm and is used for welded pipe and tubing, automotive parts, small-size shapes, channels and profiles.

Large diameter pipes. The Izhora Pipe Mill produces large diameter pipes with three layered anti-corrosion coating, diameters ranging from 610 mm to 1,420 mm and 18.3 metres in length, aimed at domestic customers in the gas industry, as well as domestic oil customers and some export customers.

Severstal Russian Steel is able to produce sophisticated steel grades for pipe manufacturing as well as high-quality steel with a very low level of impurities (sulphur content of less than 0.025 percent and a phosphorus content of less than 0.05 percent).

Cold-rolled sheet. A cold-rolled flat product consists of cold-rolled sheet and coils with a thickness of 0.25 to 3.2 mm and is up to 1,620 mm in width. Cold-rolled sheet, which has a greater plasticity and a better surface quality than hot-rolled sheet, has various uses, including the manufacture of automotive body panels and home appliances. In addition, cold-rolled products serve as feedstock for Severstal Russian Steel's galvanised and roll-formed products.

Metalware products. Severstal-Metiz sites are focused on metalware production, such as low-carbon and high-carbon wire rods, nails, cold drawn steel, steel rope, netting and fastenings. Severstal-Metiz

comprises three sites in Russia: in Cherepovets, Orel and Volgograd, located in North-West Russia, central Russia and the Volga region, respectively. The Metalware business also has sites in Ukraine and Italy.

Galvanised and other metallic coated sheet. Severstal Russian Steel produces galvanised coated products, including those produced for the automotive industry by Severgal. Severstal Russian Steel believes that demand for galvanised products from international automotive manufacturers will increase. Due to strict requirements of automotive plants outside Russia, Severstal Russian Steel has focused on improving the quality of its products significantly and has developed new grades of products (for example, products with an aluminum-silicon coating and high-strength steels) to meet the demands of automotive customers. Severstal Russian Steel has benefited from Severstal International's experience in manufacturing high-quality galvanised products for the automotive industry.

Long products. Hot-rolled steel sections are produced from ordinary carbon steel, high-carbon steel, low-alloy steel, structural alloy steel and include equal and unequal angles, hexagonal shapes, round bars, steel strips, wire rods and reinforcement bars.

Other tubes and pipes, formed shapes. Severstal Russian Steel produces more than 250 types of carbon and low-carbon steel roll-formed shapes, including perforated, close welded square and rectangular sections. Profiles with rectangular and square cross sections are widely used in the agricultural machine building, civil construction and automotive industries. Cold-formed sections also include a wide range of pipes and construction and furniture materials.

To satisfy the growing demand of the Russian construction market, Severstal Russian Steel launched Severstal TPZ-Sheksna in 2010, resulting in increased production capacity of up to 250 thousand tonnes of steel tube, formed shapes and hollow sections per year.

Colour coated sheet. Severstal Russian Steel produces colour coated material of more than 20 colours with thickness of up to 1.2 mm and width from 1000 to 1400 mm. The main application of the colour coated products is in the construction industry for roofing, hedging and similar uses. In some cases this product can substitute for galvanised material.

Scrap. Severstal Russian Steel conducts gathering, processing and delivery of breakage of ferrous metals for further use in steel smelting units, including for export.

Other and shipping. Other goods manufactured by Severstal Russian Steel include civil construction goods and associated products. Severstal Russian Steel also renders services in transportation and support of cargoes both domestically and abroad.

Research and Development

Severstal Russian Steel is pursuing research and development initiatives with Russian universities and research institutes. Such initiatives include research and development centres for cast iron, steel and metal rolling production applications.

Severstal Russian Steel is also conducting research initiatives, including the development of new kinds of cold-rolled and hot-rolled sheet which is not currently produced in Russia, the development of a strip with special properties, such as cold-resistance and plasticity, bimetallic rolled stock combining high-wearing quality of the cladding layer and high plasticity, weldability and cold-resistance of the primary layer, and a cold-rolled galvanised automobile-body sheet of high durability. In addition, research is directed towards the optimisation of chemical composition and process dependent parameters for the improvement of surface finish, and the reduction of expenses in the production of hot-rolled, cold-rolled and galvanised sheets.

Sales, Marketing and Competition

Severstal Russian Steel sells its products in both export and Russian domestic markets. Severstal Russian Steel views the Russian domestic market as strategically important and has implemented a long-term programme designed to broaden its customer base and develop its relationship with various key customers. In the export markets, Severstal Russian Steel aims to sell products predominantly on a spot-market basis.

The following table sets forth the revenues by market for both domestic and export sales for Severstal Russian Steel in 2011 and 2012.

Revenues by Market—Severstal Russian Steel[(1)]

Market	Year ended 31 December	
	2011	2012
	(percent of revenues)	
Domestic sales		
Russian Federation	64.6	64.9
Export sales		
Europe	18.8	17.8
The Middle East	3.9	3.0
China and Central Asia	4.9	6.1
South-East Asia	1.6	1.0
Africa	1.2	1.0
Central and South America	2.2	3.5
North America	2.8	2.7
Total	**100.0**	**100.0**

Note:

(1) Includes intersegment sales.

The following table sets forth the revenues by industry sector for both domestic and export sales for Severstal Russian Steel in 2011 and 2012.

Revenues by Industry Sector—Severstal Russian Steel[(1)]

Industry sector	Year ended 31 December	
	2011	2012
	(percent of revenues)	
Construction and processing	51.9	52.8
Oil and gas	10.4	6.8
Machinery building	9.6	10.3
Tube and pipemaking	12.8	12.3
Automotive	6.8	7.9
Other	8.5	9.9
Total	**100.0**	**100.0**

Note:

(1) Includes intersegment sales.

The main change in the Russian market in 2012 was a major decrease in demand in the oil and gas industry. This decrease in demand influenced not only sales in this sector but also sales in the tube and pipemaking industry where the oil and gas sector is the main customer of large-diameter pipes. Consequently, sales to this sector decreased from 10.4 percent in 2011 to 6.8 percent in 2012, and sales in the tube and pipe making industry decreased from 12.8 percent in 2011 to 12.3 percent in 2012. Respectively, sales in other segments increased due to a stable growth in demand. Construction and processing sales increased from 51.9 percent in 2011 to 52.8 percent in 2012 and remained the majority of Severstal Russian Steel's sales. The share attributable to the automotive industry grew from 6.8 percent in 2011 to 7.9 percent in 2012, and sales in the machinery building industry increased from 9.6 percent in 2011 to 10.3 percent in 2012.

Russian domestic sales. Severstal Russian Steel continues to regard Russia as its most important market. This market has certain advantages, including the ability to realise higher profit margins, high demand from domestic industries that rely on a stable supply of steel products, lower transportation costs for delivery of products and the ability to develop long-term strategic alliances with customers. Due to

post-financial crisis recovery of Russian industries, Severstal Russian Steel's domestic sales increased to 64.9 percent in 2012 compared to 64.6 percent in 2011.

Customers. Since 2007, Severstal Russian Steel has attached increasing importance to the construction and construction materials sectors, which include a number of important customers located in the European part of Russia. Sales to the construction segment accounted for 45.4 percent of domestic sales in 2012. At the same time Severstal Russian Steel's largest customers are in the oil and gas, pipe-manufacturing and automotive sectors.

A major part of Severstal Russian Steel's domestic sales are made by the Cherepovets Steel Mill, either directly to end users or to trading and distribution companies (see also "*—Distribution*"). The following paragraphs briefly describe the main customers to which the Cherepovets Steel Mill sells directly.

Tube and pipe-making industries accounted for 16.8 percent of Severstal Russian Steel's total domestic sales by value in 2012. Approximately 40 percent of sales in this segment are covered by large pipe mills such as OAO TMK, OAO Gazpromtrubinvest, OAO Chelpipe and OAO VMZ. The Cherepovets Steel Mill is able to produce sophisticated steel grades for pipe manufacturing as well as high-quality steel with very low level of impurities.

The Russian automotive sector accounted for 8.4 percent of Severstal Russian Steel's total domestic sales in 2012. Severstal Russian Steel's key customers in the domestic automotive sector are foreign car manufacturers (Renault, Nissan, Hyundai, Volkswagen), OAO KAMAZ, Sollers and GAZ Group. Due to the strict requirements of automotive plants, especially those outside Russia, Severstal Russian Steel has focused on improving the quality of its products significantly and has developed new grades of products (for example high-strength steels) to meet the demands of customers and has benefited from Severstal International's experience in manufacturing high-quality galvanised products for the automotive industry.

Key customer management. Severstal Russian Steel has identified a number of key customers as part of a project to work in close co ordination with customers in strategically important sectors, including such large accounts as OAO OMK, OAO Gazprom, OAO Transneft, OAO Chelpipe, OAO TMK, GREIF, OSK (United Shipbuilding Corporation), and GAZ Group. Severstal Russian Steel works with these customers as part of its "key account management" process, managed by a dedicated team which includes the development of new products and leads to further innovations for both the customers and Severstal Russian Steel. Services for such customers include the construction of consignment warehouses in different regions and quarterly product quality co ordination, managed by representatives of both Severstal Russian Steel and the relevant customer. Sales by Severstal Russian Steel to such customers' accounts for more than 20 percent of Severstal Russian Steel's total sales.

Distribution. Severstal Russian Steel's domestic sales are made to regional and other distributors, directly to end-users, or through Severstal Invest.

The regional distribution of Severstal Russian Steel's products primarily involves the delivery of steel to the construction and processing industry.

Products. Severstal Russian Steel's domestic sales are dominated by hot-rolled strip and plate, which accounted for approximately 35.6 percent of total domestic sales by volume in 2012. Higher value-added products such as cold-rolled flat products and coated sheet are also very significant, making up approximately 26.0 percent of total domestic sales by volume in 2012.

The following table sets forth the domestic sales by product for Severstal Russian Steel in 2011 and 2012.

Domestic Sales by Products—Severstal Russian Steel[(1)]

Product	Year ended 31 December			
	2011		2012	
	(thousand tonnes)	(US$ million)	(thousand tonnes)	(US$ million)
Hot-rolled strip and plate	2,333	1,826.6	2,199	1,433.5
Large diameter pipes	499	1,002.3	298	541.0
Cold-rolled sheet	967	811.3	773	550.9
Metalware products	524	635.3	568	629.2
Galvanised and other metallic coated sheet	629	643.4	494	469.0
Long products	740	543.6	758	507.3
Semi-finished products	47	29.9	188	123.8
Other tubes and pipes, formed shapes	474	407.1	504	380.2
Colour-coated sheet	219	275.8	337	392.4
Scrap	78	26.1	55	16.6
Total steel products	**6,510**	**6,201.4**	**6,174**	**5,043.9**
Other and shipping	—	608.6	—	551.4
Total sales by products	**6,510**	**6,810.0**	**6,174**	**5,595.3**

Note:

(1) Includes intersegment sales.

Contracts. Severstal Russian Steel has developed a flexible approach to contractual relations with its Russian domestic customers. Contracts are concluded on a quarterly, semi-annual or annual basis, depending on the customer. Factors determining the length of the contract include, for example, relationship history, industry and significance of the customer in its industry. Contracts also include a flexible system of discounts and rebates that provides for price adjustments on the basis of product tonnage, timing of payment and other contractual terms.

The current economic environment is also a significant factor in choosing the length of the contractual period and certain other contractual terms (e.g., price and volume). As market prices become more volatile, contracts will provide for more frequent renegotiation of the terms. In the domestic market, this is illustrated by shorter contract periods with customers in the metal trading and metal processing industries, whose markets are characterised by volatility, whereas customers in the automobile industry generally have longer contractual periods, reflecting the relative stability of the automotive market generally. In the export market, shipments usually are made on a monthly basis, but with a couple of exceptions for more stable customers, such as purchasers of cold-rolled non-grain oriented steel.

Contracts for key customers usually have a duration of approximately three months, after which the price may be renegotiated, and may include other customised terms.

Severstal Russian Steel seeks prepayments from certain customers, including new customers and those companies who are considered to be at risk financially. The remainder of contracts requires settlement within a range of two to three weeks from delivery and combined settlements. This flexibility of contract and credit terms has generated a significant competitive advantage for Severstal Russian Steel, allowing it to forge closer ties with customers and to react more effectively to changes in market conditions. In recent years, Severstal Russian Steel has experienced very low levels of bad debts.

Sales by products. In spite of increased demand for coated steel in Russia in 2012, Severstal Russian Steel decreased its market share in coated products from 18 percent in 2011 to 16 percent in 2012. While sales volumes remained the same, the product portfolio became more profitable due to an increase in the market share of polymer-coated steel and the switch of metallic-coated steel assortment from thick gauges to thin gauges. In addition, despite strong growth in demand in the construction industry Severstal Russian Steel's reduced its market share in construction pipes from 16 percent in 2011 to 14 percent in 2012.

Severstal Russian Steel's market share in flat hot-rolled products remained unchanged at 21-22 percent in both 2011 and 2012, while its market share in cold-rolled steel decreased from 29 percent in 2011 to 23 percent in 2012 due to Severstal Russian Steel's redirecting the volumes to the export markets of cold-rolled steel. Severstal Russian Steel's market share in long products remained unchanged at 7 percent in both 2011 and 2012. Management anticipates that the commissioning of the Balakovo mini-mill in 2013 will enable Severstal Russian Steel to improve its market share

Izhora Pipe Mill. In 2012, more than 90.0 percent of Izhora Pipe Mill's sales were made into the Russian domestic market. Izhora Pipe Mill sells most of its products to the oil and gas industry and, in particular, to Gazprom, which purchased approximately 73.4 percent of all products sold by the mill in 2012. Sales are usually made to customers directly, generally under one year contracts.

Severstal Russian Steel's market share in large diameter pipes decreased from 14 percent in 2011 to 13 percent in 2012. The domestic market of large diameter pipes declined by nearly 50 percent in 2012 and caused Izhora Pipe Mill to sell part of its production to export. Market share was also influenced by a change in the product's gauge, which became more light-weight for the Izhora Pipe Mill than in 2011.

Metalware domestic sales. Severstal-Metiz continues to regard Russia as its most important market. This market has certain advantages, such as significant demand from the domestic construction industry and greater profit margins, compared with export markets, and is characterised by lower transportation costs for delivery to customers from its Russian production facilities.

Severstal-Metiz's most important Russian customers are in the construction industry and the mass market, which consists primarily of small and medium sized businesses, housing and communal services providers as well as individuals. Due to the absence of significant consolidation in the construction industry, Severstal-Metiz's customer base is large.

In 2012, Severstal-Metiz's market share of the combined Russian and Belarus markets was approximately 21 percent. Cold drawn production accounts for the largest share of these sales.

Severstal-Metiz's Russian customers purchase its products on a range of contractual terms, varying from point of sale transactions to long-term contracts of typically three, six or twelve month durations and depending also on factors such as the customer's history and the industry. Severstal-Metiz typically seeks prepayments from certain customers, including new customers and those who are considered to be at risk financially. A flexible system of discounts and rebates may also be given according to product tonnage, timing of payment and other matters.

Export sales. In line with its strategy of focusing on the Russian domestic market, Severstal Russian Steel's export sales strategy is oriented towards spot markets of steel products. In 2012, export sales of Severstal Russian Steel decreased by approximately 521 thousand tonnes, reaching 4,178 thousand tonnes. The main market of Severstal Russian Steel's export sales is still Europe, which accounted for 17.8 percent of total sales (18.8 percent in 2011). The regions which increased their shares in total sales in 2012 were China and Central Asia to 6.1 percent in 2012 from 4.9 percent in 2011 and Central and South America to 3.5 percent in 2012 from 2.2 percent in 2011.

Customers. Severstal Russian Steel also focuses on a number of strategic export customers, focusing specifically on those customers who have recently established, or are likely to establish, operations in Russia or in other markets that Severstal Russian Steel considers to be strategically important (for example, Greif, Inc. and Ford Motors).

Severstal Russian Steel's largest export customers are rerollers and tubemakers. In 2012, the major buyers were Marcegaglia S.p.A., Welspun Corp. Ltd. and ArcelorMittal.

Distribution. Severstal Russian Steel conducts its export sales through export trading subsidiaries, Severstal Export GmbH, AS Severstallat, LLC Severstal Ukraine and ZAO SeverstalBel. This system has enabled Severstal Russian Steel to increase the efficiency of its export operations by minimising its reliance on intermediaries in the sales process, thereby reducing its distribution costs.

Severstal Export GmbH is the marketing centre for Severstal Russian Steel's sales operations in the export markets, excluding the Baltic States, which are covered by AS Severstallat. Handling export operations through one centre has allowed Severstal Russian Steel to achieve cost savings through lower administrative expenses, to benefit from large volumes and to eliminate intermediaries from the distribution chain.

AS Severstallat has been Severstal Russian Steel's export agent in the Baltic region since its formation in 1992. Although Severstal Russian Steel has direct contracts with certain customers in the Baltic market, the majority of sales contracts, primarily with shipbuilding companies, are concluded through AS Severstallat. AS Severstallat now operates as the export agent and the customer oriented regional service centre for the Baltic countries and Northern and Eastern Europe. It conducts a variety of businesses, including the distribution of material produced in the Russian mills of the Division, the production of tubes and hollow sections, and a service of cutting and slitting coils.

Severstal Russian Steel's export trading companies are responsible for the day to day management of export operations, with monitoring provided by Severstal Russian Steel's sales department in collaboration with the trading companies described above. This system provides a higher degree of control over export operations and ensures that these operations are aligned with Severstal Russian Steel's long-term strategy.

Products. Severstal Russian Steel's export sales consist predominantly of flat products, with hot-rolled products and cold-rolled products accounting for approximately 54.6 percent and 12.4 percent, respectively, of sales by volume in 2012. Semi-finished products are also a significant part of total sales due to strong cost advantages in the merchandise slab market.

The following table sets forth the export sales by products for Severstal Russian Steel in 2011 and 2012.

Export Sales by Products—Severstal Russian Steel[(1)]

Product	Year ended 31 December			
	2011		2012	
	(thousand tonnes)	(US$ million)	(thousand tonnes)	(US$ million)
Hot-rolled strip and plate	2,283	1,573.3	2,283	1,314.1
Large diameter pipes	5	4.4	23	23.9
Cold-rolled sheet	443	386.6	519	366.8
Metalware products	239	332.1	261	340.7
Galvanised and other metallic coated sheet	132	134.8	110	103.6
Long products	80	62.0	73	48.7
Semi-finished products	1,251	739.1	744	367.8
Other tubes and pipes, formed shapes	115	104.7	132	102.8
Colour-coated sheet	21	30.0	31	36.2
Scrap	130	50.7	2	0.7
Total steel products	**4,699**	**3,417.7**	**4,178**	**2,705.3**
Other and shipping	—	319.1	—	316.5
Total sales by products	**4,699**	**3,736.8**	**4,178**	**3,021.8**

Note:

(1) Includes intersegment sales.

Hot-rolled and cold-rolled sheets and plates. Exports of plates are primarily to clients in the CIS automotive and machinery industries, as well as other international pipe manufacturers. Sales of plates are mainly effected on the spot market.

Semi-finished products. Exports of semi-finished products are mainly represented by slabs purchased by foreign companies producing hot-rolled products, such as Marcegaglia S.p.A. and Welspun Corp. Ltd.

Metalware. The main international markets for metalware products are those in the CIS, as well as in Europe. Its customers are generally in similar industries to those in the Russian market. Severstal-Metiz conducts its export sales mainly through Dneprometiz, which sells primarily to customers in Ukraine and Redaelli Tecna in Italy.

Pipes. The main international market for Cherepovets pipes is the CIS market. The European customers are shipped pipes made in Riga and Silesia (Poland) on AS Severstallat's facilities.

Scrap. Scrap is mostly sold in the domestic market.

Competition

Both the Russian and the international steel markets are highly competitive due to the large number of key players. Primary competitive factors include product sophistication, quality, price, payment terms and customer service. In addition, the development of new technologies has reduced the capital costs associated with steel production and led to increased competition from new entrants to the industry with lower capital requirements. The steel industry also competes with producers of materials that offer an alternative to traditional steel products, such as aluminium or plastic. In response to this competition, Severstal Russian Steel has consistently invested in new facilities, allowing it to produce lower cost, higher quality and more sophisticated products, as well as in management systems and personnel. The Group has also steadily moved Severstal Russian Steel further down the value-chain, producing high value-added, differentiated products and establishing closer relations with end-users. The share of the domestic market in Severstal Russian Steel's total sales has increased from 64.6 percent in 2011 to 64.9 percent in 2012.

Severstal Russian Steel's key competitors in the Russian domestic markets for flat-rolled steel products are MMK and NLMK. The major competitors for long products include Evraz and Metalloinvest. OMK, TMK and Chelpipe compete with Severstal Russian Steel in pipes.

The following table sets forth the principal competitors of Severstal Russian Steel in the Russian crude steel market by volume of production.

Principal Competitors of Severstal Russian Steel—Russian Crude Steel Production

Company	Year ended 31 December	
	2011	2012
	(thousand tonnes)	
NLMK	11,231	13,988
MMK	11,724	12,247
Evraz	12,125	11,675
Severstal Russian Steel	11,355	10,554
Metalloinvest	5,821	5,618

Source: Official company data, Metal Expert.

The Russian market is characterised by intensifying competition for customers, raw materials, capital and experienced personnel. The Cherepovets Steel plant is one of the largest complexes in Russia, and is also the most sophisticated in Russia by range of products. The plant has a captive supply of high-quality raw materials, allowing it to ensure a favourable cost baseline even as compared to the largest domestic competitors. These factors have enabled Severstal Russian Steel to increase its sales in the domestic construction market.

Finally, Severstal Russian Steel's relative market strength is underpinned by its proactive marketing strategy and ongoing efforts to increase quality and technical sophistication, which has allowed it to forge long-term relationships with key domestic customers in the pipe production and automotive sector.

Capital Expenditure Programme

Severstal Russian Steel's capital expenditure in 2011 and 2012 was US$712.3 million and US$829.6 million, respectively, most of which was spent on new projects as well as on the repair and modernisation of its existing steel operations. Severstal Russian Steel's capital expenditure programme is designed to increase productivity and efficiency, effect environmental upgrades, replace and refurbish major equipment, and develop its product mix further to produce higher-quality, value-added products, including coated steel and cold-rolled products. New products under development include tube-making strips, such as the pilot batch of X-80 and X-100 API-class strength steel for large-diameter pipelines; heavy plates for a shipbuilding project to be rolled by the 2800 and 5000 rolling mills; hot-dip galvanised sheets for automotive exposed parts and IF-steels; duplex steels and micro-alloyed steels; a skelp steel with increased corrosion-resistant and low-temperature-resistant properties; and long products of A 500C class for construction applications.

As a result of the capital expenditure programme, modern processing technology and equipment from leading suppliers to the steel industry, including Fuchs, LOI and Siemens, have been installed at Severstal Russian Steel's facilities.

Severstal Russian Steel's total capital expenditure in 2013 is expected to be approximately US$704 million with the capital expenditure on maintenance to be approximately US$436 million including IT, ecology and social projects. The aggregate capital expenditure from 2014 to 2017 is expected to be approximately US$2.6 billion while the average yearly capital expenditure on maintenance is expected to remain at the level lower than capital expenditure on maintenance in 2013 (provided that the Group undertakes the expansion projects contemplated by the current business plan and subject to market conditions).

Cherepovets Steel Mill. Capital expenditure planned at the Cherepovets Steel Mill is primarily as follows:

Blast furnace facilities. Blast Furnace 3 was decommissioned at the end of 2006 for refurbishment and is expected to remain out of operation until 2018. Blast Furnaces 3, 4 and 5 are scheduled to have PCI technology installed with Blast Furnaces 3 and 4, to be completed by 2018 and, in respect of Blast Furnace 5, during its capital refurbishment in 2019. Reconstruction of the hot blast stoves in Blast Furnace 5 was begun in 2008, and is still underway. Blast Furnace 5 consists of four hot blast stoves, the last of which will become operational in 2019. Blast Furnace 2 is scheduled to be shut down in 2018, prior to the launch of Blast Furnace 3. Blast Furnace 1 is scheduled to be shut down in 2019. Coke batteries 7, 4, 8 and 9 will gradually be refurbished, and the construction thereof will be completed in 2013, 2016, 2018 and 2023, respectively.

Converter shop. Capital expenditures will focus on production expansion and quality improvement of output, enabling the production of new products and ecology. Dust-treatment equipment is also to be installed. The converter, the continuous-casting plant, the water handling facilities, the steel ladle facility and the steel secondary refining facility will be modernised. This is expected to increase the combined capacity of the continuous casters. In addition, a new secondary basic oxygen furnace emission plant project was launched and is expected to be completd in 2014.

Flat rolling facilities. Automated systems are to be installed and heating facilities refurbished. Mill 5000 is also to be modernised by improving the quality and decreasing the costs, and expanded to produce high-quality strips for large-diameter pipes and other applications.

The cold-rolling equipment is to be refurbished to increase product quality and production capacity to 2.9 million tonnes per year by 2016. One galvanising line with an annual capacity of 200 thousand tonnes and a colour coating line with an annual capacity of 200 thousand tonnes are planned for completion by 2016. Another galvanising line with an annual capacity of 200 thousand tonnes and a colour coating line with an annual capacity of 200 thousand tonnes are planned for completion by 2019.

Energy-generating facilities. The capital expenditure programme aims to increase the reliability of gas, water and energy supplies to the major production shops. To decrease the share of purchased energy the Group is planning to refurbish existing generating facilities. For example, turbine generator 4 is being replaced with the goal of increasing in-house power generating capacity with construction expected to be completed in 2013.

Transportation facilities. Capital expenditure on transportation facilities in Severstal Russian Steel is also planned, including the development of its internal railway infrastructure and the purchase of coil delivery ramps and locomotives.

Other facilities. Capital expenditure in downstream facilities within Severstal Russian Steel is also planned, including the construction of a number of service centres in Russia, aimed at increasing the production and distribution of high value-added products.

Environmental improvements. Preparations are in progress for implementing a range of activities focused on reducing air emissions and water discharge. For example, a dust exhausting plant modernisation program at the Sintering Plant is being undertaken with reconstruction expected to be completed in 2015.

Izhora Pipe Mill and Metalware facilities. The installation of a single-position expander enabling the expansion of production by 40 thousand tonnes per year is planned to begin in 2015 at the Izhora Pipe Mill. The Group's Russian metalware facilities have implemented capital expenditure programmes to enhance the efficiency of their assets and have formed a long-term development strategy. The further capital expenditure programmes include a project for special ropes and for the development of rope service centres in addition to other projects.

Mini-mill. Severstal Russian Steel plans to add a mini-mill in Russia with a planned capacity of approximately 1 million tonnes of finished long products per year. In July 2007, construction of the Balakovo mini-mill was started in the Saratov region of Russia. It is currently expected that the mini- mill will be completed in 2013 at an estimated cost of approximately US$697 million. This production facility is to be located close to growing markets for steel products, primarily as a result of the construction industry, as well as markets for scrap metal and raw materials for their EAFs.

Employees

Employee numbers for Severstal Russian Steel were reduced from 50,112 in 2011 to 47,573 in 2012, in part due to increased labour efficiency and ongoing efficiency improvements. The significant decrease in the number of employees has resulted in a significant improvement in the Company's overall labour productivity.

A two year collective bargaining agreement concluded between the Group and the Mining and Metallurgical Trade Union in 2009 in respect of employees at the Cherepovets Steel Mill, which provides, among other matters, that wages may be renegotiated when the price of a basket of goods increases by at least 5.0 percent, was extended until 2011. A new collective bargaining agreement with all the principal provisions of the previous agreement unchanged was concluded in 2011 and is effective until 2014. Since 1996, Severstal Russian Steel has experienced no material labour disputes, strikes or employee legal actions. Severstal Russian Steel considers its employee relations to be good.

The majority of employees of Severstal Russian Steel are entitled to a lump sum payment on retirement, which is based on their average salary and number of years of service, as well as monthly fixed payments.

Health, Safety and Environment

Management systems are certified to be in conformance with the requirements of OHSAS 18001 and ISO 14001 international standards.

Severstal Russian Steel is participating in the Group's overall labor safety project and the Group's management believes that it has been effective in reducing the number of incidents with an ultimate goal to be among the industry leaders in safety by 2014. During the period from 2008 to the end of 2012 the number of industrial accidents decreased from 121 to 49 (Lost Time Accident Frequency Rate decreased from 1.15 to 0.61). In 2011, there were three fatal accidents in Severstal Russian Steel. In 2012 there were 49 industrial accidents in Severstal Russian Steel, including two fatalities. The number of industrial accidents in the Russian Steel Division decreased from 42 to 20 during the period from 2008 to the end of 2012. The number of industrial accidents in the Maintenance and Repair Segment has decreased from 25 to 11 during the period from 2008 to the end of 2012.

The total expenditures on occupational health and safety measures at the Cherepovets Steel Mill in 2012 amounted to approximately US$31.7 million, compared to approximately US$14.1 million in 2011. These expenditures were made on items such as safety clothing, boots and other personal safety equipment and improving working conditions. Expenditures on implementation of environmental protection measures amounted to US$24.1 million in 2011 and approximately US$76.9 million in 2012.

Insurance

Severstal Russian Steel maintains a level of insurance covering property, plant and equipment. Severstal Russian Steel believes that this insurance is commensurate with the standards of other international and domestic steel companies and has business interruption insurance coverage ranging from fixed costs to full gross profits, depending on the plant, for interruption periods of up to 12 months.

Severstal Russian Steel does not purchase full insurance for third-party liability in respect of property or environmental damage.

Third-party insurance services are provided to Severstal Russian Steel by first-rate Russian insurers, including SOGAZ Insurance Company. All risks covered by policies issued by SOGAZ are reinsured, with approximately 70 percent to 95 percent reinsured in the international market and the remainder with domestic insurers.

Severstal International

Severstal International is comprised of Severstal Dearborn, Severstal Columbus and holding companies—Severstal US Holdings, LLC and Severstal US Holdings II LLC and Severstal Columbus Holdings, LLC. Severstal International holds interests in four joint ventures and one associate, established together with other US companies in order to expand product line and provide services: Double Eagle Steel Coating Company (***Double Eagle***), Spartan Steel Coating, LLC (***Spartan Steel***), MSC and Mississippi Steel Processing, LLC (***MSP***) and Delaco Processing, LLC (***Delaco Processing***). The joint ventures produce metallurgical coke and galvanised steel, and provide steel processing services. The Group's management continues to consider the optimal asset structure for the Group in the United States through making strategic acquisitions and disposals from time to time, as well as through ongoing organic growth.

Severstal Dearborn

Severstal Dearborn is located in Dearborn, Michigan. This location gives Severstal Dearborn strategic proximity to major automotive customers, to the Great Lakes waterways and to three large railroads in North America, providing logistically favourable access to raw materials and to customers. Current crude steel capacity at Severstal Dearborn is 2.1 million tonnes annually.

Severstal Dearborn's product line includes hot-rolled, cold-rolled and galvanised steel. These products and, in particular, the value-added products such as high strength, high-carbon and low-alloy steel, are largely targeted at the automotive industry.

Severstal Dearborn has three joint ventures and an associate, each established with US companies:

- Double Eagle is a 50.0 percent joint venture with United States Steel Corporation (***US Steel***), with a capacity of 0.6 million tonnes per year, approximately one-half of which is dedicated to supplying Severstal Dearborn. Double Eagle produces electrogalvanised sheet steel for automotive customers;
- Spartan Steel is a 48.0 percent joint venture with Worthington Steel of Michigan, with a capacity of 0.6 million tonnes per year, approximately 80 percent of which is dedicated to Severstal Dearborn. Spartan Steel produces hot-dip galvanised sheet steel for automotive and service centre customers. Severstal Dearborn supplies nearly 100 percent of the sheet steel used as substrate to Spartan Steel;
- MSC is a 50.0 percent joint venture with Renco Group, which has the capacity of 1.0 million tonnes per year, approximately half of which is dedicated to supplying Severstal Dearborn. MSC produces metallurgical coke; and
- Delaco Processing is an associate, 49.0 percent of which is owned by Severstal Dearborn and 51.0 percent of which is owned by Delaco Supreme Tool and Gear Company. Delaco Processing specialises in longitudinal slitting of steel coils and is capable of slitting steel coils with a width of up to 1,829 mm.

Severstal Columbus

Severstal Columbus is one of the most technologically advanced steelmaking facilities in North America. Commissioned in August 2007, it is the newest mini- mill in North America and the only EAF compact strip process (***CSP***) plant in the world designed to make exposed automotive steels. Severstal Columbus focuses on the production of high-quality, flat-rolled steel.

The Phase II expansion, which commenced in 2008 and was completed in the fourth quarter of 2011, increased crude steel capacity to 3.1 million tonnes, matching the hot strip mill capacity and allowing Severstal Columbus to achieve greater economies of scale. In addition, Phase II increased the capacity of downstream operations approximately 30 percent to 120 percent depending on the unit, including a continuous pickle line, batch annealing, temper mill and continuous galvanising line. The hot end of the Phase II expansion, which includes an EAF, ladle metallurgy furnace, tunnel furnace and continuous caster, began production in June 2011.

Severstal Columbus produces a broad range of high-quality hot-rolled, hot-rolled picked and oiled, cold-rolled and galvanised sheet products for customers primarily in the distributor, construction, automotive, appliance, machinery and pipe and tube markets. It also has the capability to produce motor lamination grades and renitrogenised steels as well as value-added applications for culverts, shipbuilding and line-pipe.

Severstal Columbus is strategically located in Columbus, Mississippi giving it access to high growth markets in the southern United States and Mexico, including the growing vehicle manufacturing operations in those regions. Severstal Columbus's approximately 5.3 square kilometre site has been designed to allow for additional on-site downstream operations, which is intended to be developed independently or through joint development opportunities.

Severstal Columbus owns 20.0 percent of MSP, a steel service centre at Severstal Columbus' industrial site. MSP is a joint venture with Merlo Holding, Inc. (40.0 percent) and Layhill Ventures, LLC (40.0 percent). Production began in the second quarter of 2011 with annual production of 141,500 tonnes per year.

Facilities

Severstal International's main production facilities for Severstal Dearborn and Severstal Columbus are set forth below:

Steel Production Facilities, Severstal International Division—Capacity

	As at 31 December 2012	
	Equipment	Capacity
		(million tonnes per year)
Severstal Dearborn		
Blast furnace facilities	1	2.0
Basic oxygen furnaces	2	2.1
Ladle refining facilities	2	3.3
Vacuum degassing facilities	1	0.7
Continuous casters	2	3.3
Hot-rolling mills	1	3.5
PLTCM	1	1.9
Temper mills	1	0.8
Annealing processes	2	0.8
Hot-dip galvanising lines*	2	1.0
Electrogalvanising lines**	1	0.3
Severstal Columbus		
EAFs	2	3.2
Continuous casters	2	3.1
Hot-rolling mills	1	3.1
Push pull pickle line	1	0.6
Continuous pickle lines	1	1.5
Tandem mills	1	1.4
Temper mills	1	0.5
Annealing processes	1	0.7
Hot-dip galvanising lines	2	1.0

Notes:

* Joint venture and in-house equipment. Severstal International's share of the JV production is presented.

** Joint venture equipment. Severstal International's share of the JV production is presented.

Severstal Dearborn. Severstal Dearborn is focused primarily on high-quality flat-rolled carbon steel products and currently has a production capacity of 2.1 million tonnes of crude steel per year. Severstal Dearborn's facility is a fully integrated plant located on an industrial site adjacent to Ford's stamping, engine, frame, paint and assembly plants. Severstal Dearborn's operations consist of one operating blast furnace, one BOF with two vessels, two ladle refining facilities, one vacuum degassing facility, two continuous casters, one hot strip mill, one PLTCM, one temper mill, two annealing facilities, one HDGL, a

share of hot-dip galvanising line at Spartan Steel and a share of an electrogalvanising line at Double Eagle. It also has a share of the steel-slitting facility at Delaco Processing and a coke facility at MSC. These facilities enable Severstal Dearborn to produce high-quality, flat-rolled carbon steel products consisting of hot-rolled, cold-rolled and galvanised steel.

Blast furnaces. Severstal Dearborn's blast furnace "C" has a working volume of approximately 1,800 cubic metres and a capacity to produce approximately 2.0 million tonnes of hot metal per year. In 2007, blast furnace "C" was completely rebuilt and modernised. Severstal Dearborn's "B" blast furnace was damaged in an accident in 2008. Once rebuilt, it will have a working volume of approximately 800 cubic meters and will add 1.1 million tonnes of ironmaking capacity per year.

Steelmaking facilities. Severstal Dearborn has a BOF that consists of two 236-tonne converter BOF vessels and two slab continuous casting machines. One is a twin strand, straight mould machine with a metallurgical length of 26.5 metres, and the other is a single strand, straight mould machine with a metallurgical length of 23.5 metres.

Rolling facilities. Severstal Dearborn's hot-rolling mill has three walking beam furnaces, four roughing stands and seven finishing stands. This mill has a capacity of 3.5 million tonnes per year.

Severstal Dearborn's PLTCM, which was launched in 2011, converts hot-rolled bands into cold-rolled steel from 0.381 mm to 2.64 mm in thickness and in widths of 76.2 cm to 183 cm. The PLTCM features a five-stand, six-high Universal Crown Mill with intermediate roll shifting and work roll bending capabilities. The PLTCM has a maximum line speed of 250 metres per minute and the maximum coil weight is 33.8 tonnes. Annual capacity is 1.9 million tonnes per year. Cold-rolled full hard products are shipped to customers or coated on the HDGL.

Severstal Dearborn's temper mill is a one-stand, four-high design. The maximum rolling speed is 858 metres per minute and the maximum coil weight is 27.2 tonnes. The temper mill has a capacity of 0.8 million tonnes per year.

Severstal Dearborn has two annealing processes: hydrogen batch annealing and hydrogen-nitrogen (***HN***) batch annealing. The hydrogen batch annealing facility consists of 26 bases with 17 furnaces and a stacking height of 5.28 metres. The HN batch annealing facility has 86 bases with 34 furnaces and a stacking height of 3.95 metres. The primary fuel used for both annealing processes is natural gas.

Severstal Dearborn's HDGL, which was launched in 2011, with Advanced High Strength Steel capabilities, produces cold-rolled, hot-dipped products from 0.51 mm to 2.64 mm in thickness and in widths of 76.2 cm to 183 cm. The HDGL has a maximum line speed of 149 metres per minute and the maximum coil weight is 33.8 tonnes. The HDGL produces exposed automotive-quality galvanised and galvanneal products, which are shipped directly to customers. Annual capacity is 0.45 million tonnes.

Spartan Steel hot-dip galvanising line. Spartan Steel produces hot-dip galvanised sheet steel sold to automotive and service centre customers. Spartan Steel has improved its capacity through good management practices and a 2006 upgrade of the furnace and cooling capability. Spartan Steel currently reports its capacity as 0.6 million tonnes annually. Severstal Dearborn sells approximately 80 percent of this output.

Double Eagle electrogalvanising line. Double Eagle has a capacity of 0.6 million tonnes per year, approximately one-half of which is dedicated to Severstal Dearborn. This facility has 42 plating cells and can coat on one or two sides at a thickness of 0 to 100 grams per square metre. The facility can coat the substrate with either pure zinc or a zinc-iron alloy.

MSC coke plant. MSC has a capacity of 1.0 million tonnes per year, more than half of which is dedicated to supplying Severstal Dearborn. MSC produces metallurgical coke.

Delaco Processing slitter. Delaco Processing operates a steel slitting facility capable of processing coils up to 1,829 millimetres wide and up to 27 tonnes in weight and creating slit widths as low as 35 mm.

Severstal Columbus. Severstal Columbus is the newest mini-mill in North America. Severstal Columbus is the only EAF CSP plant in the world designed to make exposed automotive steels. The facility serves a growing manufacturing industry in the southern United States. The facility has access to both rail and interstate truck routes for fast delivery to more than twelve targeted states and northern Mexico. The production capacity at Severstal Columbus was 1.5 million tonnes when it was built, but the Group

increased the production capacity at Severstal Columbus to approximately 3.1 million tonnes of finished products per year after completing Phase II in the fourth quarter of 2011.

Severstal Columbus includes EAF casting and hot-rolling, cold-rolling and galvanising facilities.

Melt shop. Severstal Columbus' two state-of-the-art EAFs each have a diameter of 7.5 meters and a volume of 200 cubic meters. The tap weight of each furnace is 150 tonnes, with a tap-to-tap time of 45 minutes. The facility's melt shop also includes two 154 tonne ladle metallurgy furnaces and two 154 tonne vacuum degassers.

Continuous caster. Severstal Columbus' continuous caster has two single strands, each with a vertical mould. The casters have a combined annual rated capacity of 3.1 million tonnes.

Hot-rolling mill. Severstal Columbus' continuous caster is linked to the six stand hot-rolling mill by a 261 meter tunnel furnace. Fired by natural gas, the furnace is designed to heat slabs to approximately 1,175 degrees Celsius for rolling on the direct coupled hot-rolling mill. The facility's hot-rolling mill has six stands (four high). Phase II added a second tunnel furnace and two hot shuttles to connect both casters to the exiting hot-rolling mill. Phase II also added a second downcoiler to enable the hot-rolling mill capacity to double and provide high reliability. The downcoiler became operational in June 2011.

Push pull pickling line. Severstal Columbus' push pull pickle line has an annual production capacity of 0.6 million tones. It produces pickled and oiled coils intended for sale.

Continuous pickling line. Severstal Columbus' continuous pickle line can produce pickled and oiled coils or it can be directly linked to the five stand tandem mill for continuous pickling and cold-rolling. The pickle line has extensive storage capacity for completed coils awaiting shipment.

Cold mill. Severstal Columbus' five stand, four high tandem mill has an annual production capacity of approximately 1.4 million tonnes. The cold-rolling mill includes a batch anneal facility with an annual capacity of 0.7 million tonnes. The anneal system includes a total of 21 works bases, 11 heating bells and 11 cooling bells.

Temper mill. Severstal Columbus' single-stand, four high temper mill has an annual rated capacity of 0.5 million tonnes.

Hot-dip galvanising line. Severstal Columbus' hot-dip galvanising lines have an annual capacity of 1.0 million tonnes. The lines are designed to coat cold-rolled strip for exposed automotive and appliance applications.

Supply Chain: Raw Materials and Energy

The following table sets out consumption of various raw materials by Severstal International in 2011 and 2012.

Consumption of Raw Materials and Energy—Severstal International

	Year ended 31 December	
Raw materials	**2011**	**2012**
	(thousand tonnes, except as otherwise noted)	
Iron ore	2,806.3	2,725.0
Coal	151.7	155.0
Hot briquetted iron and pig iron	365.3	554.1
Coke	767.2	770.0
Metal Scrap	2,313.0	2,075.1
Ferro Alloys	28.9	20.8
Fluxes	248.0	135.1
Other Materials	176.8	54.3
Energy		
Electricity (million kilowatt hours)	1,978.1	2,647.7
Natural Gas (thousand cubic meters)	372,867.0	436,398.0

Severstal Dearborn. The principal raw materials used by Severstal Dearborn to produce steel include iron ore pellets, coke and metal scrap. Severstal Dearborn maintains only a minimum reserve of coke. Iron ore pellets are delivered by ship through the Great Lakes shipping channels that are typically closed during the period from January to March. Accordingly, Severstal Dearborn accumulates a minimum three-month supply of iron ore pellets by the end of each year to sustain production during the winter months. Other raw materials are generally delivered by rail and by road. The principal energy sources for Severstal Dearborn include electricity and natural gas.

Iron ore and pellets. Iron ore is purchased exclusively from Cliffs Natural Resources pursuant to a long-term contract, at a competitive price set annually by a formula that includes reference to then current market price, expiring at the end of 2022. Severstal Dearborn has committed to purchasing all of its iron ore pellet requirements from Cliffs Natural Resources through this period, including a minimum volume of 2.5 million tonnes per year from 2011 to 2022. Severstal Dearborn consumed approximately 2.8 and 3.0 million tonnes of iron ore pellets per year in 2011 and 2012.

Coke. In 2012, Severstal Dearborn received approximately 845 thousand tonnes of coke from MSC. Severstal Dearborn has entered into long-term agreements with an affiliate of DTE Energy Company (***DTE Energy***) to acquire most of the balance of the coke required to operate its blast furnaces. If additional volume is required, it will be purchased on a spot market basis.

Scrap. Scrap is purchased from companies that collect scrap metal and is also generated internally from Severstal Dearborn production processes. Approximately 25 percent of the BOF vessel charge is scrap and the remaining 75.0 percent is liquid iron. Severstal Dearborn also uses scrap-processing services, which allow Severstal Dearborn to process a wide range of sizes and quality of steel scrap. Such services include special cutting and packaging lines for processing the scrap so that it is ready for use in the smelting process. Although there have been sharp increases in market prices of steel scrap in both the United States and international markets in recent years, Severstal Dearborn believes that its strategic location in a region with significant sources of prime automotive scrap brings it an advantage in transport costs. Severstal Dearborn launched a scrap blending programme in the fourth quarter of 2007. This programme allows for the replacement of prime scrap bundles with non-prime grades to reduce costs. Non-prime grades of scrap currently account for approximately 40 percent of the total scrap, which is approximately the same percentage as 2011 and 2012.

Purchased slabs. Severstal Dearborn purchases slabs (semi-finished products) in order to produce incremental hot sheet products. In 2010, Severstal Dearborn purchased a total of 258 thousand tonnes from other companies, including Severstal Warren and Severstal Sparrows Point. In connection with the sale of Severstal Sparrows Point, Severstal Warren and Severstal Wheeling, Severstal Dearborn entered into a supply agreement with the spun-off companies (***RG Steel***) under which Severstal Dearborn agreed to purchase 653 thousand tonnes of slabs from RG Steel over a 15-month period beginning in June 2011 at a price which is set at a percentage below spot market prices, pursuant to an index. Effective in June 2012, RG Steel terminated the supply agreement after shipping 367 thousand tonnes of slabs.

Electricity. Severstal Dearborn's electricity requirements total approximately 0.8 million megawatt-hours per year. Electricity is purchased from DTE Energy, a local public utility, under two contracts which expired in February 2013, and will enter an evergreen phase of the contract on one-year extensions.

Natural gas. Severstal Dearborn purchases gas on the open market from Southwest Energy LP. Natural gas requirements for Severstal Dearborn are approximately 341,000 Km^3. The gas is transported to Severstal Dearborn by the natural gas utility, DTE Energy Gas Company, a subsidiary of DTE Energy, pursuant to a contract that expires 31 March 2013.

Severstal Columbus. The principal raw materials and energy sources used in Severstal Columbus' production process are steel scrap, pig iron, HBI, DRI, electricity and natural gas. These commodities are purchased pursuant to long-term or annual agreements. Some of these agreements do not have fixed prices and, therefore, the price paid is subject to the volatility of the market.

Steel scrap. Scrap represents Severstal Columbus' largest raw material expenditure. Until 2011, a significant amount of scrap was provided by Jefferson Iron and Metal Brokerage, Inc. (***Jefferson***) pursuant to a long-term contract that expired in 2012. Since the expiration of the Jefferson contract, Severstal Columbus has been solely responsible for the procurement of its scrap needs as well as the management of the scrap inbound logistics.

The purchasing department of Severstal International works with scrap vendors, processors and generators throughout the US to solicit offers for scrap in the domestic market and, at times, the international market. The availability and price of scrap offered are subject to competitive market conditions. In addition to scrap purchased on the spot market, Severstal Columbus has scrap buyback programmes with some of its steel customers. Under these programmes, Severstal Columbus buys scrap from these customers at a price higher than they would be able to obtain on the open market, but lower than Severstal Columbus would be required to pay on the open market. This industrial scrap can usually be transported back to Severstal Columbus in the same vehicle that delivers steel products to these customers, thereby offering substantial freight savings. Severstal Columbus purchases scrap directly on the open market from 25 to 120 vendors from which Severstal Columbus has purchased scrap in the past.

Pig iron, HBI and DRI. Severstal Columbus solicits offers for metallics (pig iron, HBI and DRI) from various agents/distributors/brokers such as Stena Metal, Inc. (***Stena***), Consolidated Mill Supply, Inc., Stemcor USA, Inc., Primetrade, Inc., National Material Trading (***NMT***) and others. Severstal Columbus is also purchasing metallics on the open market and from Severstal Export.

Electricity. Severstal Columbus' electricity requirements total approximately 1.8 million megawatt-hours per year. Electricity is purchased pursuant to a long-term partially interruptible power supply agreement with the Tennessee Valley Authority (***TVA***) that expires in 2018 and certain related ancillary agreements with the TVA. Under the contracts, the rates charged for electricity vary according to the current rates charged by the TVA, the amount of usage and certain other factors related to individual agreements. For rate reduction credits, a portion of the power provided can be interrupted by the TVA on five minutes notice and a portion of the power to which Severstal Columbus is entitled can be voluntarily sold back. Certain of these credits are due to expire in 2015. To facilitate electricity consumption needs and delivery by the TVA, Severstal Columbus owns and maintains a power substation near the facility. The TVA has constructed certain additional power delivery feeds and equipment in order to meet its facilities production needs.

Natural Gas. Severstal Columbus' natural gas requirements total approximately 70,000 Km^3 per year. Natural gas is purchased from Atmos Energy Marketing, LLC pursuant to a contract that, absent default, terminates 31 August 2013. Natural gas is purchased at market prices under a firm commitment to provide specified quantities daily. The gas is transported to Severstal Columbus in accordance with a separate variable price contract with Atmos Energy Corporation. This contract was renegotiated in 2012 with the term extended to 30 April 2015. There is an evergreen phase option where the contract is automatically renewed for subsequent one-year terms.

Products

The following table shows Severstal International's sales by products for the years ended 31 December 2011 and 2012:

Sales by Products—Severstal International Division[(1)]

Product	Year ended 31 December 2011	2012
	(thousand tonnes)	
Hot-rolled strip and plate	2,064	2,454
Cold-rolled sheet	519	543
Galvanised and other metallic coated sheet	1,226	1,467
Total rolled products	3,809	4,464
Total semi-finished products	1	1
Total steel products	**3,810**	**4,465**

Note:

(1) Includes intersegment sales.

The percentages in the following discussion are all for the year ended 31 December 2012.

Severstal Dearborn

Severstal Dearborn's raw steel production is further processed into finished steel products, including: hot-rolled sheet, cold-rolled sheet, hot-dip galvanised and galvannealed and electrogalvanised sheets including high-carbon, high-strength low-alloy, alloy and specialty steel sheets. Severstal Dearborn's products are consumed in a variety of end markets, including automotive (68 percent of shipments), service centers (18 percent of shipments), converters (7 percent of shipments) and other (7 percent of shipments).

Severstal Columbus

Severstal Columbus's raw steel production is further processed into finished steel products, including hot-rolled sheet, cold-rolled sheet, hot-dip galvanised and galvannealed sheets including high strength low allow, specialty steel sheets and processed products. Severstal Columbus's products are consumed in a variety of end markets, including service centers (40 percent of shipments), converters (36 percent of shipments), automotive (4 percent of shipments) and other (20 percent of shipments).

Sales, Marketing and Competition

The following tables show shipments to Severstal International's top customers for the years ended 31 December 2011 and 2012:

Sales by Customer—Severstal International Division

Customer	Year ended 31 December 2011
	(thousand tonnes)
Ford	542.5
GM	308.5
Chrysler	217.1
Hanna Steel	127.2
Kenwal	123.0
Kloeckner & Co.	104.8
Northwest Pipe	86.7

Customer	Year ended 31 December 2012
	(thousand tonnes)
Ford	555.4
GM	304.3
Chrysler	256.5
Northwest Pipe	186.5
Hanna Steel	147.2
Boomerang Tube.	104.7
Mill Steel	99.7

The following table shows Severstal International's sales by product for the years ended 31 December 2011 and 2012:

Sales by Products—Severstal International Division[(1)]

Product	Year ended 31 December			
	2011		2012	
	(thousand tonnes)	(US$ million)	(thousand tonnes)	(US$ million)
Hot-rolled strip and plate	2,064	1,607.5	2,454	1,824.9
Cold-rolled sheet	519	457.3	543	488.5
Galvanised and other metallic coated sheet	1,226	1,219.9	1,467	1,450.0
Total rolled products	3,809	3,284.7	4,464	3,763.4
Total semi-finished products	1	0.5	1	0.5
Total steel products	3,810	3,285.2	4,465	3,763.9
Other and shipping	—	136.9	—	114.6
Total	**3,810**	**3,422.1**	**4,465**	**3,878.5**

Note:

(1) Includes intersegment sales.

The following table shows sales by volume for Severstal International for domestic US sales and export sales for the years ended 31 December 2011 and 2012.

Revenues by Market—Severstal International Division[(1)]

Market	Year ended 31 December	
	2011	2012
	(percent of sales by volume)	
US sales	98.2	97.3
Export sales	1.8	2.7
Total	**100.0**	**100.0**

Note:

(1) Includes intersegment sales.

The following table shows the revenues of Severstal International by industry sector for the years ended 31 December 2011 and 2012.

Revenues by Industry Sector—Severstal International Division

Industry sector	Year ended 31 December	
	2011	2012
	(percent of revenues)	
Automotive	37	39
Service centers	31	28
Converters	19	20
Other	13	13
Total	**100.0**	**100.0**

Severstal International has a national sales organisation which is structured into two geographic regions: Northern and Southern, and a separate automotive team that covers all geographic areas. There are 29 individuals across all regions who are involved in direct selling, including account managers and sales managers. Each member of Severstal International's sales team sells all products produced from any facility. Order entry and customer service teams are located in both Severstal Dearborn and Severstal Columbus. There are 37 individuals in customer service with between 12 and 13 at each location in addition to an automotive customer service team.

Marketing and sales administration activities for Severstal International, including analysis, forecasting, planning, market research and systems, are conducted for all of Severstal International by a corporate marketing department located in Dearborn, Michigan.

Competition

Severstal International competes directly with domestic and foreign light flat-rolled carbon steel producers as well as producers of aluminium, plastics and other materials that can be used in place of flat-rolled carbon steel in manufactured products. Severstal International competes principally on the basis of quality, product capabilities, service and the ability to meet the customers' specification, delivery schedules and price.

The following table shows the steel shipments made by Severstal International's principal competitors for the years ended 31 December 2011 and 2012:

Principal Competitors of Severstal International

	Year ended 31 December	
Company	**2011**	**2012**
	(million tonnes)	
AK Steel (Total Shipments)	5.2	4.9
ArcelorMittal (Flat Carbon Americas)	22.2	22.3
Nucor (Flat-Rolled Shipments)	18.3	15.2
Steel Dynamics (Flat-Rolled Division)	5.3	2.5
US Steel (Flat Roll Segment (US))	14.1	14.5

Source: Released company data, US Steel Investor Packet, 10-K Filings

The United States steel industry is a cyclical business that is highly competitive. In the United States, Severstal International competes with many domestic integrated and electric-furnace based mills. The major domestic suppliers are ArcelorMittal, US Steel and Nucor, each with a significant market share, with the remainder of the supply coming from a number of smaller producers and imported steel. Shipments of steel products are heavily influenced by transportation and logistics expenses and most shipments are made within 500 kilometers of the production facility.

Capital Expenditure Programme

Severstal International's capital expenditures in 2011 and 2012 were US$573.7 million and US$155.3 million, respectively. In 2012, US$21.7 million was spent to complete the pickle line project and tandem cold-rolling mill, while US$27.7 million was expended to complete the hot-dip coating line in Dearborn. Both of these projects will help produce value-added products. The Group also spent US$68.0 million on Phase II in Columbus.

Severstal International's total capital expenditure in 2013 is expected to be approximately US$107 million with the capital expenditure on maintenance to be approximately US$67 million, including health & safety projects. The aggregate capital expenditure from 2014 to 2017 is expected to be approximately US$0.4 billion while the average yearly capital expenditure on maintenance is expected to remain at the level of capital expenditure on maintenance in 2013 (provided that the Group undertakes the expansion projects contemplated by the current business plan and subject to market conditions).

Severstal Dearborn. Severstal Dearborn's capital expenditure programme is designed to replace or refurbish major equipment, increase productivity and efficiency, make environmental improvements, refine product quality and develop Severstal Dearborn's product mix.

Severstal Dearborn's modernisation programme has seen the implementation of several projects completed to date, including (i) the modernisation and expansion of Severstal Dearborn's larger blast furnace "C" in 2007, (ii) the installation of a secondary emission control system at the BOF, which allowed it to use lower-priced scrap and meet increasingly stringent environmental standards, (iii) the installation of a straight-mould conversion at the continuous caster, which provides the ability to produce high-quality slabs for the automotive market and (iv) upgrades to the hot strip mill reheat furnace, which have allowed Severstal Dearborn to significantly reduce natural gas consumption.

In addition, two recently completed projects are currently in their final stages of launch:

- The PLTCM, which has decreased operating costs, improved product quality and allowed Severstal Dearborn to produce steel products that will be required by its automotive customers in the future.
- The HDGL, which is allowing Severstal Dearborn to produce both galvanised and galvannealed products for the exposed automotive markets.

Severstal Columbus. The Severstal Columbus capital expenditure programme is primarily aimed at operational improvements and maintenance.

The Phase II expansion plan, which was completed in the fourth quarter of 2011, increased total annual capacity of Severstal Columbus to 3.1 million tonnes.

Employees

Employee numbers for Severstal International decreased from 2,513 in 2011 to 2,165 in 2012.

Severstal Dearborn. Hourly employees of Severstal Dearborn are represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (the ***UAW***). Severstal Dearborn and the UAW have a labour agreement which was renewed for a five-year term which expires on 31 March 2017. The labour agreement provides for 401(k) plans, health insurance, life insurance and a defined contribution retirement plan.

Severstal Columbus. The employees of Severstal Columbus are not represented by a labour union. Severstal Columbus believes it has created a competitive compensation system to supplement base compensation.

Health, Safety and Environment

Health and Safety. Severstal International has striven to improve its safety performance through programmes that involve employee safety awareness training, safety compliance audits, daily safety briefings, cardinal safety rules, supervisor safety leadership training and an aggressive approach to the identification of root causes for accidents and near misses in order to ensure that solid corrective actions are implemented.

Environment. Severstal International's management believes it is in substantial compliance with environmental laws, rules and regulations.

Insurance

Severstal International maintains insurance covering its plant, property and equipment in order to provide adequate capital availability in the event of a significant property loss. Severstal International's insurance programme is commensurate with the practice of other leading steel companies in the United States and covers direct physical damage and business interruption in the form of lost profits and continuing expenses up to specified limits and subject to specified deductibles. Severstal International also maintains insurance addressing other business risks such as third-party personal injury and property damage exposure, fiduciary and executive liability exposure, workers' compensation liability and marine cargo protection.

SEVERSTAL RESOURCES

Severstal Resources comprises iron ore production and coal production.

- The Group's iron ore business comprises two iron ore extracting complexes: Karelsky Okatysh, which produces iron ore pellets, and Olkon, which produces iron ore concentrate. The Group's iron ore business is also focused on two iron ore projects: the Group's investment in the Putu Range Project in south eastern Liberia, for which the Group has signed a Mineral Development Agreement with the Government of Liberia and has recently completed a pre-feasibility study, and the Group's investment in a project in the Brazilian city of Macapa, SPG, which owns a number of high potential iron ore licenses in the area of Tartarugalzinho, Amapa state. Karelsky Okatysh, located in the Karelia Republic, produces iron ore pellets and had an annual iron ore output of 33 million tonnes in 2012 and plans to remain at the same levels until 2017 and estimated JORC iron ore reserves and resources of approximately 415.3 million tonnes and 1,138.3 million tonnes,

respectively. Olkon, located in the Murmansk region of Russia, produces iron ore concentrate and had an annual iron ore output of 15.5 million tonnes in 2012 and plans to increase it to 16.7 million tonnes by 2017 and estimated JORC iron ore reserves and resources of approximately 276.2 million tonnes and 629.7 million tonnes, respectively. Liberia's Putu Range has estimated resources of 4,455 million tonnes based on a report issued by SRK Consulting Ltd. in September 2012 prepared under the Guidelines of Samrec. The Core Mining Avima tenement is a prospective early stage project in the Democratic Republic of Congo.

- The Group's Coal business comprises Vorkutaugol, PBS Coals and two greenfields—Tsentralny field and Usinskoye-1 field. Vorkutaugol comprises five longwall mines, an open pit mine, and three washing plants. It extracts both coking and steam coal. Vorkutaugol, located in the Komi Republic, produces coking and steam coal and had ROM of 13 million tonnes in 2012 and plans to increase it to 16 million tonnes by 2017 and estimated JORC coal reserves of approximately 247 million tonnes. PBS Coals, located in the southwest of Pennsylvania in the United States, operates open mines and deep room and pillar mines. It extracts coking and steam coal, and produces coking coal concentrate. PBS Coals, produced 4.1 million tonnes of ROM in 2012 and plans to increase it to 6.7 million tonnes by 2017. PBS Coals has estimated coal reserves and resources of approximately 77 million tonnes and 125 million tonnes, respectively. Tsentralny field is a greenfield project located in the Tyva Republic and according to its acquired state license, has total resources approximating 639 million tonnes of coking coal of C1 and C2 categories, according to the Russian classification system. Usinskoye-1 field is a greenfield project located in the Republic of Komi near the existing Vorkutaugol operation with estimated resources of 603 million tonnes of coking coal of A, B and C1 categories, according to the Russian classification system. See "*Industry—Mining Industry—Russian Methodologies for Reserve and Resource Reporting*".

Severstal Resources was the second largest producer of hard coking coal and iron ore pellets in Russia in 2012, respectively, according to RudProm and Rasmin. With the capacity to supply all of the current iron ore and hard coking coal needs of Severstal Russian Steel, Severstal Resources forms the basis of the Group's balanced and vertically-integrated business model. With a focus on high value-added products, such as export quality iron ore pellets and hard coking coal concentrate, Severstal Resources had 48.7 million tonnes of iron ore output and ROM of 17.1 million tonnes of coal in 2012. Severstal Resources estimates that, as at 31 December 2012, it had iron ore reserves and resources of approximately 691.5 million tonnes and 6,223 million tonnes, respectively, and coal reserves and resources of approximately 323.8 million tonnes and 125 million tonnes, respectively, based on reports issued by IMC Montan dated February 2013, IMC Consulting Ltd. dated June 2006, prepared in accordance with JORC reporting standards (assets in Russia), by SRK Consulting Ltd. dated September 2012 prepared under the Guidelines of Samrec (Putu deposit, Liberia) and by PBS internal experts dated 31 March 2012 in accordance with JORC reporting standards.

Mining at a glance

Open pit mining

The Group's iron ore production and a minor portion of its coal production come from open pit mining. The open pit mining process consists of four processes: drilling by heavy duty rotary blast hole drills, blasting, loading of materials by hydraulic face shovels and transport by large off-highway rear-dump mining trucks. The size and the quantity of mining equipment and the attendant mine design features vary from mine to mine and are dictated by the rate of production. Ore mining is subject to the benefication process. The beneficiation flow process is dependent on the nature of the ore and includes ore crushing, milling, gravity and wet magnetic separation for iron ore.

Underground mining

The majority of coal is mined by means of underground mining techniques using a system of shafts, declines, stopes or faces. The Group uses the following underground mining methods: shearing for softer coal and the transportation of mined material out of the mine to the processing plant via a conveyor system and skips. The beneficiation process includes crushing, milling, washing and flotation for coal.

Facilities

Iron Ore Facilities

Karelsky Okatysh. Karelsky Okatysh is located in Kostomuksha in the Karelia Republic in the northwest of Russia. It mines magnetite quartzite ores and produces high-quality iron ore pellets with an iron content of 63.0 to 65.5 percent. Karelsky Okatysh operates two major deposits that have an estimated life of 33 years based on the Group's estimates of JORC reserves plus expected reserves extension. The average total iron content of the reserves at Karelsky Okatysh is approximately 28 percent. The opening of new mines at the Korpanga deposit as well as the implementation of a planned efficiency improvement programme will increase the production capacity of Karelsky Okatysh to 33 million tonnes of iron ore output per year.

Kostomuksha. The arch shaped Kostomuksha deposit consists of three sections, with a total strike extent of approximately 13,000 metres and an open pit depth reaching 280 metres. The average stripping ratio was 1.2 in 2012. The iron content in the ore is medium (28.2 percent total iron, 23.9 percent iron magnetite), though it is well suited for wet magnetic beneficiation. The deposit produces high-quality concentrate (68.1 percent iron) and pellets (63.0 to 65.5 percent iron). The Kostomuksha deposit has an iron ore output of 21 million tonnes at 27.6 percent iron per year.

Korpanga. In 2007, a mine opened at the Korpanga deposit, consisting of east and west sections that have strike lengths of 3,800 metres and 3,000 metres, respectively. The ore qualities at Korpanga are similar to the Kostomuksha deposit. The Korpanga deposit has iron ore output of 11.8 million tonnes at 26.7 percent total iron per year.

Extracted ore is delivered to the beneficiation plant by railway. The beneficiation plant is located 7 kilometres from the central section of the Kostomuksha deposit and 25 kilometres from Korpanga. The beneficiation plant output was 11.0 million tonnes of concentrate (representing 33.2 million tonnes of input ore, excluding residual ore at transfer stocks and hoppers at the plant) in 2012. The Group believes that this capacity could be increased to 11.4 million tonnes of concentrate per year with a small investment. The planned investment would include the installation of dry magnetic separation equipment at the open pits to reduce the waste feed into the crushers. The plant beneficiation process currently consists of two crushing lines and 12 beneficiation circuits equipped with primary magnetic separation equipment.

Olkon. Olkon is located in the Murmansk region in northwest Russia. It mines magnetite-hematite quartzite ores and produces high-quality iron ore concentrate. Currently, ore mining is carried out in five open pits: Olenegorsky, Kirovogorsky, 15-Letiya Oktyabrya, Kurkenpakh, Vostochny and Komsomolsky in conjunction with the new site at the Olenegorsky underground mine, which was built in 2005. Total Olkon resources and reserves audited by IMC Montan according JORC standards are 629.7 million tonnes of Measured and Indicated resources and 276.2 million tonnes Proved and Probable reserves as at 1 January 2013.

There are 241.9 million tonnes of ore within the existing boundary of the open pits. Additionally, the Group has begun mining at Vostochny deposit. The average iron content in the Olkon reserves is 26.1 percent total iron and 20.1 percent iron magnetite. Olkon produces iron ore concentrate with an average iron content of 65.8 percent The average stripping ratio was 1.26 in 2012. The annual iron ore output has been increased from 12.0 to 15.5 million tonnes over the past few years. A further increase to approximately 16.5 million tonnes is planned once the satellite deposit mines are fully operational. The ore from the Kirovogorsky, 15-Letiya Oktyabrya, Kurkenpakh, Vostochiny and Komsomolsky pits is delivered by railway to a beneficiation plant located approximately 11 kilometres away. The beneficiation plant, consisting of two crushing lines and 10 beneficiation circuits equipped with primary magnetic separation equipment, had a production of 4.8 million tonnes of concentrate in 2012.

Putu Range. The Putu Range is located in Liberia, 130 kilometres inland from the coast. According to a report by SRK Consulting Ltd., resources at Putu Range amount to 4,455 million tonnes with a significant direct shipping ore component at an average grade 33.53 percent of total iron for all resources. Extensive drilling is currently underway as part of the Bankable Feasibility Study, scheduled for completion in 2014. Production commencement is expected in 2017 or 2018 with potential output of at least 20 million tonnes of concentrate. Implementation of this project will allow Severstal Resources to become a significant player in the iron ore seaborne market.

Amapa. The Amapa iron ore project is located in the state of Amapa, Brazil. The Group has performed a first pass exploration at Amapa in 2011 and 2012, and the Company is considering various options for development of the project.

Coal Facilities

Vorkutaugol. The Vorkutaugol mine is located near the town of Vorkuta in the Komi Republic in the northeast of European Russia. The Vorkutaugol mine operates the Vorkutskoye and Vorgashorskoye coal deposits with an estimated life of 44 and 18 years, respectively, (based on the Group's estimates of JORC reserves plus expected reserves extension). The mining area of Vorkutaugol consists of five underground mines, one open pit and three washing plants. Premium grades of coking coal account for a high proportion of the Vorkutaugol reserves.

There are four principal seams currently under operation at the Vorkutskoye deposit, which comprises four mines: "Severnaya", "Komsomolskaya", "Zapolyarnaya" and "Vorkutinskaya". Three of the seams, Moshniy, Troinoy and Chetvertiy seam, are between 1.4 and 3.9 metres and are suitable to be extracted by conventional longwall shears. The Pyatiy seam is 0.9 metres thick and is currently extracted using plough technology. Total ROM output in 2012 was 8.2 million tonnes.

There is only one seam of workable thickness at the Vorgashorskaya mine. The total seam thickness is between 2.5 metres and 3.0 metres. The mine has two high productivity faces, with an annual ROM output of 4.25 million tonnes in 2012. Some ROM coals are processed at the central Pechorskaya plant.

There is one open pit in operation, the Unyaginskoe mine with an annual ROM (without overburden) of 0.6 million tonnes of hard coking coal.

There are currently three washing facilities in Vorkuta (Severnaya—located at the Severnaya mine, Vorkutinskaya—located at the Vorkutinskaya mine and central Pechorskaya). The washing process reduces ash content to approximately 9 percent, enabling the production of concentrate with a high market value. Coking coal concentrate from Vorkutaugol can be used directly in coke batteries. The most valuable coal is washed on the site at Vorkuta.

In December 2011 Vorkutaugol won exploration and extraction rights for the N1 coal field at the Usinskoe deposit in the Komi Republic about 50 km southward of Vorkuta. Estimated total resources at the coal field are 603 million tonnes of coking coal of A, B and C1 categories, according to the Russian classification system. There are seven coal seams at the deposit. Production is expected to commence in 2018 with a potential ROM output of four million tonnes.

PBS Coals. PBS Coals is a coking coal producer located in the United States. It operates several surface and underground mining complexes near Somerset, Pennsylvania. PBS Coals had a total ROM output of 4.1 million tonnes in 2012. Planned production decreases are expected to result in ROM up to 3.8 million tonnes of production by 2013. According to an internal report dated 31 March 2012, estimated coal reserves and resources of approximately 77 million tonnes and 125 million tonnes, respectively. PBS Coals is favourably located in relation to Severstal's steel producing facilities in North America as well as to export seaborne markets.

In 2012, PBS temporarily suspended operations at six of its 11 assets due to weak market conditions and a planned reduction of thermal coal production. The idling will not have a material impact on the Company's cash cost position and will not increase the Company's social obligations. It will allow PBS to concentrate on its most profitable operations (thermal coal production is currently fully idled). The Group will resume suspended operations as and when market conditions improve.

Tsentralny field. Tsentralny field is a coal greenfield project in the Tyva Republic of Russia. According to its acquired state license, it has total resources of approximately 640 million tonnes of coking coal of C1 and C2 categories, according to the Russian classification system. Development of the coalfield depends on the construction of a 400km railroad connecting Tyva with the existing rail network. Significant investments in the project will not be made until respective responsibilities of other industry players developing coal deposits in Tyva and Russian Railways with respect to the construction of the railroad access are clarified.

Reserves and Resources

At expected rates of operation, the Group estimates that Severstal Resources' audited reserves and resources of iron ore and coal are sufficient for at least thirty years of iron ore and coking coal production.

The table below shows the Group's reserves and resources estimation. Estimation for the Karelskiy Okatysh, Olkon, Vorkutaugol and PBS assets is based on the reports issued by IMC Montan dated February 2013, IMC Consulting Ltd. dated June 2006 and internal PBS experts, which was prepared in accordance with internationally accepted standards set forth in the JORC Code. Reserves and resource estimations for the Putu Range have been developed under the guidelines of Samrec, which is the standard of public disclosure of information relating to mineral properties in South Africa and adopted in Liberia as well. The report for the Putu Range Project has been prepared by SRK Consulting (see also "*Industry—Mining Industry—International Reporting Methodologies*").

Estimated Reserves and Resources—Severstal Resources[1]

	Reserves	Resources	Resources extension[6]
Iron Ore			
Karelsky Okatysh[2][3][4]	415.3	1,138.3	56.0
Olkon[8]	276.2	629.7	—
Putu[5]	—	4,455.0	—
Total	**691.5**	**6,223.0**	**56.0**
Coal			
Vorkutaugol[2][3][4]	246.8	—	52.5
PBS Coals[7][4]	77.0	125.0	—
Tsentralny (Tyva)	—	—	639.0
Usinskoe-1	—	—	603.3
Total	**323.8**	**125.0**	**1,294.8**

Source: (see Notes).

Notes:

(1) All numbers for iron ore and coal are presented in millions of tonnes as at 1 January 2013.

(2) Proved and Probable reserves based on report issued by IMC Consulting Ltd. dated June 2006, prepared in accordance with JORC reporting standards.

(3) Measured and Indicated resources, based on report issued by IMC Consulting Ltd dated June 2006, prepared in accordance with JORC reporting standards.

(4) Audited reserves, adjusted on actual production since the date of reporting, as at 31 December 2012.

(5) Inferred and Indiciated and Measured Resources based on SRK Consulting Report issued in September 2012.

(6) Resources based on Russian methodology and legislation: C1 and C2 categories within current state licenses.

(7) Reserves and Resources a report by PBS experts dated 31 March 2012, prepared in accordance with JORC reporting standards.

(8) Resources and Reserves audited in 2013 by IMC Montan according to JORC reporting standards.

Supply Chain

Severstal Resources has a centralised procurement department based in Moscow for bulk purchases of mining and other equipment and in certain circumstances aggregates its purchases with members of the Group in order to obtain volume discounts.

Raw materials. Raw materials used by Severstal Resources include petroleum products, liquid explosives and metallic raw materials and supplies.

Petroleum products are the largest raw material type consumed by Severstal Resources. In order to take advantage of economies of scale, Severstal Resources has centralised the purchasing of items that are used in all of its operations. Purchases of petroleum products are centralised and made under annual contracts, some of which include credit terms, with several large suppliers and their subsidiaries, such as OAO "NK Rosneft", "TNK-BP Holding" and OAO "LukOil". Suppliers are selected based on competitiveness of their commercial terms. Actual prices are determined on a monthly basis with a subset of the suppliers chosen from the wider group based on their offer for that month, the purchase is carried out via direct contract with suppliers or their subsidiaries or via Saint Petersburg International Mercantile Exchange. The purchasing of metal-based raw materials and explosives is also centralised.

Following a competitive tender process, Karelsky Okatysh signed a six-year contract for the supply of liquid explosives with one of the market leaders, OOO "Eastern Mining Services". In order to supply the liquid explosives under the contract, a new manufacturing plant for liquid explosives was constructed in Kostomuksha. A similar contract was entered into by Olkon with ZAO "Dyno Nobel Russia" (ZAO "Orica CIS") and a new liquid explosives manufacturing plant was constructed in Olenegorsk in December 2010.

Contracts for the supply of metallic raw materials are signed annually, while prices are fixed on a monthly or quarterly basis. The two principal suppliers are OOO "TK Evraz Holding" and OOO "Metallurg Trust".

Severstal Resources expects that during the next ten years it will have a raw materials surplus. Severstal Resources believes that such a surplus would provide it with enhanced stability in terms of raw material supplies and enable it to meet potential future production growth.

Energy. Severstal Resources' energy requirements constitute approximately 24 percent of its total supply chain requirements in 2012 with prices changing on a month-to-month basis. Prices are calculated by suppliers taking into account the threshold level of non-regulated prices in the retail market in accordance with the procedure adopted by a resolution of the Russian Federation Government. The fluctuation of the retail price is dependent upon the fluctuation of the price on the Wholesale Electricity and Capacity Market.

Products

Severstal Resources produces a high proportion of premium products, such as iron pellets from iron ore and coking coal concentrate from coal, for domestic and international customers. In 2012, iron pellets constituted 69.0 percent of Severstal Resources' production of iron ore, and coking coal concentrate constituted 72.0 percent of its coal production.

The following table sets forth Severstal Resources' volumes of extraction and production in 2011 and 2012.

Sales volumes—Severstal Resources[(1)]

Product	Year ended 31 December	
	2011	2012
	(thousand tonnes)	
Coking coal	290	622
Coking coal concentrate	7,592	7,513
Steam coal	2,754	2,343
Pellets	10,051	10,439
Iron ore concentrate	4,764	4,760

Note:

(1) Includes intersegment sales.

Coking coal and coking coal concentrate. Vorkutaugol's two main products are premium hard coking coal in concentrate form and semi-soft coking coal in concentrate form with an ash content of 9.0 percent.

Steam coal. Vorkutaugol also produces steam coal. It is sold to local heating and power plants in the Komi region, and it is also sold to industrial customers.

Iron ore pellets and concentrate. Karelsky Okatysh produces iron ore pellets. These have an iron content of 65.5 percent for non-fluxed and 63.6 percent for fluxed pellets. Pellets are a high value-added iron ore product, as they can be used directly in the blast furnace without intermediate sintering. They also ensure optimal coke consumption in the furnace and significantly reduce the carbon dioxide emissions in the furnace operation. Olkon produces iron ore fines with an iron content of 65.8 percent Currently these fines are shipped only to Severstal Russian Steel where they are used as sinter feed, before being blended with coke and loaded into the blast furnace.

Sales, Marketing and Competition

Severstal Resources sells its products internally within the Group as well as to the international and Russian domestic markets. Severstal Resources aims to maintain its domestic market share and expand its international market share with high-quality pellets and coking coal concentrate.

Severstal Resources' sales are dominated by coking coal concentrate and coking coal, which accounted for approximately 36 percent of sales by revenue in 2012. Iron ore pellets accounted for approximately 38 percent of sales by revenue. All other products represented 26 percent of Severstal Resources' sales by revenue.

The following table sets forth sales by products for Severstal Resources in 2011 and 2012.

Sales by Products—Severstal Resources[(1)]

Product	Year ended 31 December			
	2011		2012	
	(thousand tonnes)	(US$ million)	(thousand tonnes)	(US$ million)
Coking coal	290	40.3	622	41.7
Coking coal concentrate	7,592	1,390.7	7,513	1,028.0
Steam coal	2,754	118.3	2,343	93.1
Pellets	10,051	1,347.3	10,439	1,130.7
Iron ore concentrate	4,764	454.8	4,760	372.1
Total sales by products	—	3,351.4	—	2,665.6
Others and shipping	—	360.0	—	339.0
Total revenue	**—**	**3,711.4**	**—**	**3,004.6**

Note:

(1) Includes intersegment sales.

Customers. Within the Group, Severstal Resources sells iron ore pellets and coking coal to Severstal Russian Steel and Severstal International.

In 2012, Severstal Resources' total iron ore and coking coal sales were 23.3 million tonnes, of which 12.4 million tonnes were sold to Severstal Russian Steel and Severstal International, 5.2 million tonnes were sold domestically and 5.7 million tonnes were exported. In 2012, Severstal Resources' total sales were 10.4 million tonnes of iron ore pellets and 7.5 million tonnes of coking coal concentrate. In 2012, Severstal Resources provided 100.0 percent of the pellets required by Severstal Russian Steel. In 2013, the estimated demand by Severstal Russian Steel is expected to be 4.6 million tonnes of pellets and 3.8 million tonnes of coking coal concentrate.

Contracts. Severstal Resources operates through direct contracts with customers. Usually contracts for coking coal with domestic customers have a three-month term, after which both the volume and price may be reviewed. Contracts for pellets have a one-year term with formula pricing. The majority of export sales are made through one to three-year contracts, with price terms reviewed annually.

Competition

The Group believes that Severstal Resources is favourably positioned on the global cost curve for both iron ore and coking coal, with strong competitive positions in domestic markets and in its core export markets of northern and eastern Europe. This is evident in respect of the pellets produced at Karelsky Okatysh and coking coal concentrate produced at Vorkutaugol, the two assets with stronger orientation towards the export market and high value-added products.

Severstal Resources has a strong market position in the Russian iron ore and coking coal markets. The following tables set forth the principal competitors of Severstal Resources in the Russian markets for coking coal and iron ore.

The following table shows Severstal Resources' principal competitors in the Russian coking coal market for the year ended 31 December 2012:

Principal Competitors of Severstal Resources—Russian Coking Coal Market

Producer of coking coal	Year ended 31 December 2011 (estimated percentage of Russian production, 56.8 million tonnes)	Year ended 31 December 2012 (estimated percentage of Russian production, 60.1 million tonnes)
Sibuglemet (*independent producer*)	10.5	9.7
Yuzhny Kuzbass (*owned by Mechel*)	9.1	7.4
Raspadskaya (*affiliated with Evraz*)	6.1	7.3
Severstal Resources	8.9	8.8
Yuzhkuzbassugol (*owned by Evraz*)	8.5	7.4
Yakutugol (*owned by Mechel*)	7.6	9.0
KRU (*owned by UMMC*)	4.1	8.1
Other	45.2	42.3

Source: Rasmin.

The following table shows Severstal Resources' principal competitors in the Russian iron ore market for the year ended 31 December 2012.

Principal Competitors of Severstal Resources—Russian Iron Ore Market

Producer of iron ore (concentrate, pellets or lump)	Year ended 31 December 2011 (estimated percentage of Russian production, 95.8 million tonnes)	Year ended 31 December 2012 (estimated percentage of Russian production, 96.2 million tonnes)
Metalloinvest	34.5	34.9
Evraz	19.2	15.9
Severstal Resources	14.7	15.6
NLMK	15.1	16.5
Mechel	4.6	4.7
Kovdor	5.8	5.6
Other	6.1	6.8

Source: RudProm.

The Russian coking coal market is less consolidated than the Russian iron ore market, with high competition in low quality coking coals. Severstal Resources' key competitors in this market include Raspadskaya Yuzhkuzbassugol, Sibuglemet and Belon. Severstal Resources believes that its location provides it with an advantage over its competitors, many of whom are located in the Kuzbass region, which is located over 2,000 kilometres away from the major purchasers of coking coal in the European part of Russia and Ukraine.

Based on RudProm and Rasmin industry data, Severstal Resources believes it faces less competition in the iron ore pellets market, compared to the coking coal market. Severstal Resources' main competitor in the Russian iron ore pellets market is Metalloinvest, which delivered approximately 9.1 million tonnes of pellets and 4.5 million tonnes of iron ore concentrate into the Russian domestic market in 2012. Other large producers are Evraz, NLMK and Mechel who predominantly supply iron ore to their own steelmaking operations. The only significant company importing iron ore into the Russian market is the Kazakh producer OAO SSGPO. In 2012, OAO SSGPO exported approximately 3.1 million tonnes of pellets and 6.8 million tonnes of iron ore concentrate into the Russian iron ore market, mostly to MMK.

Capital Expenditure Programme

In recent years, Severstal Resources has replaced all of its major equipment for both its underground operations and open pit mines. In 2011 and 2012, its capital expenditure was US$490.8 million and US$555.5 million, respectively.

Further capital improvements are currently underway at each of Severstal Resources' mining assets, with a planned total capital expenditure of approximately US$525 million in 2013 with the capital expenditure on maintenance to be approximately US$269 million. The aggregate capital expenditure from 2014 to 2017 is expected to be approximately US$3.1 billion, while the average yearly capital expenditure on maintenance is expected to remain at the level of capital expenditure on maintenance in 2013 (provided that the Group undertakes the expansion projects contemplated by the current business plan and subject to market conditions). These projects are designed to further modernise equipment, increase the production of premium products, stabilise the mix of products, optimise degasification systems, utilise coal mine methane, develop new iron ore and coal reserves, improve cost efficiency and expand extraction and beneficiation capacities.

In carrying out its capital expenditure programme, Severstal Resources plans to improve its internal processes for sourcing supplies, including by consolidating purchasing and seeking to enter long-term contracts with key suppliers, such as with suppliers of heavy machinery.

Karelsky Okatysh. The capital expenditure requirements at Karelsky Okatysh between 2013 and 2017 include the following: exploration works at Corpanga and Kostomuksha deposits; increase of trucks capacity due to board sides build-up; washing plant process optimisation; construction of dry magnetic separation unit.

Overall, the planned improvements are expected to result in full utilisation of the pelletiser and to increase long-term production of pellets by approximately 4 percent against 2012 production levels up to an estimated 10.7 million tonnes by 2017.

Karelsky Okatysh kept mining costs under control in 2012 as the cash cost of iron ore pellets remained relatively stable at US$59 in 2012 compared to US$62 in 2011.

Olkon. The capital expenditure requirements at Olkon between 2013 and 2017 include the following projects: concentrate drying facility modernisation; incline conveyor construction; further exploration works at prospective deposits; commissioning of two new open pits; and ongoing program of mining fleet renovation.

Overall, the planned improvements are expected to increase the production output to 5.2 million tonnes of iron ore concentrate per year by 2017.

Olkon kept mining costs under control in 2012 as the cash cost of iron ore concentrate remained relatively stable at US$50 in 2012 compared to US$48 in 2011.

Vorkutaugol. The estimated capital expenditure requirements at Vorkutaugol between 2013 and 2017 include: incline conveyor construction at Zapolyarnaya mine; new washing plant; Usinkoe deposit development; underground gas utilisation for energy generation and various investments in mine safety measures.

Overall, the planned improvements are expected to maintain the average production output at 9.9 million tonnes of product per year to 2017.

Vorkutaugol kept mining costs under control in 2012 as the cash cost of cocking coal concentrate remained relatively stable at US$90 in 2012 compared to US$92 in 2011.

PBS Coals. The main capital expenditure requirements for PBS Coals between 2013 and 2017 is the development of new surface and deep mines.

These improvements, once completed, are expected to increase the production output of PBS Coals up to 3.8 million tonnes in 2017 in comparison with 2.4 million tonnes in 2012.

PBS Coals kept mining costs under control in 2012 as the cash cost of cocking coal concentrate remained relatively stable at US$107 in 2012 compared to US$112 in 2011.

Employees

Employee numbers for Severstal Resources increased from 16,958 in 2011 to 17,559 in 2012. The growth of headcount in 2012 is due to an additional 513 employees as a result of the insourcing of service companies (repair and drilling) and an additional 946 employees as a result of the consolidation of affiliated companies, which were not consolidated in terms of employees in 2011, and was partially offset by a decrease of 858 employees as a result of a restructuring and headcount optimisation programme. Severstal Resources expects to continue its restructuring and headcount optimisation programme, according to which the headcount reductions are expected to be achieved through higher productivity through increased use of capital equipment, employee training and optimisation of organisational structures.

Severstal Resources has entered into collective bargaining agreements in respect of employees at Karelsky Okatysh, expiring in December 2013, and Olkon, expiring in May 2013. In respect of Vorkutaugol, Severstal Resources is a party to a regional collective agreement, expiring at the end of 2013.

Under Russian legislation, Severstal Resources is obliged to make monthly pension contributions to the state pension fund on behalf of all of its employees. Contributions are calculated according to a regressive scale related to employees' actual compensation. Currently, Severstal Resources does not have any material accrued liabilities in respect of their contributions to the state pension fund. In addition to the contributions made to the state pension fund, Severstal Resources has obligations in respect of social programmes under collective workplace agreements, which include providing life and workplace insurance, medical insurance and voluntary pension contributions.

Health, Safety and Environment

The business of mining, particularly underground mining, can be dangerous. All underground mines are hazardous production facilities in compliance with the national regulation. Severstal Resources is required to comply with a range of health and safety laws and regulations, for which the Group has established a significant health, safety and environmental protection system for its mining operations. Each mine has an environmental specialist and a health and safety specialist to focus on compliance with law and the Group's own objectives. Expenditures on the implementation of environmental protection measures amounted to US$16.7 million in 2012. Management believes that any injuries, occupational diseases and other operational incidents can be prevented and that all employees of the Group are responsible for preventing such occurrences.

The number of industrial accidents at Severstal Resources was 74 in 2012 (resulting in 91 injured employees) and 79 in 2011 (resulting in 81 injured employees), of which there were three fatalities in 2012 and two fatalities in 2011. In February 2013, there was an accident involving an explosion at the Vorkutinskaya mine that resulted in 19 fatalities and three casualties (see "*—Recent Developments*"). Severstal Resources made health and safety investments of approximately US$67.7 million in 2012 and US$73.5 million in 2011. Karelsky Okatysh, Vorkutaugol and Olkon are accredited under the international occupational health and safety standard, OHSAS 18001. Severstal Resources is participating in the Group's overall "Labor safety "project and the Group's management believes that is has been effective in reducing the number of incidents with an ultimate goal to be among the industry leaders in safety by 2014.

The Group's management views the health and safety of the Group's workforce as a critical component to the Group's operations. Management believes that any injuries, occupational diseases and other operational incidents can be prevented and that all employees of the Group are responsible for preventing such occurrences.

Insurance

Severstal Resources maintains a level of insurance commensurate with the standards of other large mining companies in Russia. In particular, it fully insures the property, plant and equipment of Karelsky Okatysh and Olkon at the cost of replacement/reproduction but does not insure against interruption.

Insurance coverage in respect of property, plant and equipment at the coal mines is provided on a limited basis. Procedures are being put in place to ensure insurance coverage for all newly built major facilities. All employees are insured against accidents that occur within the workplace.

DISCONTINUED OPERATIONS

The Group's discontinued operations represent the Lucchini segment; Sparrows Point, Severstal Warren, Severstal Wheeling and MSC, which was an operating segment within the Severstal International reporting segment; and the Gold segment.

Lucchini segment

In October 2006, the Group acquired from the Majority Shareholder a controlling interest in Lucchini, which produces special and high-quality steel and specialty long products for the European market. In order to achieve the greatest flexibility during this disposal, it was decided to consolidate ownership and in March 2010, the Group acquired a 20.2 percent stake in Lucchini from a Lucchini family company, bringing the Group's share in the capital of Lucchini to 100.0 percent

In June 2010, the Group sold its 50.8 percent stake in Lucchini to the Majority Shareholder, following an extensive M&A process that did not result in acceptable bids. The Group continued to consolidate the Lucchini segment primarily due to a call option exercisable within the following five years and a contractual entitlement, for the benefit of the Group, to any gain on a subsequent sale of this stake to a third party.

In February 2011, the Group signed an amendment to the Lucchini's share purchase agreement with the Majority Shareholder, which cancelled the buy-back 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 transaction, the Group accounts for the investment in Lucchini using the equity method.

In December 2011, Lucchini, Varndell Ltd., Upcroft Ltd., PBS Coals, Karelsky Okatysh and several of Lucchini's lenders entered into a debt restructuring agreement pursuant to article 182bis of the Italian Bankruptcy Code (the ***Restructuring Agreement***) by which Varndell Ltd. and Upcroft Ltd. (***Lucchini's Shareholders***) undertook, at least until 31 December 2014, to sell the total of their shares in Lucchini only to a new entity with the required financial and/or industrial resources to further strengthen the economic, financial and industrial conditions of Lucchini under the terms and conditions of the restructuring agreement. In June 2012, Lucchini's Shareholders constituted a pledge over their shares in favour of the lenders who executed the Restructuring Agreement to guarantee Lucchini's payment obligation under the Consolidated Facility Agreement as derived from the Restructuring Agreement.

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 for its investment at fair value. No gains or losses were recognised as a result of this event.

North America disposal group

In March 2011, the Group sold its 100.0 percent stake in Severstal Sparrows Point, Severstal Warren, Severstal Wheeling and a 50.0 percent stake in MSC. The remaining 50.0 percent share in MSC is accounted for using the equity method.

Gold segment

In November 2011, the Group made the decision to separate the Gold segment by an exchange of 100.0 percent shares of Nord Gold, the segment's holding company, for the Company's shares and GDRs based on the relative fair values, which was completed in March 2012.

Annual General Shareholders' Meeting

The annual general shareholders' meeting is the Company's highest governing body and has exclusive powers to take certain decisions by a vote of the ordinary shares represented at the meeting. The powers of the Company's shareholders, acting through the general shareholders' meeting, are derived from, and their scope is limited to, the powers set forth in the Federal Law dated 26 December 1995 No. 208-FZ "On Joint Stock Companies", as amended (***Federal Law on Joint Stock Companies***), and the Company's charter. Voting at a general shareholders' meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which must be done through cumulative voting. Ordinarily, a majority vote of the voting shares present at a general shareholders' meeting is required for a decision of the general shareholders' meeting to be valid. However, a three quarters majority vote of the voting shares present at a general shareholders' meeting is required to approve certain decisions.

Issues for which a majority vote is required include:

- the number of members of the Board of Directors, and the election and dismissal of its members;
- the election and dismissal of the Internal Audit Commission;
- the approval of the Company's independent auditor;
- the increase of the Company's share capital by way of an increase in the nominal value of the Company's shares;
- the reduction of the Company's share capital by way of the repurchase of part of the Company's shares for the purpose of decreasing the total number of outstanding shares and the cancellation of the acquired or repurchased shares;
- the approval of the Company's annual reports and financial statements;
- the declaration and payment of dividends;
- the splitting and consolidation of the Company's shares;
- the approval of interested party transactions in cases provided for by the Federal Law on Joint Stock Companies;
- the approval of the Company's participation financial and industrial groups, associations and other unions of commercial organisations;
- the approval of internal regulations in relation to management bodies of the Company; and
- other issues as provided by the Federal Law on Joint Stock Companies and the Company's charter.

Issues for which a three quarters majority vote is required include:

- amendments to the Company's charter;
- the reorganisation of the Company;
- the liquidation of the Company, appointment of the liquidation commission and approval of the interim and final liquidation balances;
- the number, nominal value and type of authorised shares, and the rights attached to those shares;
- the approval of major transactions in cases provided for by the Federal Law on Joint Stock Companies;
- the acquisition by the Company of issued shares in cases provided for by the Federal Law on Joint Stock Companies;
- any issue of additional shares, or securities convertible into shares, by a closed subscription;
- the reduction of the Company's share capital by way of a reduction of the nominal value of the Company's shares;
- the increase of the Company's share capital by issuing additional ordinary shares by means of an open subscription if the ordinary shares to be additionally issued would constitute over 25.0 percent of the total number of ordinary shares issued prior to such additional issue; and

- the issue of securities convertible into ordinary shares by means of an open subscription if the shares into which the securities would be converted would constitute over 25.0 percent of the total number of ordinary shares issued prior to such issue.

A quorum for a general shareholders' meeting of the Company is achieved if the holders of more than 50.0 percent of the issued outstanding voting shares are attending in person or by proxy. If a 50.0 percent quorum is not achieved, the quorum shall be at least the holders of 30.0 percent of the issued outstanding voting shares to attend (in person or by proxy) a meeting duly reconvened to consider the same agenda.

The annual general shareholders' meeting must be convened by the Board of Directors between 1 March and 30 June of each year, and the agenda must include the following items:

- election of the members of the Board of Directors;
- approval of the annual report, balance sheet and profit and loss statement;
- approval of the distribution of profits and losses;
- approval of the appointment of an independent auditor; and
- election of the Internal Audit Commission.

A shareholder owning, individually or collectively with other shareholders, at least 2.0 percent of the issued voting shares may propose items for the agenda of the annual general shareholders' meeting and may nominate candidates to the Board of Directors and the Internal Audit Commission pursuant to the Charter of the Company. Any agenda items or nominations must be submitted to the Company no later than 60 calendar days after the end of the financial year.

Extraordinary general shareholders' meetings may be convened by the Board of Directors on its own motion or at the request of the Internal Audit Commission, the independent auditor or any shareholder owning, individually or collectively with other shareholders, at least 10.0 percent of the issued voting shares at the date of the request.

A general shareholders' meeting may be held in person or by absentee ballot. A general shareholders' meeting held in person involves the adoption of resolutions by the general shareholders' meeting through the personal attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues on the agenda, provided that if the ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general shareholders' meeting held by absentee ballot involves the determination of shareholders' opinions on the issues on the agenda by means of a written poll.

The following issues cannot be decided by absentee ballot:

- the election of the members of the Board of Directors;
- the election of the Internal Audit Commission;
- the approval of the appointment of an independent auditor; and
- the approval of the annual report, balance sheet and profit and loss statement, and the distribution of profits and losses.

Notice and Participation

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in person or by absentee ballot, no fewer than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if election of the members of the Board of Directors or reorganisation in the form of merger, spin-off or split-up of the Company is on the agenda of an extraordinary general shareholders' meeting, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that are set forth in the statutory notice to shareholders may be considered at a general shareholders' meeting. According to the Company's charter, the notice to the shareholders can be sent to the shareholders by registered post or delivered by hand. The Company must also publish the notice in the Russian newspapers "SEVERSTAL Rossiyskaya Stal" (formerly known as "Cherepovetsky Metallurg") and "Rossiyskaya Gazeta".

The list of persons entitled to participate in a general shareholders' meeting is to be compiled on the basis of the data in the Company's register of shareholders on the date specified by the Board of Directors. The list of persons entitled to participate in a general shareholders' meeting may not be compiled earlier than the date of adoption of the resolution to hold such meeting and may not be more than 50 days before the date of the meeting or, in the case of an extraordinary general shareholders' meeting to elect the Board of Directors, 85 days before the date of the meeting.

Generally, the right to participate in a general shareholders' meeting may be exercised by a shareholder as follows:

- by personal attendance;
- by proxy;
- by absentee ballot; or
- by delegating the right to vote using the absentee ballot to a duly authorised representative.

BOARD OF DIRECTORS

Pursuant to the Federal Law on Joint Stock Companies and the Company's charter, the Board of Directors is responsible for the general management of the Company and its operations, except with respect to matters reserved to the exclusive competence of the general shareholders' meeting.

The members of the Board of Directors are elected at the annual general shareholders' meeting through a system of cumulative voting for the period until the next annual general shareholders' meeting (except if re-election of the Board of Directors is required by an extraordinary general shareholders' meeting). Only natural persons (as opposed to legal entities) are entitled to sit on the Board of Directors. Members of the Board of Directors are not required to be shareholders of the Company. As provided by law, the Company's charter requires that the entire Board of Directors retire and stand for re- election at each annual general shareholders' meeting, and that a new Board of Directors be elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares it holds multiplied by the number of persons to be elected to the Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates.

All directors may be removed as a group without cause at any time before their term expires by a majority vote of shareholders participating in a general shareholders' meeting. Persons elected to the Board of Directors may be re-elected an unlimited number of times.

The Federal Law on Joint Stock Companies generally prohibits the Board of Directors from acting on issues that fall within the exclusive competence of the general shareholders' meeting of the Company. According to the Federal Law on Joint Stock Companies and the Company's charter, the Board of Directors has the power to perform the general management and, among other things, it has the power to:

- determine the Company's business priorities;
- convene annual and extraordinary general shareholders' meeting of the Company, other than in certain cases provided by law;
- approve the agendas of general shareholders' meetings of the Company;
- determine the record date for compilation of the list of persons having the right to participate in the general shareholders' meetings and pass resolutions on certain other issues in connection with the preparation for, and holding of, general shareholders' meetings;
- resolve to issue bonds and other securities in accordance with applicable law;
- determine the value of property and of the placement and repurchase price of the Company's securities in accordance with applicable law;
- acquire shares, bonds and other securities issued by the Company other than in situations reserved to the exclusive competence of the general shareholders' meeting;
- decide on the policy of appointment and remuneration of the Company's senior management, including the general director and make recommendations with respect to such policy and the early termination of its powers;

- make recommendations on the amount of remuneration and compensation to be paid to the members of the Internal Audit Commission and on the independent auditor's fee;
- make recommendations on the amount of dividends to be paid and the procedure for the payment thereof;
- decide on the utilisation of the Company's reserve and other funds;
- approve internal documents of the Company regulating activity of the Board of Directors committees, as well as the Company's Code of Corporate Conduct;
- establish and close down the Company's branches and representative offices;
- approve major and interested party transactions in accordance with applicable law;
- approve the appointment of the Company's registrar and the terms of, as well as the termination of, the registrar's appointment;
- approve transactions with a value exceeding 10.0 percent of the book value of the Company's assets;
- approve the acquisition of (i) shares or participatory interests or the rights to dispose of them or (ii) fixed assets or intangible assets, if the total value of any such transaction is more than the equivalent of US$500 million;
- review of the consolidated budget of the Group and submission of recommendations related to such budget; and
- approve internal documents of the Company regulating the procedure for providing access to insider information, confidentiality rules and monitoring of compliance with the requirements of insider legislation, as well as any other issues on handling insider information of the Company.

Under the Company's charter, the total number of the Board of Directors shall be 10. A meeting of the Board of Directors has a quorum if at least half of its members are present. Some decisions (such as approvals of major transactions) require the unanimous agreement of all members of the Board of Directors. Decisions on approval of transactions for the purchase of assets with a total value over US$500 million and reviews of the consolidated budget are to be adopted by a two-thirds majority of the total number of directors, excluding any retired directors.

As at 31 December 2012, the active membership of the Board of Directors (the business address of each of which is Ulitsa Mira 30, Cherepovets, Vologda Region, 162608, Russia, and the telephone of which is +7 8202 53 09 00) is as follows:

Name	Year of Birth	Current position/biography and outside memberships	Since
Christopher Clark	1942	Chairman of the Board of Directors, Member of the Board Nomination and Remuneration Committee. Chris Clark is a leading industrialist and brings extensive business knowledge to the Board. Mr. Clark's career spans 40 years at Johnson Matthey plc, the specialty chemicals and precious metals group, where he became CEO in 1998. He led the Group into the FTSE 100 in 2002. Since his retirement in 2004, Mr. Clark has taken a number of non-executive positions. He previously chaired: Associated British Ports; the UK's leading ports group; Urenco Limited, the leading international supplier of enriched uranium to the power generating industry; and Wagon plc, the European manufacturer of metal components for the automobile industry. He currently chairs RusPetro, an independent oil and gas producer conducting oil exploration and production activities in the Krasnoleninsk field in Western Siberia, one of the largest oil producing regions in the Russian Federation. Mr. Clark is a graduate in metallurgy. He studied at Trinity College, Cambridge and Brunel University, London.	2006

Name	Year of Birth	Current position/biography and outside memberships	Since
		Mr. Clark's outside activities include the following: RusPetro plc (Chairman of the Board of Directors; Chairman of Nomination Committee, Member of Renumeration Committee); and Citicorp Venture Capital (Board Adviser).	
Alexey A. Mordashov .	1965	CEO, Severstal, Member of the Board Nomination and Remuneration Committee. Alexey Mordashov has worked for Severstal since 1988. He started his career as a senior shop economist, becoming Chief Financial Officer in 1992. In December 1996, he was appointed as Severstal's Chief Executive Officer. In June 2002, Mr. Mordashov was elected Chairman of Severstal's Board of Directors. Since 2002 he has served as Chief Executive Officer of Severstal Group since December 2006, he has worked as the Chief Executive Officer of Severstal. Mr. Mordashov serves on the Entrepreneurs Council of the Government of Russian Federation. In addition, Mr. Mordashov is a member of the Russian-German workgroup responsible for strategic economic and finance issues, and he is the head of the Russian Union of Industrialists and Entrepreneurs' (***RSPP's***) Committee for Trade Policy and WTO. Since March 2006 he has been a member of the EU-Russia Business Cooperation Council. Alexey is a member of the Atlantic Council President's International Advisory Board. Mr. Mordashov is a member of the Supervisory Board of Non-Profit Partnership Russian Steel (since June 2010) and Deputy Chairman of World Steel Association (since October 2011), which is headquartered in Brussels, Belgium. Mr. Mordashov earned his undergraduate degree from the Leningrad Institute of Engineering and Economics. He also holds an MBA degree from Newcastle Business School of Northumbria University (Newcastle UK). Alexey was granted an honorary doctorate from the Saint-Petersburg State University of Engineering and Economics in 2001 and from the University of Northumbria in 2003. Mr. Mordashov's outside activities include the following: • OOO Capital (General Director); • OOO Algoritm (General Director); • ZAO Laguna Delta (General Director); • ZAO Sveza (Chairman of the Board of Directors); • OOO Terraprof (General Director); • OAO Power machines (Chairman of the Board of Directors); • ZAO Severgroup (General Director); • Nord Gold N.V. (Member of the Board of Directors); and • World Steel Association (Chairman of the Board of Directors).	1996
Martin Angle	1950	Independent Non-Executive Director, Chairman of the Board Audit Committee.	2006

Name	Year of Birth	Current position/biography and outside memberships	Since
		Martin Angle holds a number of non-executive directorships in addition to OAO Severstal, including in the UK Pennon Group plc, Savills plc and the Chairmanship of the National Exhibition Centre Group Ltd. He also sits on the Board of Shuaa Capital psc in Dubai and is a Vice Chairman of the FIA Foundation. During his career, Mr. Angle has held senior executive positions in investment banking, industry and more recently private equity, where he was an Operational Managing Director of Terra Firma Capital Partners and held various senior positions in its portfolio companies including the Waste Recycling Group Ltd, where he was Executive Chairman, and Le Meridien Hotel Group, where he was Deputy Chairman. Prior to that, Mr. Angle was for a number of years the Group Finance Director of TI Group plc, a specialised engineering company in the UK FTSE 100 with activities in over 50 countries. Before that, he spent 20 years in investment banking, where he held a number of senior positions with SG Warburg & Co Ltd, Morgan Stanley and Dresdner Kleinwort Benson. Mr. Angle is a graduate in physics, a Chartered Accountant, a Member of the Chartered Securities Institute and a Fellow of the Royal Society of Arts. Mr. Angle's outside activities include the following: • Savills Plc (Senior Independent Director, Chairman of the Audit Committee); • Pennon Group Plc (Non-Executive Director, Chairman of the Remuneration Committee): • The National Exhibition Center Group Ltd. (Non-Executive Chairman); • Shuaa Capital psc (Non-Executive Director); and • FIA Foundation for the Automobile & Society (Vice Chairman, Trustee and Director, Treasurer, Chairman of the Investment Committee).	
Ronald Freeman	1939	Independent Non-Executive Director, Member of the Board Audit Committee. Ronald Freeman is a non-executive member of the board of directors of Volga Gas and a member of the Executive Committee of the Atlantic Council. He is a member of the International Advisory Committee of Columbia Law School and Chairman of the Executive Committee of the Pilgrims Society (UK). Between 1991 and 1997, Mr. Freeman was Head of the Banking Department of the European Bank for Reconstruction and Development (EBRD). He was responsible for debt and equity financing in the private sector in 23 countries of the former Soviet Union, with a total annual funds commitment of €2 billion. Prior to that, Ronald was vice-chairman of Citigroup European investment banking and a general partner of Salomon Brothers. Ronald holds a BA degree from Lehigh University and an LLB from the Law School of Columbia University. He is admitted to the New York Bar.	2006

Name	Year of Birth	Current position/biography and outside memberships	Since
		Mr. Freeman's outside activities include the following: • Columbia Law School (Member of the International Advisory Committee); • Volga Gas (member of the Board of Directors); • Atlantic Council (Vice Chairman and Member of the Executive Committee); • The Pilgrims (Chairman of the Executive Committee); and • OAO Sberbank of Russia (Non-executive member of the Supervisory Board, Member of Strategic Planning Committee).	
Peter Kraljic	1939	Independent Non-Executive Director, Member of the Board Audit Committee. Peter Kraljic is a Director Emeritus at McKinsey, where he spent 32 years and held a number of senior positions until his retirement in 2002. Focused mainly on industrial clients in the chemicals, pharmaceuticals, automotive assembly and steel and aluminium sectors, he was also a member of McKinsey's Shareholders and Personnel Development Committee and has managed the company's activities in France as a General Director. Mr. Kraljic has also written a number of scientific and business articles for publications such as the Harvard Business Review and Le Figaro Economic. He has also led special projects aimed at economic growth and job creation in Germany and Brazil. Mr. Kraljic graduated from the University of Ljubljana, Slovenia (Faculty of Metallurgy) and holds a PhD degree from Polytechnic University in Hannover, Germany. He also holds a Masters degree in business management from the INSEAD business school, France. Mr. Kraljic's outside activities include the following: • Business School Bled (member of Advisory Board).	2006
Sergei A. Kuznetsov . .	1971	CEO Severstal International, CEO Severstal North America. Sergei Kuznetsov started his career in 1994 as an expert in trade operations for steel and steel products at the State Owned Foreign Trade Association Promsyrioimport (Industrial Materials Import/Export). Between 1995 and 2001 he worked as a commercial representative at Steel Trading Section of Moscow Representative Office of Cargill Enterprises, Inc. He joined Severstal in 2002 to head Business Planning Group responsible for acquisitions of foreign assets and development of international projects. In 2004 he was appointed as Chief Financial Officer of Severstal North America. In 2008 he became Chief Financial Officer of OAO Severstal. In July 2009 Sergei became CEO of Severstal International and CEO of Severstal North America. Mr. Kuznetsov graduated from Bauman Moscow State Technical University in 1994, where he majored in Engineering. In 1998 he received his Finance MBA from California State University, Hayward	2009 .

Name	Year of Birth	Current position/biography and outside memberships	Since
		Mr. Kuznetsov's outside activities include the following: • Severstal Investments, LLC (Member of the Board of Directors, President, CEO); • Severstal Dearborn, LLC (Member of the Board of Directors, President, CEO); • Severstal US Holdings, LLC (Member of the Board of Directors); • Lucchini S.p.A. (Member of the Board of Directors); • Severstal Columbus Holding, LLC (Member of the Board of Directors); • Severstal US Holdings II LLC (Member of the Board of Directors); and • Charnwood I, LLC (Treasurer).	
Alexey G. Kulichenko .	1974	CFO Severstal. Alexey Kulichenko graduated from the Omsk Institute of World Economy with a degree in economics. From 1996 to 2003 he worked in Sun Interbrew, starting his career as cash flow economist of Omsk plant Rocar and ending as Efficiency Planning and Managing Director of Sun Interbrew. From 2003 till 2005 Mr. Kulichenko worked as CFO at Unimilk—the second largest milk producer in Russia, which joins 20 plants in Russia and Ukraine. From December 19, 2005 to July 2009 he had a position of CFO of CJSC "Severstal Resource". From 2006 to 2010, Alexey was a member of the Board of Directors of OAO Vorkutaugol. In July 2009, Mr. Kulichenko was appointed CFO of OAO Severstal. Mr. Kulichenko does not carry out any outside activity.	2009
Mikhail V. Noskov	1963	Non-Executive Director. Mikhail Noskov worked at the International Moscow Bank between 1989 and 1993. From 1994 he was Trade Finance Director of Credit Suisse (Moscow). He has worked for Severstal since February 1997 as Head of Corporate Finance and from 1998 as Finance and Economics Director. In June 2002, he was made Deputy CEO for Finance and Economics of the Severstal Group, from 2007 till 2008 he was Deputy CEO for Finance and Economics of Severstal. Mr. Noskov graduated from the Moscow Institute of Finance. Mr. Noskov's outside activities include the following: • ZAO Sveza (Member of the Board of Directors); • ZAO National Media Group (Member of the Board of Directors); • Non governmental pension fund Stalfond (Chairman of Advisory Board); • Non governmental pension fund Gazfond (Member of the Board of Directors); • TUI Aktiengesellschaft (Member of the Board of Directors); • OAO Mostotrest (Independent Director, Member of the Board of Directors);	1998

Name	Year of Birth	Current position/biography and outside memberships	Since
		• ZAO Severgroup (CFO); • OAO AB Bank of Russia (Member of the Board of Directors); • ZAO ABR Management (Member of the Board of Directors); • ZAO GK Video International (Member of the Board of Directors); and • Nord Gold N.V. (Member of the Board of Directors).	
Rolf Stomberg	1940	Senior Independent Director, Chairman of the Board Nomination and Remuneration Committee. Rolf Stomberg is Chairman of the Supervisory Board of LANXESS AG, Leverkusen, a global chemical company. He advises a number of German family owned companies. Mr. Stomberg is Senior Independent Director and Chairman of the Remuneration Committee in RusPetro, an independent oil and gas producer, Russia. After his executive career of nearly 30 years with BP (British Petroleum Co plc), where he last held the position of CEO of BP's downstream business and Managing Director on the main board of the company, he held a number of directorships in internationally operating companies in Europe such as Reed Elsevier Group, TNT NV, Scania AB, John Mowlem plc and Management Consulting Group plc, as well as on the boards of PE owned companies. Mr. Stomberg is an economics graduate holding a Doctorate of Hamburg University, where he also served as a Lecturer. He was Honorary professor at the business school of Imperial College, London, and the Institut Francais de Petrol, Paris. Mr. Stomberg's outside activities include the following: • Lanxess AG (Chairman of the Supervisory Board); • HOYER GmbH (Vice-chairman of the Advisory Board); • RusPetro plc (Senior Independent Director, Chairman of the Remuneration Committee, Member of the Audit Committee); • Biesterfeld AG (Member of the Supervisory Board); and • KEMNA Bau Andreae GmbH+Co.KG (Member of the Supervisory Board).	2006
Alexander D. Grubman	1962	CEO, Severstal Russian Steel Division. Alexander Grubman joined Severstal in 2006 as Operations Director of Severstal Resources, becoming Chief Operating Officer later that year. In June 2009, Alexander became Chief Executive Officer of Severstal Resources. In September 2010, he was appointed Chief Executive Officer of Severstal Russian Steel Division. Prior to joining Severstal, Alexander held leading management positions at Coca-Cola Company, SunInterbrew and Unimilk. Alexander graduated from Moscow Technological Institute of Food Industries as a mechanic engineer. Mr. Grubman's outside activities include the following: • Iron Mineral Beneficiation Services (Pty) Ltd. (Member of the Board of Directors).	2011

There are no current or potential conflicts between the private interests and duties of the members of the Board of Directors or the General Director and the duties of those officers to the Company.

In the previous five years, no member of the Board of Directors has been convicted of any fraudulent offence; served as a director, partner, founder or senior manager of any organisation that has been the subject of any bankruptcies, receiverships or liquidations; was subject to any official public incrimination or sanctions by statutory or regulatory authorities, including designated professional bodies, or has been disqualified by a court from acting as a director of an issuer or from acting in the management or conduct of the affairs of any issuer.

General Director

The General Director of the Company is the Company's executive body that carries out the day-to-day management of the Company.

The General Director, elected by the general shareholders' meeting for a three-year term, is entitled to act on behalf of the Company without a power of attorney. The following matters are within the competence of the General Director:

- the implementation of current and future programmes of the Company;
- the performance of the routine management of the Company's operations;
- the representation of the Company's interests both in Russia and abroad;
- performance of the resolutions adopted by the general shareholders' meeting and the Board of Directors;
- the adoption of regulations on sub-divisions of the Company and on various subjects of the Company's business activities;
- employment of the Company's staff;
- the issuance of powers of attorney on behalf of the Company;
- the entry into transactions on behalf of the Company;
- the general management of the Company's assets (the value of which does not exceed 10 percent of the assets of the Company); and
- the issuance of orders and instructions binding upon all subordinated officers and employees of the Company.

Mr. Alexey A. Mordashov, the controlling shareholder of the Company and a member of the Board of Directors, was elected by shareholders as the General Director on 11 June 2010 for a three-year term.

External Auditors and Internal Audit Commission

As required by Russian law, the Company's financial and economic activities are monitored by the Company's Internal Audit Commission (a body established by the general shareholders' meeting of the Company) and the Company's Chief Accountant.

ZAO KPMG conducts the statutory audit of the Company's stand alone accounts produced under Russian Accounting Standards. The appointment of ZAO KPMG as the statutory auditors of the Company is approved by the annual general shareholders' meeting.

Audits of the Company's financial and economic performance are conducted by the Internal Audit Commission on the basis of the Company's annual results, but may also be carried out at any time on the initiative of the Internal Audit Commission or at the request of the general shareholders' meeting, the Board of Directors or any shareholder owning a total of at least 10 percent of the Company's voting shares.

The Internal Audit Commission prepares a report on the basis of the results of the audit. The report should contain confirmation of the authenticity of data included in financial reports, accounts and other financial documents of the Company, and set forth breaches of procedures for conducting accounting operations and financial reporting established by applicable Russian laws.

The Internal Audit Commission's report must be submitted to the Board of Directors no later than 45 days prior to the annual general shareholders' meeting in accordance with Regulations on Internal

Audit Commission. In accordance with the Company's charter, the Internal Audit Commission consists of three members. They are elected at the annual general shareholders' meeting and their incumbency lasts until the date of the next annual general shareholders' meeting.

The present members of the Internal Audit Commission are:

Name	Position
Mr. Nikholay Lavrov	Chief Audit Executive
Mr. Roman Antonov	Deputy Chief Audit Executive
Mrs. Svetlana Guseva	Manager of Internal Audit and Risk Management

Audit Committee

The Audit Committee of the Board of Directors is responsible for evaluating candidates for the position of the Group's auditor, evaluating auditors' reports, evaluating the Group's internal control and risk management procedure, analysing the system for the approval of unusual transactions and making suggestions for improvement to the Board of Directors.

The Audit Committee consists of three Independent Directors. At least one member of the Audit Committee shall have recent, relevant and sufficient experience in the financial area, as well as skills reasonably required for financial statements and business risks analysis and financial management skills. No senior executive of the Company may be a member of the Audit Committee.

The Audit Committee consists of three members of the Board of Directors: Mr. Freeman, Mr. Kraljic and Mr. Angle. The Audit Committee is chaired by Mr. Angle.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee of the Board of Directors is responsible for assisting the Board of Directors in engaging qualified experts in managing the Company and creating the incentives necessary to ensure their successful work in the Company.

The Remuneration and Nomination Committee consists of three members. At least two members of the Remuneration and Nomination Committee, including the Chairman of the Committee, shall be Independent Directors who are not senior executives of the Company.

The Remuneration and Nomination Committee consists of three members of the Board of Directors: Mr. Stomberg, Mr. Clark and Mr. Mordashov. The Remuneration and Nomination Committee is chaired by Mr. Stomberg.

Compensation of Senior Managers, Executive Officers and Directors

Key management's remuneration for the year ended 31 December 2012, consisting of salaries and bonuses, totalled US$38.1 million (2011: US$43.0 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). This provision is subject to further adjustments, depending on a range of the Group's and its industry peers' financial indicators.

Members of the Board of Directors do not receive compensation for service as directors nor is any director a party to any service contract with the Company or any of its subsidiaries where such contract provides for benefits upon termination of employment.

PRINCIPAL SHAREHOLDERS

The table below sets forth certain information regarding the ownership of the Company as at 31 December 2012 according to the Company's share register:

Shareholder	Percentage of shares
OOO Deutsche Bank[(1)]	16.65
ASTROSHINE LIMITED	19.99
LORANEL LIMITED	19.99
ZAO BANK CREDIT SUISSE	12.18
RAYGLOW LIMITED	18.15
OOO Capital	2.73
Other minority shareholders	10.31
Total	**100.0**

Note:

(1) OOO Deutsche Bank is the custodian for Deutsche Bank Trust Company Americas, the Depositary for the Company's Global Depositary Receipts programme. The Company placed global depositary receipts ("GDRs"), which were admitted to trading on the regulated main market of the London Stock Exchange on 14 November 2006 and remain listed on the London Stock Exchange. Each GDR represents one ordinary share.

As a result of the Nordgold separation as well as the Company's share buy back, Mr. Alexey Mordashov's interest in the Company's share capital has changed. As at 31 December 2012, approximately 79.17 percent of the Company's share capital was indirectly controlled by Mr. Mordashov, the Company's chief executive officer and a member of the Board of Directors. As at 31 December 2012, approximately 0.02 percent of the Company's shares were controlled by members of the Board of Directors through GDRs representing such shares.

RELATED PARTY TRANSACTIONS

The following is a summary of the Group's most significant transactions with related parties for the years ended 31 December 2012, 2011 and 2010. For further details of these transactions, see Note 10 to the Annual Financial Statements for the years ended 31 December 2012, 2011 and 2010.

In the ordinary course of its business, the Group has engaged, and continues to engage, in transactions with parties that are under common control with the Group or that are otherwise related parties to the Group. Transactions with entities under common control with the Group constitute transactions with parties that have the same beneficial owners as the Company, or who are also members of the Board of Directors. See "Principal Shareholders". Other than the transactions with entities under common control described herein, the Group did not engage in any transactions with members of its Board of Directors during the period under review.

The Group has transactions with related parties in respect of revenue, purchases, financing and other types of transactions. Because of the varying ownership percentages of its Majority Shareholder in such related parties, as well as other factors, there may be incentives for transactions between the Group and its related parties to be effected on other than arm's-length terms, which could result in subsidies or other transfers of value and could have a material adverse effect on the Group's business, results of operations and financial condition.

The following related parties and their transactions are considered to be significant to the Group.

REVENUE

As disclosed in the Annual Financial Statements, the Group's revenue from related parties totalled US$188.1 million, US$239.3 million and US$62.3 million for the years ended 31 December 2012, 2011 and 2010, respectively.

Revenue from associates and joint ventures amounted to US$146.5 million, US$195.6 million and US$31.1 million for the years ended 31 December 2012, 2011 and 2010, respectively, and mainly comprised revenue of Severstal Resources segment from Lucchini S.p.A. (for the years ended 31 December 2012 and 2011) and Mountain State Carbon LLC (for the years ended 31 December 2012 and 2011) and revenue of the Severstal Russian Steel segment from Severstal-Gonvarri-Kaluga LLC (for the year ended 31 December 2012) and Air Liquide Severstal.

Revenue from other related parties amounted to US$41.6 million, US$43.7 million and US$31.2 million for the years ended 31 December 2012, 2011 and 2010, respectively, and mainly comprised revenue from the Severstal Russian Steel segment from OAO Power Machines; the remaining revenues came from other counterparties which individually did not represent any significant revenue transactions.

Lucchini S.p.A., an associate of the Group, is one of the largest European producers of special quality steel with 3.0 million tonnes of annual crude steelmaking capacity, which serves customers in niche markets, such as long rails and wire rod. Lucchini S.p.A. purchases coals and pellets from Severstal Resources segment and is a major supplier to Redaelli Techna S.p.A. Severstal had a 49.2 percent ownership in Lucchini S.p.A. as at 31 December 2012 (see "*Recent Developments*").

Mountain State Carbon LLC, a joint venture of the Group, is a leading producer of competitively priced coke with up to 1.0 million tonnes of annual coke production capacity from its four coke batteries. MSC's coke production facility is the third largest in the United States. Mountain State Carbon LLC is a 50-50 joint venture with Renco Group.

Air Liquide Severstal, an associate of the Group, is an industrial gas producer with a production capacity of 5,750 kg/h of liquid oxygen. Severstal has a 25.0 percent ownership plus one share in Air Liquide Severstal, which was established jointly with Air Liquide. Air Liquide Severstal's business operations are located within the Cherepovets steel complex in the Vologda region, Russia.

OAO Power Machines, a related party of the Group, is the leading Russian producer and supplier of end-to-end products and solutions for the power-plant industry, including engineering, production, supply, assembly, service and equipment upgrades for thermal, nuclear, hydraulic and gas-turbine power plants. OAO Power Machines has manufactured equipment with a combined capacity of 300 thousand MW.

Such transactions were undertaken as part of divisions' normal business operations and are expected to continue in the foreseeable future.

Purchases

As disclosed in the Annual Financial Statements, the Group's purchases from related parties totalled US$366.8 million, US$363.8 million and US$180.5 million for the years ended 31 December 2012, 2011 and 2010, respectively.

The main part of the Group's purchases is represented by purchases from associates and joint ventures totalling US$327.8 million, US$329.2 million and US$153.3 million for the years ended 31 December 2012, 2011 and 2010, respectively, and mainly comprised purchases by the Severstal International segment from Double Eagle Steel Coating Company, Spartan Steel Coating LLC, Mountain State Carbon LLC (for the years ended 31 December 2012 and 2011) and purchases by the Severstal Russian Steel segment from Air Liquide Severstal.

Double Eagle Steel Coating Company is a joint venture of the Group and is the world's largest electrogalvanising line, which produces premium quality galvanized sheet steel primarily for automotive customers. The Group owns 50.0 percent of the Double Eagle Steel Coating Company. The plant, located in Dearborn, Michigan, has a production capacity of 680 thousand tonnes per year, approximately one half of which is dedicated to one of the Severstal International entities—Severstal Dearborn.

Spartan Steel Coating LLC is a joint venture of the Group and produces hot-dip galvanized sheet steel primarily for the automotive and service center industries. The Group owns 48.0 percent of Spartan Steel Coating LLC. The plant has a production capacity of 625 thousand tonnes per year, about 80.0 percent of which is dedicated to Severstal Dearborn, which supplies nearly 100.0 percent of the steel sheet used as substrate for Spartan Steel.

Such transactions were undertaken as part of divisions' normal business operations and are expected to continue in the foreseeable future.

Financing

The Group's cash flows have been used, from time to time, to finance the development of various companies.

As disclosed in the Annual Financial Statements, the Group's interest income from related parties totalled US$34.3 million, US$26.6 million and US$33.2 million for the years ended 31 December 2012, 2011 and 2010, respectively, and mainly represented by interest income received on deposits placed to related party banks OAO Metcombank and AB Russia.

Additional Information

For relevant disclosures for the years ended 31 December 2012, 2011 and 2010 and the balances as at such date, refer to the following parts of the Annual Financial Statements for the years ended 31 December 2012, 2011 and 2010:

Consolidated income statements
Consolidated statements of financial position
Notes to the consolidated financial statements:
Note 10—Related party transactions
Note 11—Related party balances
Note 19—Investments in associates and joint ventures
Note 28—Subsidiaries, associates and joint ventures
Note 29—Segment information

REGULATORY MATTERS

Regulation of the Steel and Mining Industries in Russia

Russia has not enacted any specific legislation governing the operation of the steel industry and the business of steel manufacturing companies. The production, sale and distribution of steel in the Russian Federation is regulated by general civil legislation and administrative and special legislation relating to quality standards, industrial safety, environmental, employment and other rules.

The Ministry of Industry and Trade of the Russian Federation on 18 March 2009 approved the "Strategy for Development of Metal Manufacture Industry of the Russian Federation for the Period till 2020" (the ***Strategy***). The Strategy supersedes the "Strategy for Development of Metal Manufacture Industry of the Russian Federation for the Period till 2015" dated 29 May 2007. The Strategy, *inter alia*, outlined the key trends and factors relevant for the development of national ferrous and non-ferrous metallurgy, set out three stages of development of the Russian metallurgy (2009-2011, 2012-2015 and 2016-2020) and determined that innovative growth would be the priority for improving competitive strength of national manufacturers.

The Federal Law "On Technical Regulation" No. 184-FZ dated 27 December 2002, as amended (the ***Technical Regulation Law***), introduced new rules relating to the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation.

The Technical Regulation Law supersedes the Laws of the Russian Federation "On Certification of Goods and Services" No. 5151-1 dated 10 June 1993 and "On Standardisation" No. 5154-1 dated 10 June 1993 and will be followed by the revision of existing legislation and technical rules falling within the scope of its regulation. Under the Technical Regulation Law, technical rules and regulations relating to industrial safety and environmental protection can be enacted only by federal laws, decrees of the president, resolutions of the government and by-laws adopted by state authorities responsible for technical regulation.

In those cases where the Technical Regulation Law provides for mandatory confirmation of product conformity to the established technical regulations (standards), certain Group companies are obliged to obtain certificates of compliance evidencing that their products meet the requirements of technical regulations, standards, codes of practice or terms and conditions of contracts.

In those cases where Russian laws and regulations relating to industrial safety provide for mandatory issuance of permits to use technical equipment at hazardous production facilities, certain Group companies are obliged to obtain the required permits which prove that their products meet the relevant industrial safety requirements.

Federal, Regional and Local Regulatory Authorities Governing the Steel Industry

At the federal level, regulatory authority over the steel industry is divided primarily between the Ministry of Industry and Trade and the Ministry of Natural Resources and Ecology. The Ministry of Industry and Trade is responsible for the development of governmental policy in, and regulation of, the industry. In addition, it regulates certain aspects of Russian exports and imports of steel products. The Ministry of Natural Resources and Ecology is responsible for the development of governmental policy and regulation in the sphere of natural resources, including subsoil. Particularly, the Ministry of Natural Resources and Ecology passes regulations, inter alia, setting safety requirements to the process of exploration, development of natural resources, the order of re- issuance and transfer of subsoil licenses, the rules of access to the geological information, which belongs to the state, and establishes rules of accounting for natural resources on the state balances and of classification and evaluation of natural resources.

The federal ministries in Russia are not responsible for compliance control or management of state property and provision of services, which are directed by the federal services and the federal agencies, respectively. The federal services and agencies that are relevant to the Group's activities include:

- The Federal Service for Environmental, Technological and Nuclear Supervision, which sets procedures for, and oversees compliance with, industrial safety and environmental rules and issues licences for certain industrial activities and activities relating to safety and environmental protection;

- The Federal Agency for Subsoil Use, which organises auctions and issues licences for subsoil use and approves design documentation for subsoil production activities;
- The Federal Agency for Technical Regulation and Metrology, which determines and oversees levels of compliance with obligatory state standards and technical regulations; and
- the Federal Service for the Supervision of the Use of Natural Resources ("Rosprirodnadzor"), which exercises supervision over the observance of environmental legislation (including legislation relating to handling of hazardous wastes), controls geological exploration, the rational use and protection of subsoil (including compliance with the relevant terms and conditions of subsoil licenses) and exercises the land control.

Aside from the above federal executive bodies, which are directly involved in regulating and supervising the steel sector in Russia, there are a number of other federal regulators that, together with their structural subdivisions, have authority over general issues relevant to the Russian steel industry, such as defence, internal affairs, security, border services, justice, tax enforcement, rail transport and other matters.

Generally, regional and municipal authorities with jurisdiction over the specific territory in which a steel producing enterprise is located have authority in certain matters, in particular with regard to land-use allocations.

Licensing of Operations

The Group is required to obtain numerous licences, authorisations and permits from Russian governmental authorities for its operations. The Federal Law No. 99-FZ "On Licensing of Certain Types of Activities" of 4 May 2011 (the ***Licensing Law***), as well as other laws and regulations, set forth the activities subject to licensing and establish procedures for issuing licences. Some of the Group's Russian companies will need to obtain certain licences to carry out certain activities, including, *inter alia*:

- the use of subsoil, which is described in more detail below in "—*Subsoil Licensing*";
- the exploitation of chemically hazardous, explosive and flammable industrial objects;
- the collection, utilisation, deactivation and disposing of hazardous waste of hazard classes from I to IV;
- the storage, utilisation and distribution of explosives for industrial use (three different licences);
- surveying works; and
- transportation activities.

These licences are usually issued for an indefinite term. Licences for carrying out of certain types of geological survey may be issued for a period of 10 years. Licences for the use of natural resources may be issued for shorter or longer periods.

The requirements imposed by regulatory authorities may be costly and time- consuming, which may result in delays in the commencement or continuation of exploration or production operations. Accordingly, the licences that the Group needs may not be issued in a timely fashion, or may impose requirements that restrict its ability to conduct its operations or to do so profitably.

As part of the Group's obligations under licensing regulations and the terms of its licences and permits, the Group must comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, monitor operations, maintain and make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect their activities. Failure to comply with these requirements may result in suspension and subsequent revocation of the licenses by the court order. Special rules apply to suspension and revocation of subsoil licenses.

Subsoil Licensing

In Russia, mining minerals requires a subsoil licence with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land where such licensed mineral deposit is located. In addition, as discussed above, operating permits are required with respect to specific mining activities.

The licensing regime for use of subsoil for geological survey, exploration and production of mineral resources is established primarily by the Federal Law of the Russian Federation "On Subsoil" No. 2395-1 dated 21 February 1992, as amended, (the ***Subsoil Law***). The procedure for subsoil use licensing, as well as certain rules of exploration and production of mineral resources was established by Resolution of the Supreme Soviet of the Russian Federation No. 3314-1 dated 15 July 1992, as amended, (the ***Licensing Regulation***).

There are two major types of licences: (1) an exploration licence, which is a non-exclusive licence granting the right of geological exploration and assessment within the licence area, and (2) a production licence, which grants the licensee an exclusive right to produce minerals from the licence area. In practice, some of the licences are issued as combined licences, which grant the right to explore, assess and produce minerals from the licence area.

There are three major types of payments with respect to the use of subsoil: (1) a lump-sum payment for granting the right to use the subsoil, (2) periodic payments for geological exploration under the Subsoil Law, and (3) the minerals extraction tax under the Tax Code. Failure to make these payments could result in refusal to grant the right to use the subsoil or in the suspension or termination of the subsoil licence.

Issuance of subsoil licences. Subsoil licences are issued by the Federal Agency for Subsoil Use. Most of the currently existing production licences owned by companies derive from (1) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state owned enterprises that were subsequently reorganised in the course of post-Soviet privatisations; or (2) tender or auction procedures held in the post-Soviet period. The Subsoil Law and the Licensing Regulation set out the major requirements relating to such tenders and auctions.

Amendments to the Subsoil Law, passed in August 2004, significantly changed the procedure for awarding exploration and production licences, in particular abolishing the joint grant of licences by federal and regional authorities. Under the 2004 amendments, production licences and combined exploration and production licences are awarded by tender or auction conducted by the Federal Agency for Subsoil Use. While the auction or tender commission may include a representative of the relevant region, the separate approval of regional authorities is no longer required in order to issue subsoil licences. The winning bidder in the tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. At the auction, the success of the bid is determined by the attractiveness of the financial proposal.

Exploration licences are generally awarded without a tender or auction by the special commission formed by the Federal Agency for Subsoil Use, which includes the representatives of the relevant regional executive authority. The Ministry of Natural Resources and Ecology maintains an official list of deposits in respect of which exploration licences can be issued. The company may obtain a license for geological exploration (which will be conducted at the company's own expense) of the deposit included into the above mentioned list by filing an application with the Federal Agency for Subsoil Use (or its regional department). Unless there is more than one application with respect to the same deposit (in which case the Federal Agency for Subsoil Use sets up an auction for combined exploration and production license for the deposit) the special commission makes the decision to grant the license upon examination of the application.

The Subsoil Law allows for production licences to be issued without a tender or auction procedure only in limited circumstances, such as instances when a mineral deposit is discovered by the holder of an exploration licence at its own expense during the exploration phase. In those circumstances, as a matter of practice, the production licence will be issued to the holder of the exploration licence, but, legally, the right of the holder of the exploration licence to receive the production licence in the event of discovery is not guaranteed.

Regional authorities may issue production licences for "common" mineral resources, such as clay, sand or limestone. A recipient of a licence from a regional authority is also usually granted rights to use the land surrounding the licence area.

Extension of subsoil licences. The term of any subsoil licence is set forth in the licence and runs from the date the licence is registered. Prior to January 2000, exploration licences could have a maximum term of five years, production licences a maximum term of 20 years, and combined exploration, assessment and production licences a maximum term of 25 years. After amendment of the Subsoil Law in January 2000, exploration licences may still have a maximum term of five years (except for exploration licences in relation

to inland sea waters, territorial sea and continental shelf which may be issued for a period of up to 10 years); production licences may have a one-year term in a limited number of special cases, but are generally granted for a term of the expected operational life of the field based on a feasibility study; and combined exploration, assessment and production licences can be issued for the term of the expected operational life of the field based on a feasibility study. These amendments did not affect the terms of licences issued prior to January 2000, but permit licensees to apply for extensions of such licences for the term of the expected operational life of the field in accordance with the amended Subsoil Law.

The Subsoil Law permits a subsoil licensee to request an extension of a production licence in order to complete the production from the subsoil plot covered by the licence or the procedures necessary to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the licence and the relevant regulations.

In practice, the factors that may affect a company's ability to obtain the approval of licence amendments include its compliance with the licence terms and conditions and its management's experience and expertise relating to subsoil issues, including experience in amending licences.

Maintenance and termination of subsoil licences. A licence granted under the Subsoil Law is generally accompanied by the terms and conditions for use of subsoil which are attached to the licence. The terms and conditions for use of subsoil are executed by the Federal Agency for Subsoil Use and are obligatory for the licensee once the licence is granted.

Under the terms and conditions for use of subsoil, the licensee makes certain environmental, safety and production commitments, including extracting annually an agreed target amount of reserves; conducting agreed mining and other exploratory and development activities; protecting the environment in the licence areas from damage; providing geological information and data to the local authorities; submitting on a regular basis formal progress reports to relevant authorities and making all obligatory payments when due. When the licence expires, the licensee must return the land to a condition, which is adequate for future use. Most of the conditions set out in a licence are based on mandatory rules contained in Russian law, and the terms and conditions for use of subsoil are generally not negotiable. The Group expects that it will be able to meet the commitments set forth in the terms and conditions for use of subsoil.

The fulfilment of a licence's conditions is a major factor in the good standing of the licence. If the subsoil licensee fails to fulfil the licence's conditions, upon notice, the licence may be terminated by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a licence, it may apply to amend the relevant licence conditions, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for licence termination. A licensee can be fined or the licence can be limited, suspended or terminated for the reasons noted above, for repeated breaches of the law, upon the occurrence of a direct threat to the lives or health of people working or residing in the local area, or upon the occurrence of certain emergency situations. A licence may also be limited, suspended or terminated for violations of "material" licence terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for suspension or termination of licences. Consistent underproduction and failure to meet obligations to finance a project or to submit data reports (as required by law) would also likely constitute violations of material licence terms. In addition, certain licences provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for limiting, suspending or terminating the licence.

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to a licence limitation, suspension or termination or the refusal to reissue an existing licence, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases of termination, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such a three month period, no termination or other action may be taken.

Licences may be transferred only under certain limited circumstances that are identified in the Subsoil Law, including the reorganisation of the licence holder or in the event that an initial licence holder transfers its licence to a legal entity in which it has at least a 50 percent ownership interest, provided that the transferee possesses the equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred licence.

Land Use Rights

Land use rights are needed and granted for the portions of the licence area actually being used, including the plot being mined, access areas and areas where other mining related activity is occurring.

Under the Land Code of the Russian Federation No. 136-FZ of 25 October 2001, as amended (the Land Code), legal entities may generally have the rights of ownership or lease with regard to land plots in the Russian Federation.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal bodies, which can sell or lease land to private users.

Legal entities may also have a so-called "right of perpetual use" of land plots, provided such type of title was obtained by them prior to the enactment of the Land Code; however, the Federal Law on Introduction of the Land Code of 25 October 2001, with certain exceptions, requires legal entities using land plots on the right of perpetual use to purchase or to lease the respective land plot from the relevant federal, regional or municipal authority by 1 July 2012.

The Group's mining subsidiaries (composing Severstal Resources) generally have a property right to their plots or a long-term lease. There are also several land plots in perpetual use that are currently in the process of being transferred to long-term lease or to ownership. A land plot lessee has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. Any lease agreement for a period of one year or more must be registered with the relevant state authorities.

Environmental Considerations

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law "On Environmental Protection" No. 7-FZ of 10 January 2002, as amended, (the ***Environmental Protection Law***), as well as by a number of other federal and local legal acts.

Pay-to-pollute. The Ministry of Natural Resources and Ecology, The Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Agency on Water Resources and other government agencies establish guidelines for setting limits for different types of permissible impact on the environment, including the emission, disposal of substances and waste disposal, and extraction of natural resources. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition to such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company of its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Environmental approval. Certain activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with the Federal Law "On Ecological Expert Examination" No. 174-FZ of 23 November 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described in "*—Environmental liability*".

Enforcement authorities. The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources and certain other federal authorities (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and the Ministry of Natural Resources and Ecology are responsible for co-ordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability. If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or its employees that fail to comply with the requirements of applicable environmental laws and regulations may be subject to administrative and/or civil liability, while individuals may also be subject to criminal liability. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines. The Group has, in the past, been subject to enforcement actions, fines and, in some cases, court actions in relation to breaches of environmental regulations by the entities currently comprising the Russian Steel Division and Severstal Resources. Although none of these court actions and fines has had, individually or in aggregate, a material adverse effect on the Group, its business and results of operations, there can be no assurance that any such court actions or fines will not have a material effect on the Group in the future.

Subsoil licences generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low.

Health and Safety

Due to the nature of the Group's business, much of its activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Federal Law "On Industrial Safety of Dangerous Industrial Facilities" No. 116-FZ of 21 July 1997, as amended, (the ***Safety Law***). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines and high pressure devices are used, where alloys of ferrous and non-ferrous metals flammable, toxic and explosive substances are produced, used, stored, processed and transported and where certain types of mining are done. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used.

There are also regulations that address safety rules for coal mines, the production and processing of ore, the blast furnace industry, steel smelting, alloy production and nickel production. Additional safety rules also apply to certain industries, including metallurgical and coke chemical enterprises, and the foundry industry.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia effective 1 February 2002, as amended, (the ***Labour Code***). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programmes, create systems to cope with and inform the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility.

The Safety Law also provides that the use of technical equipment at dangerous industrial facilities is subject to Rostekhnadzor permission.

The Federal Service for Environmental, Technological and Nuclear Supervision has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of the Federal Service for Environmental, Technological and Nuclear Supervision conducts a technical

investigation of the cause. The company operating the hazardous industrial facility where the accident took place bears all costs of an investigation. The officials of the Federal Service for Environmental, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Federal Service for Environmental, Technological and Nuclear Supervision may suspend or terminate operations or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health related damages.

Investments in Russian Companies of Strategic Importance

The Federal Law "On the Procedure for Making Foreign Investments in the Companies of Strategic Importance for the Defence and Security of the State" No. 57-FZ, as amended (the ***Strategic Investments Law***) came into force in May 2008. The Strategic Investments Law establishes certain restrictions for foreign investments into Russian companies which are deemed strategically important for the defence and security of the Russian Federation (the ***Strategic Companies***). The Strategic Investments Law provides for the list of activities that have strategic importance for the national defence and security. This list *inter alia* includes (a) exploration and production of subsoil of federal land plots and/or the exploration and the extraction of minerals from the federal subsoil property and, generally, (b) activities of those companies that have a market share in a particular segment in excess of 35 percent.

Under the Strategic Investments Law, an establishment by foreign entity (or any other person that is a member of the group with the participation of a foreign entity) (a ***Foreign Investor***) of direct or indirect control over a Strategic Company requires a permit of the competent state authority. Therefore, *inter alia*, a direct or indirect acquisition by a Foreign Investor of a stake in a Strategic Company which vests an acquirer with right to exercise certain percentage of voting rights (ranging from over 5 to over 50 percent depending on type of the Foreign Investor and type of the Strategic Company) in the charter capital of the Strategic Company, requires obtaining a prior permit of the competent state authority. If an acquisition of a stake over the relevant percentage happens without obtaining such prior permit, the acquisition transaction is void under Russian law and the Foreign Investor may be deprived from voting rights which correspond to the stake acquired in the Strategic Company. Moreover, completion of the transaction without a prior permit of the competent state authority may result in fines imposed on the Foreign Investor.

Competition and Mergers Control

Federal Law No. 135-FZ "On the Protection of Competition" dated 26 July 2006, as amended (the ***Competition Law***), establishes a merger control regime and requires that the FAS be notified of certain transactions.

Under the Competition Law, an investor or several entities constituting "a group of entities and/or individuals" should apply for the prior consent of the FAS or submit to it a post-completion notification in relation to:

- an initial acquisition of more than 25.0 percent of the voting shares in a Russian joint stock company, or 33.3 percent of the participation interest in a Russian limited liability company, provided that the acquirer did not have any shares (participation interest) in such company or had less than the above threshold before the acquisition;
- a subsequent acquisition of the voting shares in a Russian joint stock company or participation interests in a Russian limited liability company such that the level of their holding of the company's shares (participation interest) passes the threshold of 50.0 percent or 75.0 percent of the voting shares in a joint stock company or 50.0 percent or 66.6 percent of the participation interests in a limited liability company;
- acquisition or lease of production or intangible assets (other than land and non-industrial buildings, constructions, premises and parts thereof or constructions in progress) located in Russia if the book value of such assets exceeds 20.0 percent of the production or intangible assets of the seller (transferor);

- an acquisition of (direct or indirect) rights to determine the terms of the business of a Russian entity (e.g. rights to give binding instructions or control the decision-making process in such entity) or to exercise the powers of its executive body;
- an acquisition of certain blocks of shares, resulting in the acquirer and its group holding in total over 50.0 percent of the voting shares in a foreign company if its Russian turnover in the preceding year exceeded RUR1 billion; and
- an acquisition of (direct or indirect) rights to determine the terms of the business of a foreign company (through shareholdings, agreements, voting arrangements, rights etc) if its Russian turnover in the preceding year exceeded RUR1 billion.

A prior FAS clearance for an acquisition is required if (i) either the aggregate balance value of assets of the acquirer and the target and the companies of their respective groups exceeds RUR7 billion or the aggregate value of revenues of the same entities in the last calendar year exceeds RUR10 billion and, simultaneously, (ii) the aggregate value of assets of the target and the companies of its group exceeds RUR250 million or, alternatively, one of the entities mentioned above is entered in the Register of Entities Holding a Dominant Position or Entities with a Market Share Exceeding 35.0 percent

A post-completion notification on acquisition is required if (i) either the aggregate balance value of assets of the acquirer and the target and the companies of their respective groups exceeds RUR400 million or the aggregate value of revenues of the same entities in the last calendar year exceeds the same amount and, simultaneously, (ii) the aggregate value of assets of the target and the companies of its group exceeds RUR60 million.

Under the Competition Law, a transaction without prior FAS approval or post- notification may be invalidated by a court resolution held upon the FAS claim, provided that such transaction has led or may lead to the restriction of competition, for example, by strengthening a dominant position in the relevant market. Russian law envisages fines to be imposed on the acquirer for completion of the notifiable transaction without the FAS clearance.

More generally, Russian law provides for civil, administrative and criminal liability for the breach of anti-monopoly law.

Intra group transfers are subject to merger control. They may be exempt from the prior approval requirement and may be subject to post-completion notification if:

(i) an intra group transfer is made to a transferee (a) in which the transferor holds more than 50.0 percent of voting shares or (b) which holds more than 50.0 percent of voting shares in the transferor; or

(ii) not later than 1 month prior to completion a list of group members is disclosed to the FAS in accordance with Article 31 of the Competition Law. The list should specify the grounds for including each of the group members in the group. The list submitted to the FAS will be published on the FAS website.

The Competition Law expressly provides for its extraterritorial application to transactions and actions which are made outside of Russia between Russian and(or) foreign entities if such transactions or actions relate to production and(or) intangible assets located in the territory of Russia or to the shares (participation interests) in, or rights in relation to, companies operating in the territory of Russia as well as those of non-Russian entities that, during the year preceding the transaction that is subject to merger control, imported to Russia products with a total value in excess of RUR 1 billion.

As part of its competition monitoring activities, the FAS keeps a Register of Entities Holding a Dominant Position or Entities with a Market Share Exceeding 35.0 percent (the ***Register***). As a major Russian steel producer, the Company appears on the Register in relation to certain types of steel products.

The FAS may rule that even certain companies do not appear on the Register they have a dominant position in the market. Such companies are subject to more rigorous governmental regulation including the imposition of price controls.

Employment and Labour

Labour matters in Russia are primarily governed by the Labour Code.

Employment contracts. As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties as well as in other cases expressly identified by federal law.

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labour Code, including:

- liquidation of the company or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence, confirmed by appraisal;
- systematic failure of the employee to fulfil his or her duties without a fair excuse if this employee was subject to prior disciplinary action and if a warning or reprimand imposed on the employee has not been withdrawn by the employer;
- any single gross violation by the employee of his or her duties as it is defined in the Labour Code; and
- provision by the employee of false documents or misleading information prior to entry into the employment contract.

An employee dismissed from a company due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, average salary payments for a certain period of time.

The Labour Code also provides protections for specified categories of employees. For example, except in cases of liquidation of a company, an employer cannot dismiss the employees, being on a sick-leave, business trip or on a holiday and pregnant women. Mothers with a child under the age of three, single mothers with a child under the age of 14 or disabled child under the age of 18 or other persons caring for a child under the age of 14 or disabled child under the age of 18 without a mother may not be dismissed by the employer unless for guilty actions. Dismissal of minors, except for dismissal due to liquidation of a company, requires prior approval by the State Labour Inspectorate or by the respective Minor Inspectorate.

Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid average salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work time. The Labour Code generally sets the regular working hours at 40 per week. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. Employees who perform underground and open-pit mining works or other work in harmful conditions may be entitled to additional paid vacation ranging from 7 to 36 working days.

The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, the retirement age for male miners who have worked in underground mines for at least 10 years, and females who have worked in underground mines for at least seven years and six months, is 50 years and 45 years, respectively. Persons who have worked as miners in open-pit mines and/or underground mines for at least 25 years or who have worked for some leading mining professions for at least 20 years may also retire, regardless of age.

Salary. The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is RUR5,205 from 1 January 2013.

Strikes. The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay

wages to striking employees for the duration of the strike. Participation in an illegal strike after it has been determined as illegal may be adequate grounds for termination.

Trade Unions. Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. In this regard, the Group's management routinely interacts with trade unions, in particular the Mining and Metallurgical Trade Union, in order to ensure the appropriate treatment of employees and the stability of its business. See "*Business—Russian Steel Division—Employees*".

The activities of trade unions are generally governed by the Federal Law on Trade Unions, Their Rights and Guaranties of Their Activity of 12 January 1996, as amended, (the ***Trade Union Law***). Other applicable legal acts include the Labour Code of Russia, which provide for more detailed regulations relating to activities of trade unions.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies co-operate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

- legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consideration of reasoned opinion of the management of the trade union and, in certain circumstances, the consideration of reasoned opinion of the relevant trade union association;
- retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal at the employer's initiative due to some dismissal grounds for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

The Trade Union Law provides that those who violate the rights and guaranties provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability. Although neither the Code of Administrative Delinquencies of Russia of 30 December 2001, nor the Criminal Code

of the Russian Federation of 13 June 1996, currently has provisions specifically relating to these violations, general provisions and sanctions may be applicable.

Collective Bargaining Agreements

The Labour Code provides that a collective bargaining agreement applies to all employees of a company whether members or non-members of the trade union. A collective bargaining agreement may be concluded either for the company on the whole, or for its branches, representative offices and other structural subdivisions. A collective bargaining agreement may be concluded for a term not exceeding three years and may be extended for another three years. It is not possible to include in the collective bargaining agreement a provision worsening the employees' standing under the general rule of law, as such provisions would be null and void.

Trade Barriers and Anti-Dumping Regulations

Steel producing countries generally view their steel industries as strategically important and therefore requiring protection from foreign competition. In addition, the governments of some emerging economies employ non-market methods to try to protect and develop their steel industries, and, while those governments seek to achieve the desired balance in their economies between production levels and product mix and consumption, they may resort to protectionist measures against imports from third countries.

Exports of steel from Russia are primarily regulated by the Federal Law "On Fundamentals of State Regulation of Foreign Trade Activities" No. 164-FZ dated 8 December 2003 (as amended) and bilateral agreements between Russia and its trading partners, including the United States, the EU and China, which establish minimum prices and/or quotas for the export from Russia to those markets of certain types of steel products. Russian exporters of steel products to the United States and the EU are required, in accordance with the bilateral agreements between Russia and the United States and the EU, respectively, to obtain a licence for those exports for certain steel products from the Russian Ministry of Industry and Trade.

General. In general, the recent trend worldwide has been for the relaxation of import restrictions. The largest importers of the Company's products are countries in the EU and North America. Restrictive measures on imported steel introduced by certain Latin American countries have not affected the Company's business adversely, as the Company's exports have, for geographical reasons, been principally directed at markets in the EU, Middle East and North America.

The Group believes that, due to Russia being granted "market economy" status by the EU and various countries, including the United States, South Africa and Brazil, it has become relatively easier for Russian steel producers to defend their interests in the course of anti-dumping and other trade proceedings, and the Group expects this trend to continue since Russia has acceded to the WTO (the Federal Law on Ratification of Protocol on the Accession of the Russian Federation to the Marrakesh Agreement Establishing the World Trade Organization dated 15 April 1994 was signed by the Russian President on 21 July 2012).

Moreover, Russia, Belarus and Kazakhstan have established the Custom Union establishing the unified custom zone. The Custom Code of the Custom Union is effective in Russia since 1 July 2010.

United States. Russian steel producers, including the Russian Steel Division are currently able to operate in the US market in accordance with the following two agreements, which limit Russian exports of metal products:

- A suspension agreement on hot-rolled cut-to-length steel plate, which establishes minimum prices without quotas based on information about the costs and expenses of Russian exporters. Russian exporters concluded this market economy cost-based agreement with the US Department of Commerce on 20 December 2002, replacing the non-market economy agreement that had been in force since 1997. Russian Steel Division is the only exporter from Russia who has applied with the US Department of Commerce to sell hot-rolled cut-to-length steel plate into the US market;
- A suspension agreement on hot-rolled flat carbon steel products, which established minimum prices and quotas. The quota for 2010 was approximately 0.9 million tonnes (of which the Company was allocated approximately 0.45 million tonnes). The quota for 2009 was approximately 0.9 million tonnes (of which the Company was allocated approximately 0.45 million tonnes). While these

quotas have generally been enough to satisfy Russian producers' needs, the Company is restricted on sales of hot-rolled coils and thin sheets in the US market. Despite the existence of quota volumes for the Company's shipments of hot-rolled coils and thin sheets to the US market, the Company did not supply these products in 2009 and 2010 to the US market, because it was not attractive in comparison with other export markets;

- In relation to steel products such as cold-rolled, galvanised and semi-finished steel and long products, Russian exporters have been operating in the US market without any restrictions on the import of these products since the expiry of the Comprehensive Steel Agreement on 11 July 2004; and
- Russia was granted "market economy" status by the United States with effect from 1 April 2002.

EU. On 26 October 2007, the Russian Federation and the EU entered into an agreement regulating trade in certain steel products. This agreement established a quota for the export of Russian metals into the EU and superseded the previous quota system for the export of Russian metals, which had been in place since 1 December 1997 in the form of a bilateral agreement. This agreement and these quotas are referred to in a regulation issued by the European Council on 22 October 2007 on import of certain steel products from the Russian Federation as amended by the European Commission Regulation No. 1093/2009 dated 13 November 2009.

Quotas for Export of Russian Steel into the EU, 2008, 2009 and 2010

Products	Year ended 2008	Year ended 2009	Year ended 2010
		(tonnes)	
SA. Flat products			
SA1. Coils	1,035,000	1,067,575	1,087,397
SA2. Heavy plate	275,000	303,498	288,922
SA3. Other flat products	595,000	651,248	625,122
SA4. Alloyed products	105,000	114,925	110,316
SA 5. Alloyed quarto plates	25,000	27,580	26,266
SA 6. Alloyed cold-rolled and coated sheets	110,000	120,425	115,569
SB. Long products			
SB1. Beams	55,000	60,480	57,784
SB2. Wire rod	324,000	355,131	340,402
SB3. Other long products	507,000	593,795	532,667
Total	**3,031,000**	**3,294,657**	**3,184,445**

On 31 October 2003, the EU terminated its anti-dumping investigation against imports of hollow sections originating from Russia and Turkey, without the imposition of any trade restrictions.

Russia was granted "market economy" status by the EU in November 2002.

Anti-Dumping Proceedings

The most significant anti-dumping proceedings against Russian steel exporters were initiated between 1996 and 2001 by the United States in respect of a wide range of hot-rolled and cold-rolled steel products. The Company actively participated, along with other Russian steel producers, in all those proceedings. In general, the granting of "market economy" status to Russia by the United States in April 2002 has led to a reduction in the anti-dumping measures imposed in the US market, benefiting, in particular, the ferrous metal industries. For example, the United States terminated the anti-dumping proceedings against imports of cold-rolled steel products, which it initiated on 21 June 1999 and 18 October 2001, and, since April 2002, the Company has incurred lower rates of duty in anti-dumping proceedings compared to rates from previous periods, for example, the 184 percent anti-dumping duty for Russian hot-rolled steel that the United States imposed in 1999.

In 2004 and 2005, the following key decisions were made regarding Russian steel exporters by foreign government authorities:

- Expiration of the US-Russia Comprehensive Steel Agreement, which established quotas on various types of steel products such as cold-rolled, galvanised and semi-finished steel and long products, on

14 July 2004. Since that time, the Russian Steel Division and other Russian exporters have operated in the US market without any restrictions on these products.

- Termination of anti-dumping measures against hot-rolled and cold-rolled products in Canada.
- Termination of anti-dumping measures against electrical steel products in China.
- Suspension of anti-dumping measures against cold-rolled steel products in China.
- Termination of anti-dumping measures against cold-rolled steel products in South Africa, hot-rolled products in Indonesia and cold-rolled and long steel products in Colombia.
- Opening of US cut-to-length market through the establishment of minimum prices under a market economy suspension agreement with the US Department of Commerce, as the result of co-operation between the Department and the Company.
- Possibility of the export of new grades of hot-rolled products within the framework of the US-Russia Suspension Agreement on hot-rolled flat carbon steel products.

Currently, there are relatively few trade restrictions in force against exports from the Russian Federation in countries such as Mexico, Argentina, Peru and Thailand. These restrictions did not have and are not expected to have a material effect on the Company's business.

Meanwhile, a number of anti-dumping duty measures against Russian steel products expired after being in force for five years, including measures relating to grain oriented electrical steel in China and cold-rolled steel in Colombia.

The Company, along with other Russian steel producers, continues to participate in those proceedings and reviews that it regards as important to its business. The Company intends to continue to participate actively in all inter governmental consultations relating to Russian steel exports to the United States, the EU and other international markets.

Regulation of the Steel and Mining Industries in the United States and Europe

Overview

Steel and mining operations and activities in the United States and Europe are extensively regulated at both the federal and state level in the United States and at the national and local level in Europe. Federal, national, regional, state and local authorities in the United States and the EU regulate a variety of matters, including employee health and safety; royalties; permitting and licensing requirements; environmental impact assessment, planning and development; and environmental compliance (including, for example, compliance with the regulatory regimes governing waste and waste water treatment and disposal; waste transportation; emissions and discharges; protection of species and habitats; decommissioning, reclamation and restoration of properties used for mining or other activities; surface subsidence from underground mining and the effects that mining and other activities have on surface and/or groundwater quality and availability).

Activities and operations involved in the mining and steel production industries generate hazardous and non-hazardous wastes, effluent and emissions, require waste transportation and treatment, and have other environmental impacts which require various environment related permits and approvals to be held or received. Licences may also be required for the abstraction of the relevant natural resources. Such permits and licences are subject, in certain situations or on the occurrence of certain events, to modification or addition of conditions (including monitoring, upgrading, improvement, decommissioning and aftercare requirements), or revocation by issuing authorities. The carrying out of such activities and operations is also subject to various restrictions and other requirements under environmental, health and safety laws. Violations of health and safety laws relating to a mine or a steel factory, or a failure to comply with the instructions of relevant health and safety authorities, may result in the temporary or permanent shutdown of steel or mining operations in the United States or Europe, as well as the imposition of fines, or penalties corrective procedures.

Steel and mining businesses in the United States and Europe are also required in many cases to prepare and present to national, federal, regional, state and/or local authorities information pertaining to the anticipated effect or impact that proposed exploration, mining or production activities may have upon the environment. The preparation and presentation of this information in many cases requires a substantial commitment of personnel and financial resources. In response to such presentations, the

national, federal, regional, state and/or local authorities are empowered to determine that mining operations must be suspended or decommissioned.

Climate Change

In December 1997, in Kyoto, Japan, the signatories to the United Nations Convention on Climate Change established individual, legally binding targets to limit or reduce greenhouse gas emissions by developed nations in the period 2008-2012. This international treaty, known as the Kyoto Protocol, came into force in the Russian Federation on 16 February 2005. The Kyoto Protocol enables the emissions reductions to be achieved by a variety of means including emissions trading and investment in overseas emissions reduction projects. Russia is anticipated to offer opportunities in relation to such projects. The 192 parties (191 states and the European Union) have ratified, accepted, accessed or approved the Protocol. Discussions are ongoing as to a possible successor to the Kyoto Protocol. It is currently unclear what emission reduction targets will be adopted, but in light of recent scientific and economic reports on the impact of climate change, these may be more stringent than those adopted in the Kyoto Protocol.

In a separate development, in July 2005 Australia, China, India, Japan, South Korea and the United States formed the Asia-Pacific Partnership on Clean Development and Climate. Members of the partnership intend to cooperate on the development and transfer of technology with a view to reducing greenhouse gas emissions.

Steel and mining operations in Europe and the United States are subject to laws, regulations and policies aimed at limiting or reducing greenhouse gas emissions. For example, in the EU, an increasingly stringent regulatory framework is being developed to achieve the EU's Kyoto Protocol commitments and to meet its own emissions reductions targets which affect, among other activities, coke-ovens and steel plants. In the United States, California's recent legislative initiatives may indicate a trend towards a similarly stringent regulatory system. In addition, government entities and other organisations in Europe and the United States are actively investing in research projects aimed at reducing greenhouse gas emissions. In the past, such legislative and research initiatives have involved additional market regulatory measures such as emissions trading, switching to cleaner forms of energy and/or introducing emissions curbing technologies.

DESCRIPTION OF THE COMPANY

The Company's charter states in clause 4.1 that the main aim of the company is earning profits and using profits in the interest of the company.

The Company is an open joint stock company incorporated under the laws of the Russian Federation and domiciled in Cherepovets, Russia. The Company's registration number is 1023501236901 and its registered address is 30 Mira Street, Cherepovets, Vologodskaya Oblast, 162608, Russian Federation. The telephone number of the Company's Moscow office is +7 495 926 7766.

The Company has not guaranteed the Notes nor are the Notes an obligation of the Company. Noteholders will have no direct recourse to the Company, other than through enforcement of the Collateral comprising the shares of the Company that have been pledged. For further information see "*Risk Factors—The Noteholders have no direct recourse against the Company*".

THE ISSUER

GENERAL

The Issuer is a public limited liability company (*société anonyme*) of unlimited duration that is incorporated, exists and operates under the laws of Luxembourg, in compliance with the Companies' Act 1915, other applicable regulations and its Articles of Incorporation. The Issuer was incorporated on 11 May 2006 and is registered with the Luxembourg Trade and Companies' Register (*Registre de Commerce et des Sociétés*) under registration number B 116.975. The registered office of the Issuer is 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, Grand Duchy of Luxembourg. The telephone number of the registered office of the Issuer is +35 242 122 462 and its fax number is +35 242 122 718. The Articles of Incorporation of the Issuer have been published in the *Mémorial, Journal Officiel du Grand Duché de Luxembourg, Recueil des Sociétés et Associations C-No 1522* on 9 August 2006.

The Issuer is a special purpose vehicle and is operated for the purpose of issuing asset backed securities.

The Issuer has entered into an administrative services and domiciliation agreement on 12 May 2006 with Deutsche Bank Luxembourg SA, whereby Deutsche Bank Luxembourg SA provides in Luxembourg certain domiciliary, management, administrative, accounting and related services in relation to the Issuer's business.

The Issuer's share capital, as of the date of this Base Prospectus, is €31,000 divided into 310 registered shares with a par value €100, each of which is fully paid.

The Issuer's Financial Statements have been audited by Fiduciaire Patrick Sganzerla S.à.r.l., acting as auditor to the Issuer. Fiduciaire Patrick Sganzerla S.à.r.l. has its registered office at 46, Boulevard Grande-Duchesse Charlotte, B.P. 2650, L-1026 Luxembourg.

SHAREHOLDERS

Stichting Steel Capital Luxembourg, a Dutch company owns 309 shares in the Issuer and Stichting Participatie DITC Amsterdam, a Dutch company, owns 1 share.

Stichting Steel Capital Luxembourg is an organisation incorporated in the Netherlands having its registered office at Herengracht 450, 1017 CA Amsterdam. It is registered with the handelsregister van de Kamers van Koophandel of Amsterdam under number 34247473. The objectives of Stichting Steel Capital Luxembourg are, among others, to incorporate, manage and control shares in the share capital of the Issuer and to exercise all rights attached to such shares.

Stichting Participatie DITC Amsterdam is an organisation incorporated in the Netherlands, having its registered office at Herengracht 450, 1017 CA Amsterdam. It is registered with the handelsregister van de Kamers van Koophandel of Amsterdam under number 34148998. The objectives of Stichting Participatie DITC Amsterdam are, among others, to acquire and hold shares and to exercise all rights attached to such shares.

STATUTES

Article 4 of the Articles of Incorporation provides that the principal objects of the Issuer are the issue of loan participation notes for the purpose of financing loans to OAO Severstal and to its affiliates, the granting of security interests over its assets in relation to the issuance of the loan participation notes and the making of deposits at banks or with other depositaries.

The Issuer may further carry out any transaction, whether commercial or financial, which are directly or indirectly connected with its corporate object at the exclusion of any banking activity. In general, the Issuer may carry out any operation which it may deem useful or necessary to the accomplishment and the development of its corporate purpose.

MANAGEMENT

The Issuer is managed by its board of directors (the ***Issuer's Board of Directors***), who are appointed by the shareholders. The current directors of the Issuer are as follows:

Name	Business Address
Mme. Anja Wunsch	2, Boulevard Konrad Adenauer L-1115 Luxembourg
Mme. Heike Kubica	2, Boulevard Konrad Adenauer L-1115 Luxembourg
Mr. Daniel Bley	2, Boulevard Konrad Adenauer L-1115 Luxembourg

The Issuer's directors do not perform any principal activities outside of the Issuer that are significant with respect to the Issuer.

There are no current or potential conflicts between the private interests and duties of the members of the Issuer's Board of Directors and the duties of those officers to the Issuer.

OTHER

The Issuer is not aware of any governmental, legal, or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), during the last 12 months, which may have, or have in the recent past, significant effects on the Issuer's financial position or profitability.

FACILITY AGREEMENT

The following is the text of the Facility Agreement entered into between the Company and the Issuer as amended dated 15 March 2013. In the context of each Loan, the Facility Agreement should be read in conjunction with, and is qualified in its entirety by, the relevant Loan Supplement for such Loan.

This Amended and Restated Facility Agreement is made on 15 March 2013 **between:**

(1) **OAO SEVERSTAL**, an open joint stock company established under the laws of the Russian Federation whose registered office is Ul. Mira 30, 162608 Cherepovets, Vologda Region, Russian Federation ("Severstal"); and

(2) **STEEL CAPITAL S.A.**, a *société anonyme* incorporated in Luxembourg with limited liability whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B116975 (the "**Lender**", which expression, where the context so admits, includes any successor Lender pursuant to the terms of this Agreement and the Lender acting in its capacity as issuer of the agreed funding).

Whereas:

(A) Pursuant to a facility agreement dated 19 October 2010 as amended by a deed of amendment dated 5 October 2012 (together, the "**Original Facility Agreement**") the Lender at the request of Severstal agreed to make available to Severstal a loan facility in the maximum amount of U.S.$3,000,000,000 or its equivalent in other currencies, on the terms and subject to the conditions of the Original Facility Agreement, as amended and supplemented in relation to each Loan (as defined below) by a loan supplement dated the relevant Closing Date (as defined below) substantially in the form set out in Schedule 1 hereto (each, a "**Loan Supplement**").

(B) It was intended that, concurrently with the extension of any Loan under this loan facility, the Lender will enter into agreed funding in the same nominal amount and bearing the same rate of interest as such Loan.

(C) The parties hereto wish to amend and restate the Original Facility Agreement as set out below.

Now it is hereby agreed as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Facility Agreement (including the recitals), the following terms shall have the meanings indicated:

"**Account**" means an account in the name of the Lender with the Principal Paying and Transfer Agent as specified in the relevant Loan Supplement.

"**Accounting Standards**" means IFRS, US GAAP or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the relevant regulators for the time being.

"**Affiliate**" of any specified person means (i) any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person or (ii) any other person who is a director or officer (a) of such specified person, (b) of any Subsidiary of such specified person or (c) of any person described in (i) above. For the purpose of this definition, "**control**" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing.

"**Agency**" means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body.

"**agreed funding**" shall mean the Indebtedness (including in the form of securities) that may be incurred to the agreed funding source from time to time by the Lender under the Programme, each such series of agreed funding corresponding to a Loan and, in relation to a Loan, as defined in the relevant Loan Supplement;

"**agreed funding agreements**" shall mean any debt instrument or facility or guarantee thereof, trust deed, agency agreement or subscription agreement entered into in connection with any agreed funding and any side or fee letters ancillary thereto;

"**agreed funding source**" shall mean any person to whom the Lender owes any Indebtedness (including securities), which Indebtedness was incurred to fund a Loan (including a designated representative or trustee of such Person or any assignee or transferee appointed in connection with the agreed funding source);

"**Asset Disposition**" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by Severstal or any Subsidiary of Severstal, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a "**disposition**"), of:

(a) any shares of Capital Stock of a Subsidiary of Severstal (other than directors' qualifying shares or shares required by applicable law to be held by a person other than Severstal or a Subsidiary of Severstal);

(b) all or substantially all the assets of any division or line of business of Severstal or any Subsidiary of Severstal; or

(c) any other assets of Severstal or any Subsidiary of Severstal outside of the ordinary course of business of Severstal or such Subsidiary,

other than, in the case of Clauses (a), (b) and (c) above,

(i) a disposition by a Subsidiary of Severstal to Severstal or by Severstal or a Subsidiary of Severstal to a Subsidiary of Severstal;

(ii) a disposition of assets in a single transaction or a series of related transactions with a Fair Market Value of less than US$20,000,000;

(iii) a disposition of cash or Temporary Cash Investments;

(iv) the creation of a Lien (but not the sale or other disposition of the property subject to such Lien);

(v) the licensing or sublicensing of rights to intellectual property or other intangibles in the ordinary course of business;

(vi) any disposition constituting or resulting from the enforcement of a Lien incurred in compliance with Clause 10.1;

(vii) the sale, lease or other disposition of (A) obsolete, worn out, negligible, surplus or outdated equipment or machinery or (B) raw materials or inventory in the ordinary course of business;

(viii) the lease, assignment or sublease of any real or personal property in the ordinary course of business;

(ix) sales or other dispositions of assets or property received by Severstal or any Subsidiary of Severstal upon the foreclosure on a Lien granted in favour of Severstal or any Subsidiary of Severstal or any other transfer of title with respect to any ordinary course secured investment in default; or

(x) the surrender or waiver of contract rights or the settlement, release, or surrender of contract, tort or other claims, in the ordinary course of the business.

"**Auditors**" means the auditors of Severstal's consolidated financial statements (prepared in accordance with applicable Accounting Standards) for the time being or, if they are unable or unwilling promptly to carry out any action requested of them under this Agreement, such other internationally recognised firm of accountants as may be approved in writing by the Lender for this purpose.

"**Average Life**" means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness multiplied by the amount of such payment by (2) the sum of all such payments.

"**Base Prospectus**" means, unless defined in the relevant Loan Supplement in relation to a Loan, the base prospectus relating to the agreed funding dated 15 March 2013.

"**Broken Amount**" has the meaning set out in the Loan Supplement.

"**Business Centre**" has the meaning set out in the Loan Supplement.

"**Business Day**" means:

(i) save in relation to Clause 4, a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency, and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating (a "**TARGET Business Day**"), and (d) in relation to a Loan corresponding to any agreed funding to be sold pursuant to Rule 144A under the Securities Act, banks and foreign exchange markets are open for business generally in New York City; and

(ii) in relation to Clause 4, (a) in the case of a Specified Currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such Specified Currency; and/or (b) in the case of euro, a TARGET Business Day; and/or (c) in the case of any Specified Currency where one or more Business Centres is specified in the relevant Loan Supplement a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally, in each of the Business Centres.

"**Calculation Agent**" has the meaning specified in the relevant Loan Supplement.

"**Calculation Amount**" has the meaning specified in the relevant Loan Supplement.

"**Capital Lease Obligation**" means an obligation that is required to be classified and accounted for as a finance or capital lease for financial reporting purposes in accordance with Accounting Standards, and the amount of Indebtedness represented by such obligation shall be the capitalised amount of such obligation determined in accordance with Accounting Standards; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"**Capital Stock**" means, with respect to any person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a person other than a corporation; in each case whether now outstanding or hereafter issued.

"**Closing Date**" means the date specified as such in the relevant Loan Supplement.

"**Consolidated Indebtedness**" means, for any date of determination (and without duplication), all Indebtedness of the Group outstanding as at the balance sheet date of the latest published consolidated financial statements of the Group published immediately preceding the date of determination, as is shown on a consolidated balance sheet of the Group as at such balance sheet date prepared in accordance with Accounting Standards to which the then most recent published audited consolidated financial statements of Severstal comply, as consistently applied.

"**Consolidated Leverage Ratio**" as of any date of determination (the "**Determination Date**"), means the ratio of (x) the aggregate amount of Consolidated Indebtedness to (y) the aggregate amount of EBITDA for the period (the "**EBITDA Calculation Period**") of the two most recent consecutive semi-annual periods ending prior to the date of such determination for which financial statements have been delivered under Clause 10.9, as determined in good faith by a responsible financial or accounting officer of Severstal; provided, however, that:

(a) if (i) Severstal or any Subsidiary of Severstal has incurred any Indebtedness since the balance sheet date of the latest published consolidated financial statements of the Group published immediately preceding the date of determination (the "**Relevant Date**") which remains outstanding on the Determination Date; or (ii) the transaction giving rise to the need to calculate the Consolidated Leverage Ratio is an incurrence of Indebtedness, or both, Consolidated Indebtedness shall be calculated after giving effect on a pro forma basis to such Indebtedness as if such Indebtedness had been incurred on the Relevant Date;

(b) if (i) Severstal or any Subsidiary of Severstal has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the Relevant Date or (ii) any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Consolidated Leverage Ratio, the Consolidated Leverage Ratio shall be calculated on a pro forma basis as if such repayment, repurchase, defeasement or discharge had occurred on the Relevant Date;

(c) if since the Relevant Date Severstal or any Subsidiary of Severstal have made an Asset Disposition as a result of which a Person ceased to be a Subsidiary of Severstal, Consolidated Indebtedness shall be reduced on a pro forma basis by an amount of Indebtedness (to the extent originally included) equal to the Indebtedness of such Person as if such Asset Disposition had occurred on the Relevant Date;

(d) if since beginning of the EBITDA Calculation Period, Severstal or any Subsidiary of Severstal made any Asset Disposition, EBITDA shall be reduced by an amount equal to earnings before interest, tax, depreciation and amortisation calculated in line with the definition of EBITDA (if positive) or increased on a pro forma basis by an amount equal to earnings before interest, tax, depreciation and amortisation calculated in line with the definition of EBITDA (if negative) directly attributable to the assets which are the subject of such Asset Disposition as if such Asset Disposition had occurred on the first day of such EBITDA Calculation Period;

(e) if since the beginning of the EBITDA Calculation Period, Severstal or any Subsidiary of Severstal (by merger or otherwise) made an Investment or an acquisition of assets which constitutes all or substantially all of a business or an operating unit of a business, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, EBITDA shall be calculated after giving pro forma effect to such Investment or acquisition as if such Investment or acquisition had occurred on the first day of such EBITDA Calculation Period; and

(f) if since the beginning of the EBITDA Calculation Period, any person that subsequently became a Subsidiary of Severstal or was merged with or into Severstal or any Subsidiary of Severstal since the beginning of such period) shall have made any Asset Disposition, any Investment or acquisition of assets that would have required an adjustment pursuant to Clause (c) or (d) above if made by Severstal or a Subsidiary of Severstal during such period, the Consolidated Leverage Ratio shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition had occurred on the first day of such EBITDA Calculation Period.

For purposes of this definition, whenever pro forma effect is to be given to an acquisition of assets and the amount of income or earnings relating thereto, the pro forma calculations shall be determined in good faith by a responsible financial or accounting officer of Severstal.

"**Core Business**" has the meaning given to it in Clause 10.3.2.

"**Currency Agreement**" means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Loan for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual-ISDA**" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;

(iv) *if* "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30

(v) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30

(vi) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30

(vii) if "**Actual/Actual-ICMA**" is specified in the relevant Loan Supplement:

(a) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(i) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(ii) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date.

"**Determination Date**" means the date(s) specified in the relevant Loan Supplement or, if none is so specified, the Interest Payment Date(s).

"**Disqualified Stock**" means, with respect to any person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

(a) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;

(b) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(c) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part,

in each case on or prior to the date which is six months after the Stated Maturity of the agreed funding; provided, however, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such person to purchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the date which is six months after the Stated Maturity of the agreed funding shall not constitute Disqualified Stock if:

(i) the "asset sale" or "change of control" provisions applicable to such Capital Stock are not more favourable to the holders of such Capital Stock than the terms applicable to the agreed funding and described under Clauses 10.2 and 10.3; and

(ii) any such requirement only becomes operative after compliance with such terms applicable to the agreed funding, including the purchase of any agreed funding tendered pursuant thereto.

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined; provided, however, that if such Disqualified Stock could not be

required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such person.

"**Dollars**", "**US dollars**", "**$**" and "**US$**" means the lawful currency of the United States of America.

"**Early Redemption Amount**" has the meaning specified in the relevant Loan Supplement.

"**EBITDA**" means, for any period, the sum of:

(a) the consolidated profit from operations for that period as would be reflected on the consolidated income statements of the Group prepared in accordance with Accounting Standards, as consistently applied, adjusted by not taking into account any net gain (or loss) arising in connection with material items of a non-recurring or one-off nature, including those arising on restructuring of the activities of an entity or any reversal of any provisions for the costs of restructuring, the sale or other disposition of any non-current assets (including any Capital Stock of any Person) and disposal of assets associated with discontinued operations, in each case for the relevant period; plus,

(b) to the extent deducted in calculating such consolidated profit from operations, depreciation and amortisation expenses of the Group for the relevant period.

"**Environmental Laws**" means all laws, rules, regulations, ordinances, judgments, orders, decrees and agreements with, and licences, permits or franchises from, governmental entities, and all other regulatory restrictions (whether or not having the force of law) in existence at the date of each Loan Agreement that (i) have been, are or may become applicable to Severstal or any of its Material Subsidiaries or any properties or business now owned, leased, occupied or operated by Severstal or any of its Material Subsidiaries and (ii) relate to the environment, health and safety, the use, possession, collection, storage, processing, treatment, emission, release, discharge, disposal, transfer or transport of Materials of Environmental Concern, or similar matters, or the remedying of any of the foregoing.

"**euro**" or "**€**" means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome, as amended.

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Event of Default**" has the meaning assigned to such term in Clause 11.1 hereof.

"**Fair Market Value**" means, with respect to any asset or property, the price which could be negotiated in an arm's length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will be determined in good faith by the chief financial officer of Severstal, whose determination will be conclusive.

"**Fitch**" means Fitch Ratings Limited or any successor to its ratings business.

"**Fixed Amount**" has the meaning set out in the Loan Supplement.

"**Fixed Rate Loan**" means a Loan specified as such in the relevant Loan Supplement.

"**Floating Rate Loan**" means a Loan specified as such in the relevant Loan Supplement.

"**Group**" means Severstal and its Subsidiaries taken as a whole.

"**Guarantee**" means any financial obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Indebtedness of any other person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term "**Guarantee**" will not include endorsements for collection or deposit in the ordinary course of business. The term "**Guarantee**" used as a verb has a corresponding meaning.

"**Hedging Obligations**" of any person means the obligations of such person pursuant to any Interest Rate Agreement, Currency Agreement or any other derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (including but not limited to fluctuations with respect to any index or the price of any commodity).

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time).

"**incur**" means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a person existing at the time such person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by such Subsidiary at the time it becomes or is so merged into a Subsidiary.

"**Indebtedness**" means any indebtedness, in respect of any person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of Disqualified Stock; and any amount raised under any other transaction having the economic or commercial effect of a borrowing; and, without duplication of any of the foregoing, the amount of any liability in respect of any Guarantee or indemnity for any of the items referred to above. For the avoidance of doubt the following amounts shall not constitute "Indebtedness": (i) trade accounts payable, (ii) advances received from customers, (iii) operating lease liabilities, (iv) amounts payable to employees, (v) government grants, (vi) contingent liabilities other than with respect to items of Indebtedness described in the preceding sentence and (vii) other accounts payable and advances received, to the extent that such amounts described in sub-clauses (i) through (vii) arise in the ordinary course of business.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which in the case of Fixed Rate Loans and unless otherwise specified in the relevant Loan Supplement shall mean the Fixed Amount or Broken Amount specified in respect of any Loan as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Closing Date or such other date as may be specified in the relevant Loan Supplement.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling both two Business Days in London and two Business Days for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

"**Interest Payment Date**" means the date(s) specified as such in the relevant Loan Supplement, or, in the event of a prepayment in whole (but not in part) in accordance with Clauses 5.2 or 5.3 the date set for such redemption in respect of the Loan.

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the relevant Loan Supplement.

"**Interest Rate Agreement**" means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates.

"**Investment**" in any person means any direct or indirect advance, loan or other extensions of credit (including by way of guarantee or similar arrangement) (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of the lender) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such person. If Severstal or any Subsidiary of Severstal issues, sells or otherwise disposes of any Capital Stock of a person that is a Subsidiary of Severstal such that, after giving effect thereto, such person is no longer a Subsidiary of Severstal, any Investment by Severstal or any Subsidiary of Severstal in such person remaining after giving effect thereto will be deemed to be a new Investment at such time. The acquisition by Severstal or any Subsidiary of Severstal of a person that holds an Investment in a third person will be deemed to be an Investment by Severstal or such Subsidiary in such third person at such time. Except as otherwise provided for herein, the amount of an Investment shall be its Fair Market Value at the time the Investment is made and without giving effect to subsequent changes in value.

"**Investment Grade Rating**" means a rating equal to or higher than (i) Baa3 (or the equivalent) by Moody's (ii) BBB− (or the equivalent) by Standard & Poor's and (iii) BBB− (or the equivalent) by Fitch or in each case the equivalent thereof from any duly approved substitute Rating Agency.

"**Investment Grade Status**" means that the Notes have an Investment Grade Rating from any two Ratings Agencies.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement.

"**Lien**" means any mortgage, pledge, encumbrance, lien, charge or other security interest or other preferential agreement or agreement having a similar effect (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof, including, but without limitation to, a Sale/Leaseback Transaction).

"**Loan**" means each loan to be made pursuant to, and on the terms specified in this Facility Agreement and the relevant Loan Supplement, and includes each Fixed Rate Loan and Floating Rate Loan.

"**Loan Agreement**" means this Facility Agreement and (unless the context requires otherwise), in relation to a Loan, means this Facility Agreement as amended and supplemented by the relevant Loan Supplement.

"**Make Whole Amount**" means the excess of (a) the present value at such Redemption Date of the Loan, plus any required interest payments that would otherwise be due to be paid on such Loan from such Redemption Date through to the Repayment Date, together with any accrued and unpaid interest as of such Redemption Date, if any, calculated using a discount rate equal to the Treasury Rate at such Redemption Date plus the number of basis points specified as the Make Whole Premium in the relevant Loan Supplement, over (b) the principal amount of the Loan, provided that if the value of the Make Whole Amount at any time would otherwise be less than zero, then in such circumstances for the purpose of this Loan Agreement, the value of the Make Whole Amount will be equal to zero.

"**Margin**" has the meaning set out in the Loan Supplement.

"**Material Adverse Effect**" means a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or immediate prospects of Severstal or the Group; (b) Severstal's ability to perform or comply with its obligations under a Loan Agreement or (c) the validity or enforceability of a Loan Agreement or the rights or remedies of the Lender thereunder.

"**Material Subsidiary**" means, at any given time, a Subsidiary of Severstal which:

(a) has gross revenues for the six months period from the date of the most recent published financial statements of Severstal representing 10 percent or more of the consolidated gross revenues of the Group; or

(b) has total assets representing 10 percent or more of the consolidated total assets of the Group,

in each case calculated on a consolidated basis in accordance with Accounting Standards to which the then most recent published audited consolidated financial statements of Severstal comply, as consistently applied.

Compliance with the conditions set out in paragraphs (a) and (b) above shall be determined by reference to the latest consolidated annual or, as the case may be, interim financial statements of that Subsidiary and the latest consolidated annual or, as the case may be, interim financial statements of the Group, provided, however, that a report based on the above criteria by the Auditors (if such report is requested by the Lender), that a Subsidiary is, or is not, a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

"**Materials of Environmental Concern**" means any toxic, ignitable, corrosive, reactive, radioactive or caustic substance, and any other substance considered a pollutant, contaminant or hazardous or potentially hazardous substance or waste.

"**Maximum Rate of Interest**" has the meaning set out in the Loan Supplement.

"**Minimum Rate of Interest**" has the meaning set out in the Loan Supplement.

"**Moody's**" means Moody's Investors Service Limited or any successor to its ratings business.

"**Non-recourse Project Financing**" means any financing of all or part of the costs of the acquisition, construction or development of any project if (i) the recourse of the person or persons providing such financing is limited to the project financed (and the direct owner of such project) and the revenues derived from such project as the principal source of repayment for the moneys advanced (it being acknowledged and agreed that equity contribution agreements (and related guaranties), subordinated debt obligations and equity pledges and similar arrangements, in each case, provided by or on behalf of the indirect owners of such project shall not result in such financing being considered recourse to such indirect owners) and (ii) the person or persons providing such financing have been provided with a feasibility study prepared by competent independent experts on the basis of which it is reasonable to conclude that such project would generate sufficient operating income to service substantially all Indebtedness incurred in connection with such project.

"**Notification Time**" means the time and date specified as such in the relevant Loan Supplement.

"**Officers' Certificate**" means a certificate signed on behalf of Severstal by two officers of Severstal at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of Severstal.

"**Payment Time**" means the time and date specified as such in the relevant Loan Supplement.

"**Permitted Liens**" means:

(a) Liens granted by Severstal or any of its Subsidiaries which are existing as at the date of the relevant Loan Agreement;

(b) Liens arising or created in connection with any Non-recourse Project Financing;

(c) Liens on any property, income or assets of a person existing at the time that such person is acquired, merged into or consolidated with Severstal or a Subsidiary of Severstal; provided that such Liens were not created in contemplation of such event and do not extend to any assets, income or property of Severstal or any Subsidiary of Severstal, other than the surviving person and its Subsidiaries;

(d) Liens on assets, income or property acquired by Severstal or a Material Subsidiary existing prior to such acquisition; provided that such Liens were not created in contemplation of such acquisition and do not extend to any other assets, income or property (other than proceeds of such acquired assets or property);

(e) any Lien on any property or assets of Severstal or any Subsidiary of Severstal securing Indebtedness incurred for the purpose of financing all or part of the acquisition, maintenance, repair or construction of such property or assets provided that (i) no such Lien shall extend to any other property or assets of Severstal or any of its Subsidiaries, (ii) the aggregate principal amount of all Indebtedness secured by Liens under this paragraph on such property or assets does not exceed the purchase price of such property or assets (including customs duties, transport, insurance, construction and installation costs and other incidental costs and expenses of purchase

and any VAT or similar taxes thereon) and (iii) such Lien attaches to such property or assets concurrently with the maintenance or repair thereof or within 90 days after the acquisition or commencement of construction thereof, as the case may be;

(f) Liens incurred, or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;

(g) Liens imposed by law, including, but without limitation to, mechanics', carriers', warehousemen's, materialmen's, suppliers' and vendors' Liens in the ordinary course of business;

(h) Liens for *ad valorem*, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which Severstal has set aside in its books of account reserves to the extent required by Accounting Standards to which the then most recent published audited consolidated financial statements of Severstal comply, as consistently applied;

(i) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges or encumbrances, and Liens arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of Severstal or any of its Material Subsidiaries and existing, arising or incurred in the ordinary course of business;

(j) (i) bankers' Liens in respect of deposit accounts, (ii) statutory landlords' Liens, (iii) deposits to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature (so long as, (X) with respect to items described in (ii) and (iii) above of this sub-Clause (j), such Liens do not secure obligations constituting Indebtedness for borrowed money and (Y) with respect to items described in (i), (ii) and (iii) above of this sub-Clause (j), such Liens are incurred in the ordinary course of business), and (iv) Liens arising from any judgment, decree or other order which does not constitute an Event of Default;

(k) any Lien on the property, income or assets of Severstal or any of its Subsidiaries securing Indebtedness of Severstal or such Subsidiaries incurred in an aggregate principal amount outstanding at any one time not to exceed 20 percent of the total consolidated assets of the Group (determined by reference to the most recent publicly available consolidated annual or interim financial statements of Severstal prepared in accordance with those Accounting Standards to which the then most recent published audited consolidated financial statements of Severstal comply as may be adopted from time to time by Severstal). For the avoidance of doubt this paragraph (k) does not include any Lien created in accordance with paragraphs (a) to (j) or (l) to (r) hereof;

(l) Liens upon, or with respect to, any present or future assets or revenues or any part thereof which are created pursuant to any repo transaction;

(m) Liens granted by a Subsidiary of Severstal in favour of Severstal or another Subsidiary of Severstal or by Severstal in favour of a Subsidiary of Severstal with respect to the property or assets, or any income or profits therefrom, of Severstal or such Subsidiary of Severstal, as the case may be;

(n) any Lien granted in connection with pre-export financing, being Liens over any rights, title or interest in, to or under any Product Delivery Contract, including the receivables generated under any such Product Delivery Contract and all other monies and proceeds arising in connection with any such Product Delivery Contract, and any Lien over any bank accounts into which the receivables, monies and proceeds from any such Product Delivery Contract are paid or transferred or into which moneys are placed as cash collateral as required by the terms of such pre-export financing (including (i) amounts standing to the credit of such bank accounts and (ii) any rights under any agreements establishing or opening such bank accounts);

(o) any Lien in respect of obligations arising under hedging agreements so long as the related Indebtedness is permitted to be incurred under this Agreement and any such hedging agreement is not speculative;

(p) a right of set-off, right to combine accounts, netting or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group;

(q) any Lien created in connection with the raising of any Indebtedness for working capital purposes; and

(r) any extension, renewal, replacement of or substitution for any Lien permitted by any of the preceding sub-Clauses (a) through (q); provided, however, that, (i) such extension, renewal, replacement or substitution shall be no more restrictive in any material respect than the original Lien, (ii) the principal amount of Indebtedness secured by such Lien is not increased and (iii) if the property, income or assets subject to such Lien are changed in connection with such extension, renewal, replacement of or substitution, the Fair Market Value of the property, income or assets subject to such Lien is not increased.

"**Permitted Restriction**" means any restriction or encumbrance on the ability of a Subsidiary of Severstal to pay dividends, return capital, make any other payment or distribution, or transfer assets to Severstal or its Subsidiaries (a) arising under a credit agreement or (b) in effect on the relevant Closing Date with respect to a Subsidiary of Severstal and other restrictions with respect to such Subsidiary that are not materially less favourable to the agreed funding source than such restrictions in effect on the relevant Closing Date.

"**person**" means any individual, company, corporation, firm, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any Agency or political subdivision thereof or any other entity.

"**Potential Event of Default**" means any event which is, or after notice or passage of time or after making any determination under a Loan Agreement (or any combination of the foregoing) would be, an Event of Default.

"**Preferred Stock**", as applied to the Capital Stock of any person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such person, over shares of any other class of Capital Stock of such person.

"**Product Delivery Contract**" means any contract for the sale or delivery of any steel or steel products and ferrous metals (including iron ore and iron ore pellets), coke, coal, coke concentrate, nickel, ferro-alloys and gold (including contracts for sale, transportation or exchange and utilisation and pooling declarations or agreements), entered into from time to time between Severstal or any of its Subsidiaries and any other persons.

"**Programme**" means the programme for the issuance of agreed funding.

"**Programme Limit**" means US$4,500,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of agreed funding that may be issued and outstanding at any time under the Programme as may be increased in accordance with the agreed funding agreements.

"**Purchase Money Indebtedness**" means Indebtedness (including Capital Lease Obligations) (i) consisting of the deferred purchase price of property, conditional sale obligations, obligations under any title retention agreement, other purchase money obligations and obligations in respect of industrial revenue bonds or similar Indebtedness, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed, and (ii) incurred to finance the acquisition by Severstal or a Subsidiary of Severstal of such asset, including construction, additions and improvements, in the ordinary course of business (including the cost of design, development, construction, acquisition, transportation, installation, improvement and migration of assets); provided, however, that (A) any Lien arising in connection with any such Indebtedness shall be limited to the specific asset being financed or, in the case of real property or fixtures, including additions and improvements, the real property on which such asset is attached, (B) such Indebtedness is incurred within 180 days after such acquisition of such assets and (C) the aggregate principal amount of Purchase Money Indebtedness at any one time outstanding shall not exceed (x) the Fair Market Value of the acquired or constructed asset or improvement so financed or (y) in the case of an uncompleted constructed asset, the amount of the asset to be constructed, as determined on the date the contract for construction of such asset was entered into by Severstal or the relevant Subsidiary of Severstal (including, in each case, any reasonable related fees and expenses incurred in connection with such acquisition, construction or development).

"**Put Settlement Date**" has the meaning specified in the relevant Loan Supplement.

"Rate of Interest" has the meaning specified in the relevant Loan Supplement.

"**Rating Agency**" means Fitch, Moody's or Standard & Poor's or if Fitch, Moody's or Standard & Poor's cease to publish ratings of securities, any other internationally recognised statistical rating organisation.

"**Reference Rate**" means the rate specified as such in the relevant Loan Supplement.

"**Refinance**" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. "**Refinanced**" and "**Refinancing**" shall have correlative meanings.

"**Refinancing Indebtedness**" means Indebtedness that Refinances any Indebtedness of Severstal or any Subsidiary of Severstal existing on the relevant Closing Date or incurred in compliance with a Loan Agreement, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that:

(a) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;

(b) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced;

(c) such Refinancing Indebtedness has an aggregate principal amount (or if incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if incurred with original issue discount, the aggregate accreted value) then outstanding (plus accrued interest, fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and

(d) if the Indebtedness being Refinanced is subordinated in right of payment to the a Loan, such Refinancing Indebtedness is subordinated in right of payment to such Loan at least to the same extent as the Indebtedness being Refinanced.

"**Related Business**" means any business of the type in which Severstal or any of its Subsidiaries was engaged on the relevant Closing Date and any business related, ancillary or complementary to such business.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Loan Supplement.

"**Relevant Time**" means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time.

"**Repayment Date**" means the date specified as such in the relevant Loan Supplement.

"**Reserved Rights**" has the meaning assigned to such term in the agreed funding agreements.

"**RUR**" or "**Roubles**" means the lawful currency of the Russian Federation.

"**Sale/Leaseback Transaction**" means an arrangement relating to property now owned or hereafter acquired whereby Severstal or any Material Subsidiary of Severstal transfers such property to a person and Severstal or such Material Subsidiary leases it from such person.

"**Same-Day Funds**" means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in Brussels of the type contemplated hereby.

"**Screen Rate Determination**" has the meaning set out in Clause 4.3 and the relevant Loan Supplement.

"**Securities Act**" means the US Securities Act of 1933.

"**Severstal Account**" means an account in the name of Severstal as specified in the relevant Loan Supplement for receipt of Loan funds.

"**Specified Currency**" means the currency specified as such in the relevant Loan Supplement.

"**Standard & Poor's**" means Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc, or any successor to its ratings business.

"**Stated Maturity**" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"**Subordinated Obligation**" means, with respect to a person, any Indebtedness of such person (whether outstanding on the relevant Closing Date or thereafter incurred) which is subordinate or junior in right of payment to the agreed funding source in respect of the agreed funding, pursuant to a written agreement to that effect.

"**Subscription Agreement**" means the agreement specified as such in the relevant Loan Supplement.

"**Subsidiary**" of any specified person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50 percent of the total voting power of the Voting Stock is held by such first-named person and/or any of its Subsidiaries and such first- named person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business or entity, with respect to which such first-named person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if (in the case of each of (a) and (b)) in accordance with Accounting Principles, as consistently applied, such entity would be fully consolidated with the first-named person for financial statement purposes.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET 2) System which was launched on 19 November 2007 or any successor thereof.

"**Temporary Cash Investments**" means any of the following:

(a) any investment in direct obligations of a member of the European Union, the Russian Federation, the United States of America or any Agency thereof or obligations guaranteed by a member of the European Union, the Russian Federation, or the United States of America or any Agency thereof;

(b) investments in demand and time deposit accounts, certificates of deposit and money market deposits with a maturity of one year or less from the date of acquisition thereof issued by a bank or trust company which is organised under the laws of the Russian Federation, a member of the European Union or the United States of America or any state thereof, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$500,000,000 (or the foreign currency equivalent thereof) and has outstanding debt which is rated "BBB−" or "Baa3" (or such similar equivalent rating) or higher by at least one nationally recognised statistical rating organisation;

(c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in Clause (a) above entered into with a bank meeting the qualifications described in Clause (b) above;

(d) investments in commercial paper with a maturity of one year or less from the date of acquisition, issued by a corporation (other than an Affiliate of Severstal) organised and in existence under the laws of a member of the European Union, the United States of America or the Russian Federation with a rating at the time as of which any Investment therein is made of "P1" (or higher) according to Moody's Investors Service, Inc. or "A1" (or higher) according to Standard & Poor's Ratings Group;

(e) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of a member of the European Union, the United States, or the Russian Federation or by any political subdivision or taxing authority thereof, and rated at least "BBB−" by Standard & Poor's Ratings Group or "Baa3" by Moody's Investors Service, Inc.; and

(f) investments in money market funds that invest substantially all their assets in securities of the types described in Clauses (a) through (e) above.

"**Treasury Rate**" means a rate equal to the yield, as published by the Treasury Publisher specified in the relevant Loan Supplement, on the actively traded Reference Treasury specified in the relevant Loan Supplement with a maturity comparable to the remaining life of the Loan, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary Reference Treasury dealers in the Business Centre specified in the relevant Loan Supplement selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in the Business Centre specified in the relevant Loan Supplement preceding the Redemption Date;

"**US Dollar Equivalent**" means with respect to any monetary amount in a currency other than US dollars, at any time for determination thereof, the amount of US dollars obtained by converting such foreign currency into US dollars at the spot rate for the purchase of US dollars with the applicable foreign currency as published in The Wall Street Journal in the "Exchange Rates" column under the heading "Currency Trading" on the date two Business Days prior to such determination.

"**US GAAP**" means generally accepted accounting principles, standards and practices in the United States of America.

"**Voting Stock**" means, in relation to any person, Capital Stock entitled (without the need for the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

"**Warranty Date**" means the date hereof, the date of each Loan Supplement, each Closing Date, each date on which the Base Prospectus or any of the agreed funding agreements is amended, supplemented or replaced and each date on which the Programme Limit is increased.

"**Wholly Owned Subsidiary**" means a Subsidiary all the Capital Stock of which (other than directors' qualifying shares or shares of Subsidiaries required to be owned by third parties under applicable law) is owned by Severstal or one or more other Wholly Owned Subsidiaries.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Facility Agreement which are not defined in this Facility Agreement but which are defined in, or are defined by cross-reference to definitions in, or other provisions of, any agreed funding agreements, shall have the meanings assigned to such terms therein, provided that in the case of terms defined or references herein to documents to which Severstal is not a party, Severstal has been sent an up-to- date copy of such documents as soon as reasonably practicable (including any amendments thereto that may affect the meaning or interpretation of any such term or reference).

1.3 Interpretation

Unless the context or the express provisions of this Facility Agreement otherwise require, the following shall govern the interpretation of this Facility Agreement:

1.3.1 All references to "Clause" or "sub-Clause" are references to a Clause or sub-Clause of this Facility Agreement.

1.3.2 The terms "hereof", "herein" and "hereunder" and other words of similar import shall mean the relevant Loan Agreement as a whole and not any particular part hereof.

1.3.3 Words importing the singular number include the plural and vice versa.

1.3.4 All references to "taxes" include all present or future taxes, levies, imposts and duties of any nature and the terms "tax" and "taxation" shall be construed accordingly.

1.3.5 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

1.3.6 References to "Russia" and "Russian" shall mean the Russian Federation.

1.3.7 Any reference herein to a document being in "agreed form" means that the document in question has been agreed between the proposed parties thereto, subject to any amendments that such parties may agree upon prior to the respective effectiveness date.

1.3.8 Unless otherwise stated, whenever an amount in one currency needs to be converted into an amount in another currency for the purposes of determining compliance with any provision under this Agreement, such calculation shall be determined in good faith on the basis of reasonable exchange rates by a responsible financial or accounting officer of Severstal and, for the avoidance of doubt, whenever it is necessary thereafter to determine whether Severstal complied with any such provision, such determination shall be made on the basis of the conversion rate applied in compliance with the foregoing provisions hereof.

1.4 Amendment and Restatement

This Agreement amends and restates the Original Facility Agreement. Any Loans made on or after the date hereof shall have the benefit of this Agreement. The amendments set out herein do not affect any Loans made prior to the date of this Agreement.

2 Loans

2.1 Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to Severstal Loans up to the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Loan will be used for general corporate purposes (unless otherwise specified in the relevant Loan Agreement), but the Lender shall not be concerned with the application thereof.

2.3 Separate Loans

It is agreed that with respect to each Loan, all the provisions of this Facility Agreement and the Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Loan and the expressions "**Account**", "**agreed funding**", "**Arrangement Fee**", "**Closing Date**", "**Day Count Fraction**", "**Interest Payment Date**", "**Loan Agreement**", "**Rate of Interest**", "**Repayment Date**", "**Specified Currency**", together with all other terms that relate to such a Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that each such Loan shall be made pursuant to this Facility Agreement and the relevant Loan Supplement, together comprising the Loan Agreement in respect of such Loan and that, unless expressly provided, events affecting one Loan shall not affect any other.

3 Drawdown

3.1 Drawdown

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on the Closing Date thereof the Lender shall make a Loan to Severstal and Severstal shall make a single drawing in the full amount of such Loan.

3.2 Loan Arrangement Fee

In consideration of the Lender's undertaking to make a Loan available to Severstal, Severstal hereby agrees that it shall pay to the Lender, in Same-Day Funds, an Arrangement Fee (as defined in the relevant Loan Supplement) in connection with *inter alia*, the arrangement and financing of the relevant Loan, and the negotiation, preparation and execution of the relevant Loan Agreement and the other agreed funding agreements and other costs connected with and necessary for the provision of such Loan. Severstal shall pay the Arrangement Fee by 1.30 p.m. (London time) one Business Day prior to the relevant Closing Date. The Lender shall promptly deliver an invoice to Severstal providing for the amount due. Following payment of the Arrangement Fee to the Lender by Severstal, Severstal and the Lender shall enter into and sign a delivery and acceptance act as provided in Clause 6.10. In the event that following payment of the Arrangement Fee by Severstal to the Lender, closing of the issue of any agreed funding does not take place in accordance with the relevant agreed funding agreements, the Lender shall return the Arrangement Fee to Severstal less certain amounts to be deducted pursuant to arrangements entered into by Severstal in respect of the Loan in relation to costs due in such circumstances, within 3 Business Days of the

determination of such amounts by the Lender (and the Lender shall determine such amounts as soon as reasonably practicable).

3.3 Disbursement

Subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on each Closing Date the Lender shall transfer the amount of the relevant Loan to the Severstal Account specified in the relevant Loan Supplement, or such other bank account that is notified in writing to the Lender by Severstal at least one Business Day prior to the Closing Date, in Same-Day Funds.

3.4 Ongoing Fees and Expenses

In consideration of the Lender establishing and maintaining the Programme and agreeing to make Loans to Severstal, Severstal shall pay on demand to the Lender as and when such amounts are due an amount equal to all ongoing fees and costs (which, for the avoidance of doubt, shall include all ongoing costs, charges, liabilities and expenses incurred by the Lender in relation to the agreed funding agreements and the agreed funding as well as in relation to the maintenance of its good standing). Payments to the Lender referred to in this Clause 3.4 shall be made by Severstal promptly following receipt of the relevant invoice from the Lender. In addition, following each payment of such fees and expenses to the Lender by Severstal, Severstal and the Lender shall enter into and sign a delivery and acceptance act as provided in Clause 6.10.

4 Interest

4.1 Rate of Interest for Fixed Rate Loans

Each Fixed Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the applicable Rate of Interest.

4.2 Payment of Interest for Fixed Rate Loans

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear by Severstal to the Account not later than the relevant Payment Time prior to each Interest Payment Date. The amount of interest payable shall be determined in accordance with Clause 4.6.

4.3 Interest for Floating Rate Loans

4.3.1 *Interest Payment Dates:* Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, which interest shall be paid in arrear by Severstal to the relevant Account not later than the relevant Payment Time prior to each Interest Payment Date. The amount of interest payable shall be determined in accordance with Clause 4.6. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 *Business Day Convention:* If any date referred to in the relevant Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each such subsequent date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such

date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 *Rate of Interest for Floating Rate Loans:* The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Loan Supplement.

(i) ISDA Determination for Floating Rate Loans

Where ISDA Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub- paragraph (i), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(a) the Floating Rate Option is as specified in the relevant Loan Supplement;

(b) the Designated Maturity is a period specified in the relevant Loan Supplement; and

(c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Supplement.

For the purposes of this sub-paragraph (i), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Loans

Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(a) the offered quotation; or

(b) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, only one of such quotations) and the lowest (or, if there is more than one such lowest quotation, only one of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Loans is specified in the relevant Loan Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Floating Rate Loans will be determined as provided in the relevant Loan Supplement.

(x) if the Relevant Screen Page is not available or if, sub-paragraph (a) applies and no such offered quotation appears on the Relevant Screen Page or if sub paragraph (b) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels

time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(y) if paragraph (b) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of Severstal and the Lender suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

4.4 Accrual of Interest

Interest shall cease to accrue on each Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the applicable Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made.

4.5 Margin, Maximum/Minimum Rates of Interest and Rounding

4.5.1 If any Margin is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

4.5.2 If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.

4.5.3 For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred- thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 Calculations

The amount of interest payable per Calculation Amount in respect of any Loan for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified on such Loan, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Loan for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

4.7 Determination and Publication of Rates of Interest and Interest Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date to be notified to Severstal, the Lender, the agreed funding source and the party designated as principal paying agent by the agreed funding agreements and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to sub-Clause 4.3.2, the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of Severstal and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under Clause 11, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously in accordance with this Clause but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Lender otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 Calculation Agent and Determination or Calculation by the agreed funding source

Severstal shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in a Loan Supplement and for so long as any amount remains outstanding under a Loan Agreement. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if it does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount in relation to a Floating Rate Loan or comply with any other requirement, the Lender and Severstal agree that:

4.8.1 the Lender shall (with the prior written approval of Severstal) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place; failing which

4.8.2 such determination or calculation may be made by or at the direction of the agreed funding source as set out in the conditions of the corresponding agreed funding and such determination or calculation shall be deemed to have been made by the Calculation Agent. The parties acknowledge that in doing so, the agreed funding source shall apply or shall have applied the foregoing provisions of this sub-Clause 4.8.2, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both Severstal and the Lender agree that such successor Calculation Agent will be appointed on the terms of the agreed funding agreement in relation to the agreed funding.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein and in the applicable Loan Supplement, Severstal shall repay each Loan not later than the relevant Payment Time prior to the Repayment Date.

5.2 Prepayment in the event of Taxes or Increased Costs

If, as a result of the application of or any amendments or clarification to, or change (including a change in interpretation or application) in, or determination under, the double tax treaty between the Russian Federation and Luxembourg or the laws or regulations of the Russian Federation or Luxembourg or of any political sub-division thereof or any authority therein having power to tax (each, a "**Taxing Jurisdiction**") or the enforcement of the security provided for in the agreed funding agreements, Severstal would thereby be required (i) to increase the payment of principal or interest or any other payment due pursuant to a Loan Agreement as provided in Clause 6.2 or 6.3, or if (for whatever reason) Severstal would have to or has been required (ii) to pay additional amounts pursuant to Clause 8, and in any such case such obligation cannot be avoided by Severstal taking reasonable measures available to it, then Severstal may (without premium or penalty), upon not less than 30 days' notice to the Lender (which notice shall be irrevocable), prepay the Loan relating to such Loan Agreement in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Loan, or at any time, in the case of a Fixed Rate Loan.

No such notice of prepayment shall be given earlier than 90 days prior to the earliest date on which Severstal would be obliged to pay such additional amounts or increase such payment if a payment in respect of the Loan were then due.

Prior to giving any such notice in the event of an increase in payment pursuant to Clause 6.2, Severstal shall deliver to the Lender an Officers' Certificate confirming that Severstal would be required to increase the amount payable, supported by an opinion of an independent tax adviser addressed to the Lender, any trustee or representative for the agreed funding source and Severstal.

5.3 Prepayment in the event of Illegality

If, at any time the Lender reasonably determines that it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any Agency of any state or otherwise for the Lender to allow all or part of the relevant Loan or the corresponding agreed funding agreements to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Loan or the agreed funding or the agreed funding agreements relating thereto and/or to charge or receive or to be paid interest at the rate then applicable to such Loan (an "**Event of Illegality**"), then upon notice by the Lender to Severstal in writing, Severstal and the Lender shall consult in good faith as to a basis which eliminates the application of such Event of Illegality; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 calendar days of the date on which it so notified Severstal. If such a basis has not been determined within the 30 calendar days, then upon written notice by the Lender to Severstal, Severstal shall prepay such Loan in whole (but not in part) on the next Interest Payment Date therefor, in the case of a Floating Rate Loan, or, in the case of a Fixed Rate Loan, on the next Interest Payment Date or on such other date as the Lender (acting reasonably) shall certify to be necessary to comply with such requirements.

5.4 Reduction of a Loan Upon Cancellation of corresponding agreed funding

Severstal or any Subsidiary or affiliate of Severstal or any other company acting for the benefit of Severstal may from time to time purchase any agreed funding (or may provide funding to the Lender to purchase the agreed funding in the open market, by tender or by private agreement) at any price and on such other terms as Severstal may determine. Such agreed funding purchased by Severstal or affiliate of Severstal or any other company acting for the benefit of Severstal may be held, reissued or resold. Alternatively, Severstal (or any Subsidiary or affiliate of Severstal) may from time to time surrender to the Lender for cancellation agreed funding having an aggregate principal value of at least US$1,000,000 (or its

equivalent in a Specified Currency), together with an authorisation addressed to the agent of the Lender designated for such purpose (or instruct the Lender to cancel the agreed funding it has purchased at request of Severstal), whereupon the Lender shall have the relevant agreed funding cancelled and the principal amount of the Loan corresponding to the principal amount of such agreed funding is deemed to have been repaid by Severstal for all purposes as of the date of such cancellation and no further payments shall be made by Severstal in respect of such amounts.

5.5 Payment of Other Amounts

If a Loan is to be prepaid by Severstal pursuant to any of the provisions of Clauses 5.2 or 5.3 or pursuant to the terms of the relevant Loan Agreement, Severstal shall, simultaneously with such prepayment, pay to the Lender, accrued interest on the Loan to the date of actual payment and all other sums payable by Severstal pursuant to this Agreement in connection with the prepaid amount. For the avoidance of doubt, if the principal amount of such Loan is reduced pursuant to the provisions of Clause 5.4, then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which such Loan is so reduced and Severstal shall not be entitled to any interest in respect of the cancelled agreed funding.

5.6 Optional Prepayment under Call Option

If Call Option is specified in the relevant Loan Supplement, Severstal may, at its option at any time prior to the Repayment Date on giving not less than 30 nor more than 60 days' (or such other time periods as specified in the relevant Loan Supplement) irrevocable notice to the Lender, in whole or in part, repay the Loan at the Early Redemption Amount plus the Make Whole Amount. The notice to be given shall specify the date(s) for repayment of the Loan and the date(s) for the redemption of the agreed funding (the "**Optional Redemption Date(s)**"), which, unless otherwise specified, shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of such notice, the Lender shall forward it to the agreed funding source and the party designated as principal paying agent by the agreed funding agreements. The Loan shall be repaid on the date specified in such notice.

5.7 Optional Repayment under Put Option

If Put Option is specified in the relevant Loan Supplement, following not less than 30 nor more than 60 days' (or such other time periods as specified in the relevant Loan Supplement) notification from the Lender, Severstal shall prepay the Loan (without premium or penalty), to the extent of the aggregate principal amount of the agreed funding to be extinguished as specified in such notice, at the relevant Payment Time on or prior to the Put Settlement Date.

5.8 Notices Irrevocable

Any notice of cancellation or prepayment given under this Clause 5 shall be irrevocable and, unless a contrary indication appears in this Facility Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.

5.9 Provisions Exclusive

Severstal shall not prepay or repay all or any part of any Loan except in accordance with the express terms of the relevant Loan Agreement. Any amount prepaid or repaid may not be reborrowed under such Loan Agreement.

6 Payments

6.1 Making of Payments

All payments of principal, interest and other amounts (other than those in respect of Reserved Rights) to be made by Severstal under each Loan Agreement shall be made unconditionally by credit transfer to the Lender not later than the relevant Payment Time prior to each Interest Payment Date or the Repayment Date (as the case may be) or such other date as may be specified in the relevant Loan Supplement in Same-Day Funds to the relevant Account or as the agreed funding source may otherwise direct following the occurrence of a Relevant Event.

Severstal shall, before the relevant Notification Time prior to each Interest Payment Date or the Repayment Date or such other date (as the case may be), procure that the bank effecting such payments

on its behalf confirms to the party designated as principal paying agent by the agreed funding agreements by tested telex or authenticated SWIFT the payment instructions relating to such payment.

The Lender agrees with Severstal that it will not deposit any other monies into such Account and that no withdrawals shall be made from such Account other than as provided for and in accordance with the relevant agreed funding agreements.

For the avoidance of doubt, the parties to any other agreed funding agreement are intended by the parties to this Facility Agreement to have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce the terms of this Clause 6.1.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by Severstal under each Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any taxes. If Severstal shall be required by applicable law to make any deduction or withholding from any payment under a Loan Agreement for or on account of any such taxes, it shall increase any payment due under such Loan Agreement to such amount as may be necessary to ensure that the Lender receives on the relevant date a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such taxes, shall promptly account to the relevant authorities for the relevant amount of such taxes so withheld or deducted and shall deliver to the Lender without undue delay customary evidence of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such taxes including penalties or interest, Severstal shall reimburse the Lender in the Specified Currency for such payment on demand.

6.3 Withholding on agreed funding

Without prejudice to the provisions of Clause 6.2, if the Lender notifies Severstal that it has become obliged to make any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Luxembourg or any political subdivision or any authority thereof or therein having the power to tax from any payment which it is obliged to make under or in respect of any agreed funding, Severstal agrees to pay to the Lender, not later than the relevant Payment Time prior to the date on which payment is due to the agreed funding source of such agreed funding in Same-Day Funds to the relevant Account, such additional amounts as are equal to the additional amounts which the Lender would be required to pay in order that the net amounts received by the agreed funding source, after such withholding or deduction, will equal the respective amounts which would have been received by the agreed funding source in the absence of such withholding or deduction; provided, however, that the Lender shall immediately upon receipt from any paying agent of the Lender of any reimbursement of the sums paid pursuant to this provision, to the extent that the agreed funding source of such agreed funding is not entitled to such additional amounts pursuant to the terms and conditions of such agreed funding, pay such amounts received by way of such reimbursement to Severstal (it being understood that neither the Lender, nor any paying agent of the Lender shall have any obligation to determine whether the agreed funding source of such agreed funding is not entitled to any such additional amount).

Any notification by the Lender to Severstal in connection with this Clause 6.3 shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction. The Lender shall, as soon as reasonably practicable following request by Severstal, provide Severstal with reasonable detail in writing as to the reasons for such withholding or deduction.

6.4 Reimbursement

6.4.1 To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which Severstal has made a payment pursuant to this Clause 6 it shall pay to Severstal so much of the benefit it received as will leave the Lender in substantially the same position as it would have been in had no additional amount been required to be paid by Severstal pursuant to this Clause 6; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to Severstal, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender, provided that the Lender shall notify Severstal promptly

upon determination that it has received any such benefit. The Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it and the Lender shall in no circumstances be obliged to disclose to Severstal any information regarding its tax affairs or computations.

6.4.2 If as a result of a failure to obtain relief from deduction or withholding of any taxes referred to in Clause 6.2, (i) such taxes are deducted or withheld by Severstal and pursuant to Clause 6.2 an increased amount is paid by Severstal to the Lender in respect of such deduction or withholding and (ii) following the deduction or withholding of taxes as referred to above, Severstal applies on behalf of the Lender to the competent taxing authority for a withholding tax refund and such withholding tax is refunded or repaid by the relevant taxing authority to the Lender, the Lender shall as soon as reasonably practicable notify Severstal of the receipt of such withholding tax refund and promptly transfer the actually received amount of the withholding tax refund in the currency actually received and less any applicable costs to a bank account of Severstal specified for that purpose by Severstal.

6.5 Representations of the Lender

The Lender represents, and on each Warranty Date shall be deemed to represent, that (a) it is a company which is a resident of Luxembourg, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its board of directors or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg and it will be able to receive certification to this effect from the Luxembourg taxing authorities; (b) it does not have a permanent establishment in the Russian Federation; (c) it does not have any current intentions to effect, during the term of any Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Luxembourg or ceasing to be subject to taxation in Luxembourg; and (d) it is not a holding company within the meaning assigned by specific laws of the Grand Duchy of Luxembourg governed by the law of 31 July 1929 and the decree of the Grand Duke dated 17 December 1938 (as abrogated by the Grand Duchy of Luxembourg law dated 22 December 2006), nor a company in the Grand Duchy of Luxembourg governed by any similar tax law.

The Lender shall make reasonable and timely efforts to assist Severstal to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between the Russian Federation and Luxembourg, including, without limitation, its obligations under Clauses 6.6 and 6.9. The Lender makes no representation as to the application or interpretation of any double taxation treaty between the Russian Federation and Luxembourg.

6.6 Notification and Substitution

6.6.1 The Lender agrees upon becoming aware of such, promptly to notify Severstal if it ceases to be tax resident in Luxembourg or opens a permanent establishment in Russia or if any of the representations set forth in Clause 6.5 are no longer true and correct.

6.6.2 If the Lender ceases, as a result of the Lender's actions, to be tax resident in a jurisdiction for the purposes of a double taxation treaty between the Russian Federation and such jurisdiction, and such cessation results in Severstal being required to make payments pursuant to Clause 6.2, Clause 6.3 or Clause 8 then, except in circumstances where the Lender has ceased to be tax resident in such jurisdiction by reason of any change of law (as described in Clause 5.2) (including, without limitation, a change in a double taxation treaty or in such law or treaty's application or interpretation), Severstal may require the Lender to seek the substitution of the Lender as borrower of the agreed funding and as lender under any Loan. Severstal shall bear all costs and expenses relating to or arising out of such substitution.

6.7 Evidence of Debt

The entries made in the relevant Account shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of Severstal's obligations to pay amounts thereto, as recorded therein.

6.8 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of Severstal to make any deduction, withholding or payment as described in Clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or Severstal's obligations under any of the above mentioned provisions, the Lender shall, upon becoming aware of the same, notify Severstal thereof and, in consultation with Severstal and to the extent it can lawfully do so and without prejudice to its own position, take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; provided that the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might reasonably be expected to have any adverse effect upon its business, operations or financial condition or might be in breach of any provision of the agreed funding agreements.

6.9 Tax Treaty Relief

The Lender shall at Severstal's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, use commercially reasonable efforts to obtain and to deliver to Severstal no later than 25 Business Days before the first Interest Payment Date and thereafter no later than 25 Business Days prior to the first Interest Payment Date in each calendar year, a certificate issued by the competent taxing authority in Luxembourg (the "**Relevant Tax Jurisdiction**") confirming that the Lender is tax resident in such Relevant Tax Jurisdiction and such other information or forms as may need to be duly completed and delivered by the Lender to enable Severstal to apply to obtain relief from deduction or withholding of Russian taxes after the date of this Facility Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. The Lender shall, at the request of Severstal and at Severstal's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, from time to time use its commercially reasonable efforts to obtain and to deliver to Severstal any other information or additional duly completed application forms as may need to be duly completed and delivered by the Lender to enable Severstal to apply to obtain relief from deduction or withholding of Russian taxes or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. The certificate and, if required, other forms referred to in this Clause 6.9 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent taxing authority in the Relevant Tax Jurisdiction, if applicable. Together with any such certificate and, if required, other forms, the Lender shall deliver to Severstal a copy of the same, certified by an appropriate notary to be a true and up to date copy of the original document. Any such notary's certificate shall be apostilled or otherwise legalised. If a relief from deduction or withholding of Russian taxes under this Clause 6.9 has not been obtained and further to an application of Severstal to the relevant Russian taxing authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of Severstal (a) use its commercially reasonable efforts, at Severstal's cost, to procure that such rouble bank account of the Lender is duly opened and maintained, and (b) thereafter furnish Severstal with the details of such rouble bank account. Severstal and the Lender (using its best endeavours and in accordance with the law) agree that, should the Russian legislation regulating the procedure for obtaining relief from Russian income tax withholding or the interpretation thereof by the relevant competent authority change then the procedure referred to in this Clause 6.9 will be deemed changed accordingly.

6.10 Acts of Acceptance

In connection with all payments to be made by Severstal under each Loan Agreement, Severstal and the Lender shall, within 30 days of such payment becoming due or, if appropriate, such indemnity claim having been made, execute a delivery and acceptance act (which Severstal shall prepare) with respect to the amounts to be paid by Severstal. Such delivery and acceptance acts shall specify (i) the net amount due, (ii) any applicable Russian income tax withholding, (iii) any applicable Russian value-added tax and (iv) the resulting total amount inclusive of tax.

7 Conditions Precedent

The obligation of the Lender to make each Loan shall be subject to the conditions precedent that as of the relevant Closing Date, (a) the representations and warranties made and given by Severstal in Clause 9.1 shall be true and accurate as if made and given on the relevant Closing Date with respect to the facts and circumstances then existing, (b) no event shall have occurred that constitutes an Event of Default or a Potential Event of Default, (c) the relevant agreed funding agreements shall have been executed and

delivered, and (d) the Lender shall have received the full amount of the subscription moneys for the corresponding agreed funding and (e) the Lender shall have received in full the amount referred to in Clause 3.2, if due and payable, above, as specified in the relevant Loan Supplement.

8 Change in Law or Increase in Cost

8.1 Compensation

In the event that after the date of a Loan Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Lender in respect of any Loan Agreement or any Loan with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central bank or other fiscal, monetary or other authority, Agency or any official of any such authority, which:

8.1.1 subjects or will subject the Lender to any taxes with respect to payments of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any taxes referred to in Clauses 6.2 or 6.3); or

8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any taxes referred to in Clauses 6.2 or 6.3); or

8.1.3 imposes or will impose on the Lender any other condition affecting such Loan Agreement or such Loan,

and if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining such Loan is increased; or

(ii) the amount of principal, interest or other amounts payable to or received by the Lender under such Loan Agreement is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from Severstal hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of such Loan,

then subject to the following, and in each such case:

(a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to Severstal, together with a certificate describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and all relevant supporting documents evidencing the matters set out in such certificate; and

(b) Severstal shall, in the case of sub-Clauses 8.1.3(i) and 8.1.3(iii) above, on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of sub-Clause 8.1.3(ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return, provided however, that the amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to such Loan.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1 then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or Severstal's obligations under the above mentioned provision, the Lender shall, upon becoming aware of the same, notify Severstal

thereof and, in consultation with Severstal and to the extent it can lawfully do so and without prejudice to its own position, take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; provided that the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might reasonably be expected to result in a breach of any provision of the agreed funding agreements or the agreed funding.

9 Representations and Warranties

9.1 Severstal's Representations and Warranties

Severstal represents and warrants to the Lender, and on each Warranty Date shall be deemed to represent and warrant to the Lender, in each case with the intent that such shall form the basis of each Loan Agreement, that:

9.1.1 it and each of its Material Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation and has the power and legal right to own its property, to conduct its business as described in the Base Prospectus and in the case of Severstal only to enter into and to perform its obligations under each Loan and to borrow Loans thereunder; that it has taken all necessary corporate, legal and other action required to authorise the borrowing of Loans on the terms and subject to the conditions of each Loan Agreement and to authorise the execution and delivery of each Loan Agreement and all other documents to be executed and/or delivered by it in connection with each Loan Agreement, and the performance of each Loan Agreement in accordance with its respective terms;

9.1.2 each Loan Agreement including in relation to a Loan, the Loan Supplement in relation thereto, has been duly executed and delivered by and constitutes a legal, valid and binding obligation of Severstal enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and other laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity (ii) to the fact that the gross-up provisions contained in Clauses 6.2 or 6.3 may not be enforceable under Russian law and (iii) with respect to the enforceability of a judgment, to the laws of the relevant jurisdiction where such judgment must be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments;

9.1.3 the execution, delivery and performance of each Loan Agreement by Severstal, including in relation to a Loan, the Loan Supplement in relation thereto, will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of Severstal or any of its Material Subsidiaries, or (iii) any agreement or other undertaking or instrument to which Severstal or any of its Material Subsidiaries is a party or which is binding upon Severstal or any of its Material Subsidiaries or any of their respective assets (except in the case of sub-paragraph (iii) where such breach or violation does not have a Material Adverse Effect), nor result in the creation or imposition of any Liens (other than Permitted Liens) on any of their respective assets pursuant to the provisions of any such agreement or other undertaking or instrument;

9.1.4 all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation required by Severstal in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of each Loan Agreement have been obtained or effected and are and, in relation to a Loan, shall remain up to and including the relevant Closing Date, in full force and effect;

9.1.5 no event has occurred that constitutes an Event of Default, a Potential Event of Default or a default under any agreement or instrument evidencing any Indebtedness of Severstal or any Material Subsidiary (unless such default does not have a Material Adverse Effect), and no such event will occur upon the making of each Loan;

9.1.6 save as disclosed in the Base Prospectus, there are no judicial, arbitral or administrative actions, proceedings or claims (including, but without limitation to, with respect to taxes) which have been commenced or are pending or, to the knowledge of Severstal, threatened, against Severstal or any of its Subsidiaries, the adverse determination of which could reasonably be expected to have a Material Adverse Effect;

9.1.7 Severstal and each of its Material Subsidiaries has good title to its property (except where the failure to so have would not have a Material Adverse Effect) free and clear of all Liens (except for Permitted Liens) and Severstal's obligations under each Loan rank at least *pari passu* with all its other unsecured and unsubordinated Indebtedness, save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application;

9.1.8 save as disclosed in the Base Prospectus, since the date of the last published audited financial statements of the Group, neither it nor any of its Material Subsidiaries has made any loans, granted any credit (save in the ordinary course of business) or given any Guarantee or indemnity (save in the ordinary course of business) to or for the benefit of any person (other than another member of the Group) or otherwise assumed any liability, whether actual or contingent, in respect of any obligation of any person (other than another member of the Group), which loans, credits, Guarantees or indemnities are material to the Group;

9.1.9 save as disclosed in the Base Prospectus, there has been no material adverse change since the date of the last published audited financial statements of the Group in the condition (financial or otherwise), results of business, operations or immediate prospects of Severstal or any of its Material Subsidiaries or on Severstal's ability to perform its obligations under each Loan Agreement;

9.1.10 the execution, delivery and enforceability of each Loan Agreement is not subject to any tax, duty, fee or other charge, including, but without limitation to, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim, petition or other application filed with a Russian court);

9.1.11 neither Severstal nor any Material Subsidiary nor their respective property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to each Loan Agreement;

9.1.12 Severstal and each Material Subsidiary is in compliance with all applicable provisions of law, except where a failure to do so does not and will not have a Material Adverse Effect;

9.1.13 save as disclosed in the Base Prospectus, there are no strikes or other employment disputes against Severstal or any Material Subsidiary which have been started or are pending or, to the knowledge of Severstal, threatened, that could reasonably be expected to have a Material Adverse Effect;

9.1.14 in any proceedings taken in the Russian Federation in relation to each Loan Agreement, the choice of English law as the governing law of each Loan Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and subject to all other legal requirements in Russia;

9.1.15 subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any taxes is required to be made from any payment by Severstal under each Loan Agreement (save for VAT that may be payable with respect to the reimbursement of costs and expenses);

9.1.16 all licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable Severstal or any of its Material Subsidiaries to own their respective assets and carry on their respective businesses as described in the Base Prospectus are in full force and effect, except for those an absence of which do not and would not have a Material Adverse Effect;

9.1.17 save as disclosed in the Base Prospectus, Severstal and its Material Subsidiaries (i) have, duly complied with, and have operated, used and only permitted the use of all properties and businesses owned, leased, occupied or operated by them in compliance with, all Environmental Laws, unless a failure to do so does not and would not have a Material Adverse Effect, (ii) after due inquiry, are not aware and have no reason to suspect that any property or business now owned, leased, occupied or operated by them is or may be contaminated by, or is adjacent to any property that may be contaminated by, or used in connection with, any Material of Environmental Concern where this has or would have a Material Adverse Effect or that any such property or business was used or operated by any prior owner, lessee, occupant or operator or other third-party (with or without permission) in any way that constituted or is now capable of constituting a violation of any provision

of any Environmental Law that has or would have a Material Adverse Effect, (iii) have not received any notice of any material violation or alleged material violation of any provision of any Environmental Law for which they may be held responsible and (iv) to the best of Severstal's knowledge, have no obligations with which they are not complying or liabilities, contingent or absolute, relating to the use, possession, collection, storage, processing, treatment, emission, release, discharge, disposal, transfer or transport of Materials of Environmental Concern, or the remediation of any of the foregoing, except in each case where such non-compliance or liability does not and would not have a Material Adverse Effect;

9.1.18 it is subject to civil and commercial law with respect to its obligations under each Loan Agreement, and its execution of each Loan Agreement constitutes, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial acts done and performed for private and commercial purposes; and

9.1.19 Severstal and each Material Subsidiary has no overdue tax liabilities in excess of US$100,000,000 other than those which have been disclosed in the Base Prospectus or which Severstal is contesting in good faith and by appropriate proceedings.

9.2 Lender's Representations and Warranties

The Lender represents and warrants to Severstal, and on each Warranty Date shall be deemed to represent and warrant to Severstal, as follows:

9.2.1 the Lender is duly incorporated and validly existing under the laws of and is resident for Luxembourg taxation purposes in Luxembourg and has full power and capacity to execute this Facility Agreement, each Loan Agreement, including in relation to each Loan, the relevant Loan Supplement, and the agreed funding agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same;

9.2.2 the execution of this Facility Agreement, each Loan Agreement, including in relation to each Loan, the relevant Loan Supplement, and the agreed funding agreements and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or any agreement or instrument to which it is a party or by which it is bound;

9.2.3 this Facility Agreement, each Loan Agreement, including in relation to each Loan, the relevant Loan Supplement, and the agreed funding agreements have been duly executed by and constitute or, as the case may be, will be before the relevant Closing Date duly executed by and will constitute legal, valid and binding obligations of the Lender subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity;

9.2.4 all authorisations, consents and approvals required by the Lender for or in connection with the execution of this Facility Agreement, each Loan Agreement, including in relation to each Loan, the relevant Loan Supplement, and the agreed funding agreements and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect;

9.2.5 it (i) is a company which at the date hereof is a resident of Luxembourg in the sense of the double taxation treaty between Russia and Luxembourg; and in particular is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg, (ii) does not have any current intentions to effect during the term of any Loans any corporate action or reorganisation or change of its tax jurisdiction that would result in the Lender ceasing to be a tax resident of Luxembourg in the sense of the double taxation treaty between Russia and Luxembourg and be subjected to taxation in Luxembourg and (iii) will be able to obtain a certificate confirming its tax residence in Luxembourg from the Luxembourg tax authorities for the purposes of the double taxation treaty between Russia and Luxembourg;

9.2.6 it does not have a permanent establishment in Russia, in particular, it:

(i) does not have a branch, representation, division, bureau, office, agency or any other economically autonomous subdivision or other place of business in any country other than Luxembourg through which the its business is wholly or partially carried out;

(ii) did not explicitly grant any authority to and is not aware of an implied authority for Severstal or any other person located outside Luxembourg to negotiate key parameters of any contracts or sign any contracts on behalf of the Lender, bind the Lender in any contracts by other means or otherwise represent the Lender in dealings with third parties;

(iii) has its central management and control in Luxembourg. The Lender's place of effective management is only in Luxembourg. The Lender will have its statutory seat in Luxembourg and will be effectively managed in Luxembourg; and

(iv) has and will have only directors that reside professionally in Luxembourg and shall at all times act independently and exercise their authority only from and within Luxembourg by taking all key decisions relating to the Lender in Luxembourg;

9.2.7 it will fully account for the Notes and the Loans on its balance sheet; and

9.2.8 it is not a holding company within the meaning assigned by the specific laws of the Grand Duchy of Luxembourg governed by the law of 31 July 1929 and the decree of the Grand Duke dated 17 December 1938 (as repealed by the Grand Duchy of Luxembourg law dated 22 December 2006), nor a company in the Grand Duchy of Luxembourg governed by any similar tax law.

10 Covenants

So long as any amount remains outstanding under a Loan Agreement:

10.1 Negative Pledge

Severstal shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness, unless, at the same time or prior thereto, Severstal's obligations under each Loan Agreement is secured equally and rateably with such other Indebtedness.

10.2 Mergers

(i) Severstal shall not enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation), and (ii) Severstal shall ensure that, without the prior written consent of the Lender, no Material Subsidiary (A) enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or (B) in the case of a Material Subsidiary incorporated in a jurisdiction other than Russia participates in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction) if (in the case of either (i) or (ii) above) any such reorganisation or other type of corporate reconstruction is reasonably likely to have a Material Adverse Effect.

10.3 Disposals

10.3.1 Severstal shall not and shall ensure that its Material Subsidiaries do not (in each case disregarding sales of stock in trade on an arm's-length basis in the ordinary course of business and assignments of or other arrangements over the rights or revenues arising from any Product Delivery Contract) sell, lease, transfer or otherwise dispose of, to a person other than Severstal or a Subsidiary or Severstal, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets which have the aggregate value in excess of US$150,000,000 or the equivalent thereof in any 12 month period, if such sale, lease, transfer or disposal has a Material Adverse Effect.

10.3.2 Sub-Clause 10.3.1 above shall not apply to assets not comprising the core business of the Group (being the production and sale of steel and ferrous metal and/or steel and ferrous metal products) (the "**Core Business**").

10.4 Maintenance of Authorisations

Severstal shall,

10.4.1 and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things reasonably necessary, in the opinion of Severstal or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business; and

10.4.2 take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of this Facility Agreement or for the validity or enforceability thereof,

provided that, in each case, if Severstal and/or the relevant Material Subsidiary, as the case may be, can remedy any failure to comply with this Clause 10.4 within 90 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

10.5 Maintenance of Property

Severstal shall, and shall ensure that its Material Subsidiaries will, cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgment of Severstal or any Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times, if such failure would have a Material Adverse Effect.

10.6 Payment of Taxes and Other Claims

Severstal shall, and shall ensure that its Material Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, Severstal and its Material Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of Severstal or any of its Material Subsidiaries; provided, however, that none of Severstal nor any Material Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with Accounting Standards to which the then most recent published audited consolidated financial statements of Severstal comply, as consistently applied or other appropriate provision has been made or (ii) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed US$100,000,000.

10.7 Withholding Tax Exemption

Severstal shall give to the Lender all the assistance it reasonably requires to ensure that, prior to the first interest payment and at the beginning of each calendar year, the Lender can provide Severstal with the documents required under Russian laws for the relief of the Lender from Russian withholding tax in respect of payments hereunder.

10.8 Maintenance of Insurance

Severstal shall, and shall ensure that each of its Material Subsidiaries will, keep those of their properties which are of an insurable nature insured with insurers of good standing (as determined in the reasonable judgment of Severstal) against loss or damage to the extent that, in the reasonable judgment of Severstal, property of similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdictions, provided that if Severstal or any such Material Subsidiary can remedy any failure to comply with the above within 90 days or if such potential losses or risks (which may be assessed by reference to the actual risks and losses borne by

Severstal or such Material Subsidiary over the preceding 3 years) do not exceed US$250,000,000 (or its foreign currency equivalent), this covenant shall be deemed not to have been breached.

10.9 Financial Information

10.9.1 Severstal shall deliver to the Lender within six months after the end of each of its financial years, copies of its audited consolidated financial statements for such financial year, prepared in accordance with applicable Accounting Standards consistently applied.

10.9.2 Severstal shall deliver to the Lender within three months after the end of the first half-year of each of its financial years, copies of its unaudited consolidated financial statements for that half-year, prepared in accordance with applicable Accounting Standards consistently applied.

10.9.3 Severstal shall, to the extent permitted by applicable law, deliver to the Lender, without undue delay, such additional information regarding the financial position or the business of Severstal and its Subsidiaries as the Lender may reasonably request, including a certificate upon request by the Lender as to the amount of the agreed funding purchased but not cancelled by Severstal (or any Subsidiary of Severstal) and retained by it for its own account or the account of any other company.

10.9.4 Severstal shall from time to time, on the request of the Lender and without undue delay, furnish the Lender with such information about the business and financial condition of Severstal and its Subsidiaries as the Lender may reasonably request for regulatory compliance purposes, provided that any such request from the Lender shall specify the relevant regulation on the basis of which it is made, and provided further that Severstal may furnish the information under this sub-Clause 10.9.4 in the format used to provide similar information under or in connection with this Facility Agreement, unless the Lender certifies that a different format is specified by the relevant regulator.

10.10 Limitation on Indebtedness

10.10.1 Severstal shall not, and shall not permit any Subsidiary to, incur, directly or indirectly, any Indebtedness; *provided, however*, that Severstal and any Subsidiary will be entitled to incur Indebtedness if:

(i) after giving effect to such incurrence and the application of the proceeds thereof, on a pro forma basis, no Potential Event of Default or Event of Default would occur or be continuing; and

(ii) on the date of such incurrence and after giving effect thereto on a pro forma basis, the Consolidated Leverage Ratio does not exceed 3.5 to 1.

10.10.2 Notwithstanding the foregoing sub-Clause 10.10.1, Severstal and its Subsidiaries shall be entitled to incur any or all of the following Indebtedness (each, "**Permitted Indebtedness**"):

(i) intercompany and intra-Group Indebtedness owed to and held by Severstal or a Subsidiary of Severstal; provided, however, that any subsequent disposition, pledge or transfer of such Indebtedness (other than to Severstal or a Subsidiary of Severstal) shall be deemed, in each case, to constitute the incurrence of such Indebtedness by the obligor thereon;

(ii) Indebtedness outstanding on the relevant Closing Date;

(iii) Indebtedness incurred under any revolving credit facility existing on the relevant Closing Date provided the aggregate total commitment under such facility is not increased (a) by or in anticipation of the incurrence of the relevant Loan or (b) from the aggregate total commitment in place on the relevant Closing Date;

(iv) Indebtedness incurred under any revolving credit facility entered into in connection with the cash pooling arrangements of the Group provided the aggregate amount of Indebtedness outstanding under such revolving facilities shall not exceed US$350,000,000 at any time;

(v) Indebtedness of Severstal or a Subsidiary of Severstal incurred and outstanding on or prior to the date on which such Subsidiary became a Subsidiary of Severstal (other than Indebtedness incurred in connection with, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions

pursuant to which such Subsidiary became a Subsidiary of Severstal); provided, however, that on the date of such acquisition and after giving pro forma effect thereto, Severstal would have been entitled to incur at least US$1.00 of additional Indebtedness pursuant to sub-Clause 10.10.1 above;

(vi) Refinancing Indebtedness incurred by Severstal or a Subsidiary of Severstal in respect of Indebtedness incurred by Severstal or a Subsidiary of Severstal pursuant to sub-Clause 10.10.1 above or pursuant to sub-Clause (ii), (iii), (iv), (v) or (vi) of this sub-Clause 10.10.2;

(vii) Hedging Obligations of Severstal or any Subsidiary of Severstal; provided that such Hedging Obligations are entered into in the ordinary course of business and not for speculative purposes;

(viii) obligations in respect of performance, bid and surety bonds, completion guarantees, letters of credit, veksels (Russian rouble-denominated short-term promissory notes) or similar obligations provided by Severstal or any Subsidiary of Severstal in the ordinary course of business, provided that, upon demand being made under such obligations, such obligations are reimbursed or the Indebtedness thereunder repaid within 30 days following such demand being made;

(ix) Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five Business Days of its incurrence;

(x) Indebtedness arising from agreements of Severstal or a Subsidiary of Severstal providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business, assets or Capital Stock of Severstal or any Subsidiary of Severstal; provided that (A) the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the net proceeds (including the Fair Market Value of non-cash consideration) actually received by (or held in escrow as a collateral for such Indebtedness for later release to) Severstal and its Subsidiaries in connection with such acquisition or disposition (without giving effect to any subsequent changes in value) and (B) such Indebtedness is not reflected on the balance sheet of Severstal or any Subsidiary of Severstal (contingent obligations referred to in a footnote to financial statements and not otherwise reflected on the balance sheet shall not be deemed to be reflected on such balance sheet for purposes of this part (B) of this sub-Clause (x));

(xi) Purchase Money Indebtedness incurred to finance the acquisition by Severstal or a Subsidiary of Severstal of assets in the ordinary course of business;

(xii) Indebtedness under any export credit facility existing on the relevant Closing Date Incurred to finance the acquisition by Severstal or a Subsidiary of Severstal of an asset, including construction, additions and improvements, in the ordinary course of business (including the cost of design, development, construction, acquisition, transportation, installation, improvement and migration of assets); provided, however, that (A) any Lien arising in connection with any such Indebtedness shall be limited to the specific asset being financed or, in the case of real property or fixtures, including additions and improvements, the real property on which such asset is attached, and (B) the aggregate principal amount of such Indebtedness at any one time outstanding shall not exceed (x) the Fair Market Value of the acquired or constructed asset or improvement so financed or (y) in the case of an uncompleted constructed asset, the amount of the asset to be constructed, as determined on the date the contract for construction of such asset was entered into by Severstal or the relevant Subsidiary of Severstal (including, in each case, any related premiums, fees, expenses and taxes incurred in connection with such acquisition, construction or development);

(xiii) Refinancing Indebtedness incurred to Refinance Indebtedness (i) having an original maturity at issuance of 180 days or less or (ii) in an aggregate principal amount which, when added together with the amount of Indebtedness incurred pursuant to this sub-Clause (xiii)(ii) and then outstanding, does not exceed US$100,000,000 provided,

however, that if an item of Indebtedness initially incurred pursuant to this sub-Clause (xiii) can subsequently be incurred pursuant to sub-Clause 10.10.1, such Indebtedness shall be deemed to have been incurred under sub-Clause 10.10.1 and not under this sub-Clause (xiii);

(xiv) Indebtedness in respect of workers' compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit;

(xv) customer deposits and advance payments received from customers in the ordinary course of business; and

(xvi) other Indebtedness of Severstal and its Subsidiaries in an aggregate principal amount which, when taken together with the principal amount of all other Indebtedness incurred pursuant to this sub-Clause (xvi)and then outstanding, will not exceed US$300,000,000 at any time outstanding provided, however, that if an item of Indebtedness initially incurred pursuant to this sub-Clause (xvi) can subsequently be incurred pursuant to sub-Clause 10.10.1, such Indebtedness shall be deemed to have been incurred under sub-Clause 10.10.1 and not under this sub-Clause (xvi);

10.10.3 Notwithstanding the foregoing, Severstal will not incur any Indebtedness pursuant to Clause 10.10 if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations of Severstal unless such Indebtedness shall be subordinated to each Loan to at least the same extent as such Subordinated Obligations.

10.10.4 For purposes of determining compliance with this covenant:

(i) in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described in sub-Clause 10.10.1 or 10.10.2, Severstal, in its sole discretion, will classify such item of Indebtedness (or any portion thereof) at the time of incurrence and will only be required to include the amount and type of such Indebtedness in one of the above sub-Clauses; and

(ii) Severstal will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described in sub- Clauses 10.10.1 or 10.10.2 and may change the classification of an item of Indebtedness (or any portion thereof) to any other type of Indebtedness described in sub-Clauses 10.10.1 or 10.10.2 at any time. The outstanding principal amount of any particular Indebtedness shall be counted only once and any obligations arising under any Guarantees, Lien, letter of credit or similar instrument supporting such Indebtedness shall not be double counted.

10.10.5 For purposes of determining compliance with any US dollar denominated restriction on the incurrence of Indebtedness where the Indebtedness incurred is denominated in a different currency, the amount of such Indebtedness will be the US Dollar Equivalent determined on the date of the incurrence of such Indebtedness; *provided, however*, that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to US dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in US dollars will be as provided in such Currency Agreement. The principal amount of any Refinancing Indebtedness incurred in the same currency as the Indebtedness being Refinanced will be the US Dollar Equivalent, as appropriate, of the Indebtedness Refinanced, except to the extent that (A) such US Dollar Equivalent was determined based on a Currency Agreement, in which case the principal amount of such Refinancing Indebtedness will be determined in accordance with the preceding sentence, and (B) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the US Dollar Equivalent of such excess, as appropriate, will be determined on the date such Refinancing Indebtedness is incurred. Notwithstanding any other provision of this covenant, the maximum amount that Severstal or a Subsidiary of Severstal may incur pursuant to this covenant shall not be deemed to be exceeded, with respect to outstanding Indebtedness, due solely as a result of fluctuations in the exchange rates of currencies.

10.11 Certificates

Severstal shall deliver to the Lender within 20 days of any written request by the Lender: (i) an Officers' Certificate as to any fact or matter *prima facie* within the knowledge of Severstal, as sufficient evidence thereof and (ii) a like certificate to the effect that any particular dealing or transaction or step or thing is, in the opinion of the person so certifying, expedient as sufficient evidence that it is expedient, and (iii) written notice in the form of an Officers' Certificate substantially in the form set out in Schedule 1 confirming whether (a) on a pro forma basis the Consolidated Leverage Ratio exceeds 3.5 to 1 and (b) any Potential Event of Default or Event of Default has occurred and, if it has occurred, what action Severstal is taking or proposes to take with respect thereto.

10.12 Change of business

Severstal shall procure that no material change is made to the general nature of its Core Business as conducted as at the date of each Loan Agreement.

10.13 Ranking of Claims

Severstal shall ensure that at all times the claims of the Lender against it under each Loan Agreement rank at least *pari passu* with the claims of all its other unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

10.14 Covenant Fall-Away

To the extent that the Notes have satisfied all conditions of Investment Grade Status and at all times thereafter, the Lender and Severstal will be released from their respective obligations to comply with Clauses 10.3, 10.4, 10.5, 10.6, 10.8, 10.10, 10.12 and 10.13 and, in each case, any related Events of Default under Clause 11.

11 Events of Default

11.1 Events of Default

If one or more of the following events of default (each, an "**Event of Default**") shall occur, the Lender shall be entitled to the remedies set forth in Clause 11.3:

11.1.1 Severstal fails to pay any amount payable under a Loan Agreement as and when such amount becomes payable in the currency and in the manner specified therein, provided such failure to pay continues for more than five Business Days.

11.1.2 Severstal fails to perform or observe any covenant or agreement contained in a Loan Agreement to be performed or observed by it, provided such failure continues for more than 30 Business Days.

11.1.3 Either:

(i) any Indebtedness of Severstal or any of its Material Subsidiaries is not paid when due (after the expiry of any applicable grace period); or

(ii) any such Indebtedness becomes due and payable prior to its Stated Maturity otherwise than at the option of Severstal or (as the case may be) the relevant Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above, individually or in the aggregate, exceeds US$50,000,000 (or its equivalent in any other currency or currencies).

11.1.4 The occurrence of any of the following events: (i) any of Severstal, or any of its Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commissioner (*likvidatsionnaya komissiya*) or a similar officer of any of Severstal, or any of its Material Subsidiaries as the case may be, other than in connection with solvent reorganisations which is not otherwise expressly prohibited by this Agreement; (ii) the presentation or filing of a petition in respect of any of Severstal or its Material Subsidiaries in any court, arbitration court or before any Agency alleging, or for, the bankruptcy, insolvency,

dissolution, liquidation (or any analogous proceedings) of any of Severstal or its Material Subsidiaries, unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous or such petition is being contested in good faith and discharged or dismissed within 30 days of its presentation; (iii) the institution of the supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovlenie*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over Severstal or any of its Material Subsidiaries, (iv) the entry by Severstal or any of its Material Subsidiaries into, or the agreeing by Severstal or any of its Material Subsidiaries to enter into, amicable settlement (*mirovoe soglashenie*) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October, 2002 (as amended or replaced from time to time); and/or (v) other than in connection with solvent reorganisations which is not otherwise expressly prohibited by this Agreement, any judicial liquidation in respect of Severstal or any of its Material Subsidiaries.

11.1.5 Severstal or any of its Material Subsidiaries is unable or admits inability to pay its debts as they fall due, generally suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations generally with its creditors with a view to rescheduling all or substantially all of its Indebtedness; the value of the total consolidated assets of Severstal or the Group is less than its total consolidated liabilities; and/or a moratorium is declared in respect of any Indebtedness of any of Severstal or its Material Subsidiaries.

11.1.6 Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part of, the property, undertaking, revenues or assets of Severstal or any of its Material Subsidiaries which is not removed, satisfied, stayed, dismissed or otherwise discharged within 60 days of being levied or taking possession, as the case may be.

11.1.7 Any governmental or Agency authorisation necessary for the performance of any obligation of Severstal under a Loan Agreement fails to be in full force and effect and such failure continues for more than 30 Business Days.

11.1.8 Any government, Agency or court takes any action that has a Material Adverse Effect.

11.1.9 The shareholders of Severstal shall have approved any plan of liquidation or dissolution of Severstal.

11.1.10 The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against Severstal and other Material Subsidiaries in the aggregate exceeds US$75,000,000, or the equivalent thereof in any other currency or currencies, which in each case has not within 60 days of the entry thereof been appealed, discharged, waived or the execution thereof stayed.

11.1.11 At any time it is or becomes unlawful for Severstal to perform or comply with any or all of its obligations under a Loan Agreement or any of such obligations (subject as provided in sub-Clause 9.1.3) are not, or cease to be, legal, valid, binding and enforceable and any such event under this sub-Clause 11.1.11 remains unremedied for more than 30 Business Days.

11.1.12 the Group ceases to carry on the Core Business.

11.1.13 Severstal repudiates a Loan Agreement or the agreed funding agreements to which it is a party or evidences an intention to repudiate a Loan Agreement or the agreed funding agreements to which it is a party.

11.1.14 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in sub- Clauses 11.1.4, 11.1.5, 11.1.6, 11.1.9, 11.1.10, 11.1.11 and 11.1.13, subject in each case to the same thresholds and cure periods as set out in the applicable Clauses.

11.2 Notice of Default

Severstal shall deliver to the Lender within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate of any event which is a Potential Event of Default or an Event of Default, its status and what action Severstal is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice to Severstal, (a) declare the obligations of the Lender under the relevant Loan Agreement to be terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under such Loan Agreement by Severstal that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by Severstal; provided, however, that if any event of any kind referred to in sub-Clauses 11.1.4 or 11.1.5 occurs, the obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by Severstal that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by Severstal.

11.4 Right of Set-off

If any amount payable by Severstal under a Loan Agreement is not paid as and when due, Severstal authorises the Lender to proceed, to the fullest extent permitted by applicable law, without prior notice, by right of set-off, banker's Lien, counterclaim or otherwise, against any assets of Severstal in any currency that may at any time be in the possession of the Lender, at any branch or office, to the full extent of all amounts payable to the Lender under such Loan Agreement.

11.5 Rights Not Exclusive

The rights provided for in each Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12 Indemnity

12.1 Indemnification

Severstal undertakes to the Lender, that if the Lender or any of its Affiliates, each director, officer, employee or agent of the Lender and each person controlling the Lender within the meaning of the United States securities laws (each an "**indemnified party**") incurs any loss, liability, cost, fee, claim, charge, expense (including without limitation taxes, legal fees, costs and expenses), demand or damage (a "Loss") as a result of or in connection with a Loan, this Facility Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the corresponding agreed funding and/or the corresponding agreed funding being outstanding, Severstal shall pay to the Lender on demand an amount equal to such Loss and all costs, fees, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, fees, charges and expenses are incurred unless such Loss was either caused by such indemnified party's negligence or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in this Facility Agreement or in the agreed funding agreements. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause.

12.2 Independent Obligation

Clause 12.1 constitutes a separate and independent obligation of Severstal from its other obligations under or in connection with each Loan Agreement or any other obligations of Severstal in connection with the issue of the agreed funding by the Lender and shall not affect, or be construed to affect, any other provision of any Loan Agreement or any such other obligations.

12.3 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 12.1 and specifying in full detail the basis therefor shall (in the absence of manifest error) be conclusive evidence of the amount of such losses, expenses and liabilities.

12.4 Currency Indemnity

To the fullest extent permitted by law, the obligation of Severstal in respect of any amount due in the Specified Currency under each Loan Agreement shall, notwithstanding any payment in any other currency

(whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the Specified Currency that the party entitled to receive such payment may, acting reasonably in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in the Specified Currency that may be so purchased for any reason falls short of the amount originally due, Severstal hereby agrees to indemnify the Lender against any such deficiency in the Specified Currency. Any obligation of Severstal not discharged by payment in the Specified Currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in the relevant Loan Agreement, shall continue in full force and effect.

13 Survival

The obligations of Severstal pursuant to sub-Clauses 6.2, 6.3 and 12 shall survive the execution and delivery of each Loan Agreement and the drawdown and repayment of the Loan, in each case by Severstal.

14 General

14.1 Stamp Duties

14.1.1 Severstal shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the Russian Federation or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure to pay such taxes or similar charges.

14.1.2 Severstal agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the Russian Federation or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and any documents related thereto as well as the corresponding agreed funding, Severstal shall reimburse the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify on demand the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by Severstal to procure the payment of such taxes or similar charges.

14.2 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or Severstal, any right, power or privilege under any Loan Agreement and no course of dealing between Severstal and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies in each Loan Agreement provided are cumulative and not exclusive of any rights or remedies provided by applicable law.

14.3 Prescription

In the event that any agreed funding becomes void pursuant to the conditions of such agreed funding, the Lender shall forthwith repay to Severstal the principal amount of such agreed funding subject to the Lender having previously received from Severstal a corresponding amount in respect of principal pursuant to the relevant Loan Agreement.

15 Notices

All notices, requests, demands, invoices, acts of acceptance or other communications to or upon the respective parties to each Loan Agreement shall be given or made in the English language by fax or by hand or by courier and shall be deemed to have been duly given or made, in the case of a fax, when the

relevant delivery receipt is received by the sender and, in the case of delivery by hand or courier, at the time of delivery, as follows:

15.1.1 if to Severstal:
2/3 K. Tsetkin Street
127299 Moscow
Russia
Fax: +7 495 926 7766
Attention: Chief Financial Officer

15.1.2 if to the Lender:
Steel Capital S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg
Fax : +352 421 22 718
Attention: Board of Directors

or to such other address or facsimile number as any party may hereafter specify in writing to the other.

16 Assignment

16.1 General

Each Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Loan Agreement. Any reference in a Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of any rights, benefits and discretions by, or the making of any determinations (including forming an opinion) by, and the delivery of notices or other information to, the Lender, following notification to Severstal of the assignment referred to in Clause 16.3, shall be references to the exercise of such rights, benefits or discretions by or on behalf of, or the making of any determinations (including forming an opinion) by, and the delivery of notices or other information to, the agreed funding source, or any assignee or transferee appointed in connection with the agreed funding source, without regard to the Lender.

16.2 By Severstal

Severstal shall not be entitled to assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement to any other person.

16.3 By the Lender

Subject to the provisions of the any agreed funding agreement, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement other than the Reserved Rights except (i) the charge by way of charge granted by the Lender to or on behalf of the agreed funding source of certain of the Lender's rights and benefits under such Loan Agreement and (ii) the absolute assignment by the Lender to or on behalf of the agreed funding source of certain rights, interests and benefits under such Loan Agreement, in each case, pursuant to the agreed funding agreement.

17 Law and Jurisdiction

17.1 Choice of Law

This Facility Agreement, and any non-contractual obligations arising out of or in connection with it, shall be governed by, and construed in accordance with, the laws of England.

17.2 Arbitration

17.2.1 Any dispute arising out of or in connection with this Facility Agreement or any non-contractual obligations arising out of or in connection with it (including a dispute regarding the existence, validity or termination of this Facility Agreement) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the LCIA Arbitration Rules (the "**Rules**").

17.2.2 Any provision of such Rules relating to the nationality of an arbitrator shall, to that extent, not apply.

17.2.3 The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondent(s), irrespective of number, shall nominate jointly the second arbitrator; and a third arbitrator, who shall serve as Chairman, shall be selected by the two party nominated arbitrators. For the avoidance of doubt, the parties to this Facility Agreement agree for the purpose of Article 8.1 of the Rules, that the claimant(s), irrespective of number, and the respondent(s), irrespective of number, constitute two separate sides for the formation of the arbitral tribunal.

17.2.4 In the event that the claimant(s) fail to nominate an arbitrator in accordance with the Rules, such arbitrator shall be nominated by the LCIA Court as soon as possible, preferably within 15 days of such failure. In the event that the respondent(s) or both the claimant(s) and the respondent(s) fail to nominate an arbitrator within the time limits specified in the Rules, all three arbitrators shall be nominated and appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure, and such arbitrators shall then designate one amongst them as chairman.

17.2.5 The seat of arbitration shall be London, England and the language of the arbitration shall be English.

17.2.6 Where Disputes arise under a Loan Agreement and any other agreed funding agreement which, in the reasonable opinion of the first arbitral tribunal to be appointed in any of the Disputes, are so closely connected that it is expedient for them to be resolved in the same proceedings, that arbitral tribunal shall have the power to order that the proceedings to resolve that Dispute shall be consolidated with those to resolve any of the other disputes (whether or not proceedings to resolve those other Disputes have yet been instituted), provided that no date for the hearing on the merits of the Dispute in the first arbitration has been fixed. If the first arbitral tribunal so orders, the parties to each Dispute which is a subject of its order shall be treated as having consented to that Dispute being finally decided:

(i) by the arbitral tribunal that ordered the consolidation unless the LCIA Court decides that any member of such tribunal would not be suitable or impartial; and

(ii) in accordance with the procedure, at the seat and in the language specified in the arbitration agreement in this Facility Agreement or the agreed funding agreement under which the arbitral tribunal that ordered the consolidation was appointed, save as otherwise agreed by all parties to the consolidated proceedings or, in the absence of such agreement, ordered by the arbitral tribunal in the consolidated proceedings.

For the avoidance of doubt, the parties to any other agreed funding agreement are intended by the parties to this Facility Agreement to have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce the terms of this sub-Clause 17.2.6.

17.3 Consent to enforcement etc

Severstal and the Issuer consent generally in respect of any arbitration proceedings to the giving of any relief or the issue of any process in connection with the enforcement of such proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement which is made or given in such proceedings.

18 Severability

In case any provision in or obligation under this Facility Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

19 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Facility Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Facility Agreement except to the extent expressly provided herein, including in Clause 6.1 and sub-Clause 17.2.6.

20 Language

The language which governs the interpretation of this Facility Agreement is the English language. This Facility Agreement will be signed in the English language and may be translated into Russian and signed in the Russian language. In the event of any discrepancies between the English and Russian versions of any such Loan Agreement or any dispute regarding the interpretation of any provision in the English or Russian versions of any such Loan Agreement, the English version of any such Loan Agreement shall prevail and questions of interpretation shall be addressed solely in the English language.

21 Amendments

Except as otherwise provided by its terms, each Loan Agreement may not be varied except by an agreement in writing signed by the parties hereto.

22 Counterparts

Each Loan Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

IN WITNESS whereof, the parties hereto have caused this Facility Agreement to be executed on the date first written above.

SCHEDULE 1
FACILITY AGREEMENT
Form of Loan Supplement

This Loan Supplement is made on ● **between**:

(1) **OAO SEVERSTAL**, an open joint stock company established under the laws of the Russian Federation whose registered office is Ul. Mira 30, 162608 Cherepovets, Vologda Region, Russian Federation ("**Severstal**"); and

(2) **STEEL CAPITAL S.A.**, a *société anonyme* incorporated in Luxembourg with limited liability whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B116975 (the "**Lender**").

Whereas:

(A) Severstal has entered into an amended and restated facility agreement dated 15 March 2013 (the "**Facility Agreement**") with the Lender in respect of Severstal's US$4,500,000,000 Programme for the Issuance of agreed funding (the "**Programme**").

(B) Severstal proposes to borrow ● (the "**Loan**") and the Lender wishes to make such Loan on the terms set out in the Facility Agreement and this Loan Supplement.

It is agreed as follows:

1 Definitions

Capitalised terms used but not defined in this Loan Supplement shall have the meaning given to them in the Facility Agreement save to the extent supplemented or modified herein.

2 Additional Definitions

For the purpose of this Loan Supplement, the following expressions used in the Facility Agreement shall have the following meanings:

"**Account**" means the account in the name of the Lender with the Principal Paying and Transfer Agent (account number ● , ●);

"**Base Prospectus**" means ● ;

["**Business Centre**" means ● ;**]**

["**Calculation Agent**" means ● ;**]**

"**Calculation Amount**" means ● ;

"**Closing Date**" means ● ;

["**Early Redemption Amount**" means ● per ● amount of the Loan, plus accrued interest, if any, to the Redemption Date;**]**

["**Financial Adviser**" means ● ;**]**

"**Loan Agreement**" means the Facility Agreement as amended and supplemented by this Loan Supplement;

["**Make Whole Premium**" means ● basis points;**]**

"**Notification Time**" means 10 a.m. (Relevant Time) ● Business Days **[**which for US$, € and £ shall be two Business Days and for ¥ and RUR shall be three Business Days**]**;

"**Payment Time**" means ● a.m./p.m. (Relevant Time) ● Business Day**[**s**]** **[**which for US$, € and £ shall be one Business Day and for ¥ and RUR shall be two Business Days**]**;

["**Put Settlement Date**" means ● ;**]**

"**Rate of Interest**" means the rate of interest in respect of the Loan, as set forth in Clause 4.2 below;

["**Redemption Date**" means such date as Severstal will repay the Loan pursuant to the exercise of its call option;**]**

[“**Reference Banks**” means ● ;]

[“**Reference Treasury**” means ● ;]

“**Repayment Date**” means ● [*amend as required for Floating Rate Loans*];

“**Severstal Account**” means the account in the name of Severstal (account number ●);

“**Specified Currency**” means ● [; and]

[“**Treasury Publisher**” means ●].

3 Incorporation by Reference

Except as otherwise provided, the terms of the Facility Agreement shall apply to this Loan Supplement as if they were set out herein and the Facility Agreement shall be read and construed, only in relation to the Loan constituted hereby, as one document with this Loan Supplement.

4 The Loan

4.1 Drawdown

Subject to the terms and conditions of the Loan Agreement, the Lender agrees to make the Loan on the Closing Date to Severstal and Severstal shall make a single drawing in the full amount of the Loan on that date.

4.2 Interest

The Loan is a [Fixed Rate] [Floating Rate] Loan. Interest shall be calculated, and the following terms used in the Facility Agreement shall have the meanings, as set out below:

4.2.1	**Fixed Rate Loan Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Interest Commencement Date	●
(ii)	Rate[(s)] of Interest:	● percent per annum payable [annually/ semi-annually quarterly/monthly/other (*specify*)] in arrear
(iii)	Interest Payment Date(s):	● in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of “Business Day”*]/*not adjusted*]
(iv)	Fixed Amount[(s)]:	● per Calculation Amount
(v)	Broken Amount:	● per Calculation Amount payable on the Interest Payment Date falling [in/on] ●
(vi)	Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/ other]
(vii)	Determination Date(s):	● in each year. [*Insert regular interest payment dates, ignoring Closing Date or maturity date in the case of a long or short first or last coupon—N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*]
4.2.2	**Floating Rate Loan Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Interest Commencement Date	●
(ii)	Interest Period(s):	●

(iii)	Specified Interest Payment Dates:	●
(iv)	First Interest Payment Date:	●
(v)	Interest Period Date(s):	● (*Not applicable unless different from Interest Payment Date*)
(vi)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/other (*give details*)]
(vii)	Business Centre(s):	●
(viii)	Manner in which the Rate(s) of Interest is/ are to be determined:	[Screen Rate Determination/ISDA Determination/other (give details)]
(ix)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent):	●
(x)	Screen Rate Determination:	
	—Reference Rate:	●
	—Interest Determination Date:	●
	—Relevant Screen Page	●
(xi)	ISDA Determination:	
	—Floating Rate Option:	●
	—Designated Maturity:	●
	—Reset Date:	●
(xii)	Margin(s):	[+/−]● percent per annum
(xiii)	Minimum Rate of Interest:	● percent per annum
(xiv)	Maximum Rate of Interest:	● percent per annum
(xv)	Day Count Fraction:	●
4.2.3	**Put/Call Options**	[Put Option/Call Option/Relevant Waiver Put Option/Not Applicable]

5 Fees and Expenses

Pursuant to Clause 3.2 of the Facility Agreement and in consideration of the Lender making the Loan to Severstal, Severstal hereby agrees that it shall, by 1.30 p.m. (London time) two Business Days before the Closing Date, pay to the Lender, in Same-Day Funds, the total amount of ● , being the "**Arrangement Fee**" in respect of the Loan, representing the reasonable costs and expenses incurred by the Lender in connection with such Loan, increased by front-end fees, commissions and expense, which shall include the amount of all of the commissions, fees, costs and expenses as set forth in the agreed funding agreements and Clause 3.2 of the Facility Agreement pursuant to an invoice submitted by the Lender to Severstal in the total amount.

6 Governing Law

This Loan Supplement, and any non-contractual obligations arising out of or in connection with it, shall be governed by and construed in accordance with English law. Other provisions of Clause 17 of the Facility Agreement shall apply to this Loan Supplement *mutatis mutandis*.

This Loan Supplement has been entered into on the date stated at the beginning.

IN WITNESS whereof, the parties hereto have caused this Loan Supplement to be executed on the date first written above.

SCHEDULE 2
Form of Officers' Certificate

To: Steel Capital S.A.
From: OAO Severstal

Dear Sirs

OAO Severstal—Amended and Restated Facility Agreement dated 15 March 2013 (the "Facility Agreement")

1 We refer to the Facility Agreement. Terms defined therein shall have the same meaning herein.

2 This is an Officers' Certificate for the purposes of Clause 10.11 of the Facility Agreement.

3 We confirm that on ● the aggregate amount of Consolidated Indebtedness on a pro forma basis was ● and on ● the aggregate amount of EBITDA for the period of the two most recent consecutive semi-annual periods for which financial statements have been delivered under Clause 10.9 was ● . Therefore the Consolidated Leverage Ratio on a pro forma basis **[**did/did not**]** exceed 3.5 to 1 and the covenant contained in sub-Clause 10.10 **[**has/has not**]** been complied with; and

4 We confirm that the following Subsidiaries are Material Subsidiaries:

[specify relevant Subsidiaries]

5 We confirm that no Potential Event of Default or Event of Default has occurred(1).

for and on behalf of OAO Severstal

Signed:

[principal executive officer/ principal accounting officer/ principal financial officer] of OAO Severstal	[officer] of OAO Severstal

(1) If this statement cannot be made, the certificate should identify any Default or Event of Default that is continuing and the steps, if any, being taken to remedy it.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which (subject to completion in accordance with the provisions of Part A of the relevant Final Terms) will be endorsed on the Definitive Certificates (as defined in "Summary of the provisions relating to the Notes in Global Form"), if issued, and (subject to the provisions thereof) apply to the Global Certificates representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the relevant Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non- applicable provisions), shall be endorsed on such Definitive Certificates. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed and Part A of the relevant Final Terms. Those definitions will be endorsed on the Definitive Certificates. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified hereon (the "**Supplemental Trust Deed**") supplemental to an amended and restated trust deed (as amended or supplemented as at the Issue Date, the "**Principal Trust Deed**") dated 15 March 2013, each made between Steel Capital S.A. (the "**Issuer**") and Citibank, N.A. (the "**Trustee**", which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee for the holders of the Notes (the "**Noteholders**"). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the "**Trust Deed**".

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan (in respect of the loan funded by the Notes, the "**Loan**") as specified hereon to OAO Severstal ("**Severstal**"). The Issuer and Severstal have recorded the terms of the Loan in an amended and restated facility agreement (the "**Facility Agreement**") dated 15 March 2013, as supplemented on the Issue Date specified hereon by a loan supplement (the "**Loan Supplement**" and, together with the Facility Agreement, the "**Loan Agreement**") each between the Issuer and Severstal. In each case where amounts of principal, interest and additional amounts (if any) are stated hereon or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively on the covenant to pay under the Loan Agreement and the credit and financial standing of Severstal. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer. None of the Noteholders, the Trustee or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors or the Trustee for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes and under the Trust Deed (a) all principal, interest and other amounts payable by Severstal to the Issuer as lender under the Loan Agreement, (b) the right to receive all sums which may be or become payable by Severstal under any claim, award or judgment relating to the Loan Agreement and (c) all the rights, title and interest in and to all sums of money now or in the future deposited in an account with Citibank, N.A. in the name of the Issuer (the "**Account**") and debts represented thereby, including interest from time to time earned on the Account (other than any rights and benefits constituting Reserved Rights and amounts relating to the Reserved Rights (as defined in the Trust Deed)) (the "**Charge**") and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the "**Assignment**" and together with the Charge, the "**Security Interests**").

"**Reserved Rights**" are the rights excluded from the Charge, being all and any rights, interests and benefits of the Issuer in respect of the obligations of Severstal under Clauses 3.2, 3.4, 5.3 (other than the

right to receive any amount payable under such Clause), 6.2 (to the extent that Severstal shall reimburse the Issuer on demand for any amount paid by the Issuer in respect of Russian Federation taxes, penalties or interest), 6.3 (only to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 8, 12.1-12.3 and 14.1 (to the extent that Severstal shall reimburse the Issuer for any amount paid by the Issuer in respect of such taxes, charges or costs) of the Facility Agreement and, for the avoidance of doubt, Clause 6.4 of the Facility Agreement.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of the relevant funds from Severstal) pursuant to, an amended and restated paying agency agreement (the "**Agency Agreement**") dated 15 March 2013 and made between the Issuer, Severstal, the Trustee, Citibank, N.A., London Branch, Citibank, N.A., New York Branch and Citigroup Global Markets Deutschland AG. Citibank N.A., London Branch will act as principal paying and transfer agent (the "**Principal Paying and Transfer Agent**" and a "**Paying Agent**"), a transfer agent (a "**Transfer Agent**"), calculation agent (the "**Calculation Agent**"), Citigroup Global Markets Deutschland AG will act as registrar ("**Registrar**"). Citibank, N.A., New York Branch will act as United States paying agent (the "**US Paying Agent**" and a "**Paying Agent**") and a transfer agent (a "**Transfer Agent**").

Copies of the Trust Deed, the Loan Agreement, the Agency Agreement and the Final Terms are available for inspection by Noteholders during normal business hours at the principal office of the Trustee being, at the date hereof, at 14th floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, at the specified office of the Principal Paying and Transfer Agent and at the specified office of the Paying Agent.

Certain provisions of these terms and conditions (the "**Conditions**") include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Final Terms, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

All capitalised terms used but not otherwise defined in these Terms and Conditions have the meanings given to them in the Trust Deed.

1 Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights, will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided hereon and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off, counterclaim or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and Severstal.

Noteholders have notice of, and have accepted, these Terms and Conditions, the Final Terms and the contents of the Trust Deed, the Agency Agreement and the Loan Agreement. It is hereby expressly provided, and Noteholders are deemed to have accepted, that:

1.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph 1.6 below, liability or obligation in respect of the performance and observance by Severstal

of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from Severstal under the Loan Agreement;

1.2 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of Severstal;

1.3 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of Severstal under or in respect of the Loan Agreement;

1.4 neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying and Transfer Agent, any of the Paying Agents, the Registrars or the Transfer Agents, of their respective obligations under the Agency Agreement;

1.5 the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by Severstal of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. Severstal has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of Severstal; and

1.6 the Issuer and the Trustee shall be entitled to rely on certificates signed by the requisite number of duly authorised officers of Severstal as a means of monitoring whether Severstal is complying with its obligations under the Loan Agreement and identifying Material Subsidiaries and shall not otherwise be responsible for investigating any aspect of Severstal's performance in relation thereto and, subject as further provided in the Trust Deed, neither the Issuer as lender under any Loan Agreement nor the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the assigned property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of or for insuring such security.

The obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by Severstal to, or to the order of, the Trustee or the Principal Paying and Transfer Agent, they will, subject to Clauses 2.4 and 2.8 of the Trust Deed, pro tanto satisfy the obligations of the Issuer in respect of the Notes, except to the extent there is a failure in the subsequent payment of such amounts to the relevant Noteholder.

Save as otherwise expressly provided hereon and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to Severstal except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction.

2 Form and Denomination

The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon (which, in the case of any Notes shall be not less than €100,000 or its equivalent in any other currency as at the date of issue of the Notes) or integral multiples in excess thereof, without interest coupons, provided that (i) interests in the Rule 144A Notes shall be held in amounts of not less than US$200,000 or its equivalent in any other currency as at the date of issue of the Notes and (ii) Notes with a maturity of less than 365 days shall be held in amounts not less than £100,000 (or its equivalent in other currencies).

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

3 Register, Title and Transfers

3.1 Registers

The Registrar will maintain a register in respect of the Notes (the "**Register**"), all in accordance with the provisions of the Agency Agreement. In these Conditions the "**holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A Note will be issued to each Noteholder in respect of its registered holding. The Issuer will also maintain a register (the "**Issuer's Register**") at its registered office. Under the terms of the Agency Agreement, the Registrar will provide to the Issuer such information about changes in the Register as shall enable the Issuer to maintain the Issuer's Register up-to-date. In case of inconsistency between the Register and the Issuer's Register, the Issuer's Register shall prevail.

3.2 Title

The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

3.3 Transfers

Subject to Conditions 3.6 and 3.7, a Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of a Transfer Agent, together with such evidence as the Registrar or such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

3.4 Registration and Delivery of Notes

Within five Business Days of the surrender of a Note in accordance with Condition 3.3, the Registrar will register the transfer in question and deliver a new Note to each relevant holder for collection at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "**Business Day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office.

3.5 No Charge

The transfer of a Note will be effected without charge but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.6 Closed Periods

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

3.7 Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Registrar and the other parties to the Agency Agreement. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations from the Registrar.

4 Restrictive Covenants

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any amendments

to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Trust Deed or the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not:

(i) engage in any business whatsoever, other than (a) entering into limited recourse debt securities programmes and other limited recourse debt securities issues for the benefit of the Borrower (including the Programme) ("**Permitted Debt Issuances**"), (b) issuing limited recourse notes thereunder from time to time for the sole purpose of financing any loans (including Loans) to the Borrower in accordance with the relevant loan documentation for the Permitted Debt Issuance (in the case of the Programme, being the Facility Agreement and each Loan Supplement), (c) the making of deposits, including fiduciary deposits at banks or with other depositaries, (d) entering into related agreements and transactions (which shall, for the avoidance of doubt, include entering into derivatives contracts and other documents with third parties where related to and for the purposes of a particular Series or other limited recourse debt securities issues), (e) granting the Security Interests in relation to the Programme or other security interests under an applicable loan agreement or Permitted Debt Issuances and (f) performing any act incidental to or necessary in connection with any of the foregoing:

(ii) enter into a single transaction, or series of, transactions (whether related or not and whether voluntary or involuntary) to sell, factor, lease, pledge, charge, assign, transfer or otherwise deal with any Permitted Debt Issuances or any charged or secured property or any right or benefit either present or future arising under or in respect of a loan agreement or a bank account in relation to a Permitted Debt Issuances ("**Permitted Account**") or any part thereof or any interest therein, or create any mortgage, charge or other security or right of recourse in respect thereof in favour of any person other than any security interest referred to specifically in the documents relating to Permitted Debt Issuances;

(iii) cause or permit any Loan Agreement or the priority of the Security created by the Supplemental Trust Deed to be amended, terminated, discharged, novated, transferred or assigned (other than as contemplated by the Trust Deed and the Conditions);

(iv) release or waive any party to any Loan Agreement, this Principal Trust Deed or any Supplemental Trust Deed from or in respect of any existing obligations or breach thereunder;

(v) have any subsidiaries;

(vi) consent to any variation of, or exercise any powers or consents or waiver pursuant to, the terms of the Dealer Agreement, the Agency Agreement, the Conditions, any Loan Agreement, this Principal Trust Deed, any Supplemental Trust Deed or any other agreement relating to the issue of Notes or the making of Loans or any other related transactions;

(vii) (to the extent the same is within the control of the Issuer) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person (other than as contemplated by the Trust Deed and the Conditions);

(viii) have any employees;

(ix) (to the extent the same is within the control of the Issuer) issue or allot any shares (other than such shares as are in issue at the date hereof) or make any distribution to its shareholders;

(x) open or have any interest in any account with a bank or financial institution other than an account in relation to a Permitted Debt Issuance, an account for the making of deposits as per paragraph (i) above, or unless such account relates to any notes or other debt security or any charged property in relation to a Permitted Account or any party thereto or any rouble account as contemplated by agreements relating to a Permitted Debt Issuance, save where either such account or the Issuer's interest in it is simultaneously charged in favour of the Trustee so as to form part of such Charged Property or such account is opened in connection with the administration and management of the Issuer and only moneys necessary for that purpose are credited to it;

(xi) declare any dividends;

(xii) subject as provided in paragraph (i) above, (including the issuing of further Notes (which may be consolidated and form a single series with the Notes of any Series) or other limited recourse notes for the purposes of financing Permitted Debt Issuances and/or creating or incurring further limited recourse obligations relating to such Notes or limited recourse notes), incur any other indebtedness for borrowed moneys;

(xiii) purchase, own, lease or otherwise acquire any real property (including office premises or like facilities;

(xiv) give any guarantee or assume any similar liability;

(xv) use proceeds of the Notes for purposes other than funding a Loan to the Borrower; or

(xvi) subject to the laws of Luxembourg, petition for winding-up or bankruptcy.

5 Interest

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified in the Final Terms which shall be equal to the rate per annum at which interest under the Loan accrues. Interest at the Rate of Interest shall accrue on each Fixed Rate Note from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear by Severstal pursuant to the relevant Loan Agreement to the Account not later than the Payment Time specified hereon prior to each Interest Payment Date. Accordingly, on each Interest Payment Date or as soon as possible thereafter as the same is received the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement. The amount of interest payable shall be determined in accordance with Condition 5.4.

5.2 Interest on Floating Rate Notes

5.2.1 **Interest Payment Dates**: Each Floating Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrear on each Interest Payment Date or as soon as thereafter as the same is received. The amount of interest payable shall be determined in accordance with Condition 5.4. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

5.2.2 **Business Day Convention**: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each such subsequent date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

5.2.3 **Rate of Interest for Floating Rate Notes**: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period (as defined in the Loan Agreement) shall be determined in the manner specified hereon and as set out in the Loan Agreement.

5.3 Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

5.4 Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

5.5 Publication of Rates of Interest and Interest Amounts

As soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, the Calculation Agent shall cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, Severstal, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed and/or admitted to trading on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination, but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5.2(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If a Loan become due and payable under Clause 11 of the Facility Agreement, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon the Noteholders, the Trustee, Severstal and the Issuer.

"**Interest Amount**" means:

in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified in the Final Terms as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

in respect of any other period, the amount of interest payable per Calculation Amount for that period.

5.6 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Trustee shall

do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as is fair and reasonable in all the circumstances.

6 Redemption

6.1 Scheduled redemption

Unless the Loan is previously prepaid or repaid pursuant to Clause 5 of the Facility Agreement, Severstal will be required to repay the Loan by the Payment Time specified hereon prior to its Repayment Date (as defined in the Loan Agreement) and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will be redeemed or repaid by the Issuer in the relevant Specified Currency on the Maturity Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100 percent of the principal amount thereof).

6.2 Early redemption

If the Loan should become repayable (and be repaid) or be prepaid pursuant to the Loan Agreement prior to its scheduled Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will endeavour to give not less than fifteen nor more than thirty days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

To the extent that the Issuer receives amounts of principal, interest and/or additional amounts, if any, (other than amounts in respect of the Reserved Rights) following acceleration of the Loan pursuant to Clause 11 of the Facility Agreement, the Issuer shall pay an amount equal to and in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 7.

6.3 Rule 144A notes

The Issuer may compel any beneficial owner of an interest in the Rule 144A Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a US person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51) of the US Investment Company Act of 1940).

6.4 Call Option

If Call Option is specified in the Final Terms, then pursuant to Clause 5.6 of the Facility Agreement and the relevant Loan Supplement, Severstal may, at its option at any time prior to the Repayment Date specified in the Final Terms on giving not less than 30 nor more than 60 days' (or such other time period as specified as the Call Option Period in the Final Terms) irrevocable notice to the Issuer, in whole or in part, repay the Loan at the Early Redemption Amount specified in the Final Terms plus the Make Whole Amount specified below (the "**Call Option**"). The notice to be given (the "**Call Option Notice**") shall specify the date for repayment of the Loan and the date(s) for the redemption of the Notes (the "**Optional Redemption Date(s)**"), which, unless otherwise specified, shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of the Call Option Notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying and Transfer Agent. If the Loan should become repayable following exercise of the Call Option by Severstal (and be repaid) prior to the Repayment Date, the Notes will thereupon become due and repayable and the Issuer shall, subject to receipt of such amounts from Severstal under the Loan, redeem the Notes on the Optional Redemption Date(s). In the case of a partial redemption, the Notes shall be redeemed pro rata and otherwise in such manner as the Trustee deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant regulatory requirements. The Issuer's obligations in respect of this Condition to redeem and make payment for the Notes shall constitute an obligation only to account to Noteholders on the Redemption Date for an amount equivalent to the sums received by or for the account of the Issuer pursuant to the Loan Agreement.

For the purposes of this Condition 6.4:

"**Make Whole Amount**" means the excess of (a) the present value at such Repayment Date of the Notes, plus any required interest payments that would otherwise be due to be paid on the Notes from such Repayment Date through to the Maturity Date, together with any accrued and unpaid interest as of such Repayment Date, if any, calculated using a discount rate equal to the Treasury Rate at such Repayment Date plus the number of basis points specified as the Make Whole Premium in the Final Terms, over (b) the principal amount of the Notes, provided that if the value of the Make Whole Amount at any time would otherwise be less than zero, then in such circumstances for the purpose of these Conditions, the value of the Make Whole Amount will be equal to zero; and

"**Treasury Rate**" means a rate equal to the yield, as published by the Treasury Publisher specified in the Final Terms, on the actively traded Reference Treasury specified in the Final Terms with a maturity comparable to the remaining life of the Notes, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary Reference Treasury dealers in the Business Centre specified in the Final Terms selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in such Business Centre preceding the Repayment Date.

6.5 Put Option

If Put Option is specified in the Final Terms, the Issuer shall, at the option of any Noteholder redeem such Note on the Put Settlement Date specified in the Final Terms (the "**Put Option**") at its principal amount together with accrued interest. To exercise such option a Noteholder must deposit the Note or Notes to be redeemed with any Paying Agent together with a duly completed Put Redemption Notice in the form obtainable from any of the Paying Agents, not more than 60 but not less than 30 days (or such other time period as specified as the Put Option Period in the Final Terms) prior to the Put Settlement Date. No Note so deposited may be withdrawn. Provided, however, that if, prior to the Put Settlement Date, a Relevant Event has occurred or, upon due presentation of any Note on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note shall, without prejudice to the exercise of the Put Option, be returned to the Noteholder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Redemption Notice. The Issuer shall notify Severstal, not more than three Business Days after receipt of notice thereof from the Paying Agent, of the amount of the Loan to be prepaid as a consequence of the exercise by Noteholders of the option contained in this Condition 6.5. Subject to timely receipt of the relevant amounts from Severstal under the Loan Agreement, the Issuer shall redeem the Notes in accordance with this Condition 6.5 on the Put Settlement Date, subject as provided in Condition 7.

6.6 Purchase and Cancellation

Severstal or any Subsidiary or affiliate of Severstal or any other company acting for the benefit of Severstal (acting either directly or through an agent) may, among other things, from time to time purchase any Notes (or may provide funding to the Issuer to purchase any Notes) in the open market, by tender or by private agreement at any price and on such other terms as Severstal may determine. The Notes purchased by Severstal or its affiliate or any other company acting for the benefit of Severstal may be held, reissued or resold. Alternatively, Severstal or any affiliate of Severstal or any other company acting for the benefit of Severstal (acting directly or through an agent) may, from time to time deliver Notes to the Issuer, having an aggregate principal value of at least US$1,000,000 (or its equivalent in a Specified Currency), or request the Issuer to purchase such Notes on behalf or at the request of Severstal, and deliver to the Issuer a request to present such Notes to the relevant Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the relevant Global Certificates with instructions to cancel a specified aggregate principal amount of Notes (being at least US$1,000,000 or its equivalent in a Specified Currency) represented thereby whereupon the Issuer shall, pursuant to the Agency Agreement, request the relevant Registrar to cancel such Notes. Upon any such cancellation by or on behalf of the relevant Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation together with all accrued interest and other amounts shall be deemed to have been prepaid by the Borrower and extinguished as of the date of such cancellation and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

7 Payments and Agents

7.1 Principal

Payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying and Transfer Agent or at the specified office of any Transfer Agent or Registrar and in the manner provided in the Condition below.

7.2 Interest

Interest shall be paid to the person shown on the relevant Issuer's Register at the opening of business (in the place of the Issuer's specified office) on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest shall be made in the Specified Currency by cheque drawn on a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access to the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET 2) System which was launched on 19 November 2007 or any successor thereof (a "**Bank**") and mailed to the Noteholder (or to the first named of joint Noteholders) of such Note at its address appearing in the relevant Register. Upon application by the holder to the specified office of the relevant Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank, or by transfer to an account in the Specified Currency maintained by the payee with, a Bank in the principal financial centre of such Specified Currency or in the case of euro, a Bank specified by the payee or at the option of the payee, by a euro-cheque and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying and Transfer Agent or at the specified office of any Transfer Agent.

7.3 Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

7.4 Payments on Business Days

If the due date for payments of interest or principal is not a Business Day, a Noteholder shall not be entitled to payment of the amount due until the next following Business Day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) (in the case of a payment in euro) which is a TARGET Business Day.

7.5 Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out below. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying and Transfer Agent or any of the Paying Agents, and appoint additional or other paying agents provided that (i) so long as the Notes are listed and/or admitted to trading on any stock exchange or market or admitted to listing by any other relevant authority, there will be a paying agent and transfer agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or market or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 14.

7.6 Accrued Interest

If the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified hereon shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

7.7 Payments by Severstal

Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 6 of the Agency Agreement require Severstal to make all payments of principal and interest and any additional amounts to be made pursuant to the Loan Agreement to the Principal Paying and Transfer Agent to an account in the name of the Issuer (the "**Account**"). Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of the Noteholders.

8 Taxation

All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes, duties or assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Luxembourg or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes, duties, assessments or governmental charges is required by law.

In such event, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives an equivalent amount from Severstal under the Loan Agreement. To the extent that the Issuer receives a lesser additional amount from Severstal, the Issuer will account to each Noteholder for an additional amount equivalent to a pro rata proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, provided that no such additional amount will be payable in respect of any Note:

8.1 to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with Luxembourg other than the mere holding of such Note or the receipt of payments in respect thereof;

8.2 presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;

8.3 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

8.4 presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used hereon, "**Relevant Date**" (i) means the date on which any payment under the Loan Agreement first becomes due but (ii) if the full amount payable by Severstal has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference hereon or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this

Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9 Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails to do so within a reasonable time and such failure is continuing.

At any time an Event of Default (as defined in the Facility Agreement) or a Relevant Event (as defined in the Trust Deed) has occurred and is continuing, the Trustee may, at its discretion and without notice and shall, if requested to do so by Noteholders holding 25 percent or more in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified and/or prefunded to its satisfaction, institute such steps, actions or proceedings as it may think fit to enforce the rights of the Noteholders and the provisions of the Trust Deed, including to declare all amounts payable under the Loan Agreement by Severstal to be due and payable (in the case of an Event of Default), or enforce the security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided hereon, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

10 Meetings of Noteholders; Modification and Waiver; Substitution; Exercise of Powers: Appointment and Removal of Trustee

10.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement or the Trust Deed. Noteholders will vote pro rata according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, inter alia, the amounts payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

10.2 Written Resolutions

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than two-thirds in the principal amount of the Notes outstanding at the time shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

10.3 Modification and Waiver

As provided in the Trust Deed, the Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed or the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders (as a class). The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions or the Trust Deed or by Severstal of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (as a class), all subject as further provided in the Trust Deed and provided always that (subject to certain exceptions) the Trustee may not exercise such power of waiver in contravention of any express direction by an Extraordinary Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

10.4 Substitution

The Trust Deed contains provisions to the effect that the Issuer may, and at the request of Severstal shall, having obtained the consent of Severstal (if such substitution is not to be made at the request of Severstal) and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such requirements as set out in the Trust Deed, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 or Severstal shall use its best endeavours to ensure that the substitute obligor does so.

10.5 Exercise of Powers

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, Severstal or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

10.6 Appointment and Removal of Trustee

The Trust Deed contains provisions for the appointment or removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, provided that, in the case of removal of a Trustee, at all times there remains a trustee in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders by the Issuer in accordance with Condition 14. The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such resignation shall not become effective unless there remains a trustee in office after such resignation.

11 Prescription

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12 Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction and to be paid its costs and expenses in priority to the claims of Noteholders. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or Severstal and any entity related to the Issuer and/or Severstal without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by Severstal in respect of the Loan Agreement. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests.

The Trustee has no obligation to take any action (or step) which would or might in its opinion result in it incurring liabilities of any nature unless it is indemnified and/or secured and/or prefunded to its satisfaction in respect of the same and in forming any such opinion the Trustee shall be entitled to rely on legal advice or other advice received by it (as provided for by the Trust Deed) as to the existence and extent of such liabilities without liability to Noteholders for so doing regardless of whether and the extent to which the taking of any action or step by the Trustee is thereby delayed.

Nothing contained in these Conditions shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any right, power,

authority or discretion hereunder if it has grounds for believing the repayment of such funds or adequate indemnity against and/or security for and/or prefunding, such risk or liability is not reasonably assured to it.

13 Replacement of Notes

If any Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of either Registrar or at the specified office of the Principal Paying and Transfer Agent in London on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14 Notices

All notices to the Noteholders shall be deemed to have been duly given if (i) posted to such Noteholders at their respective addresses as shown on the relevant Register and (ii) so long as the Notes are listed and/or admitted to trading on the Irish Stock Exchange or another stock exchange and the rules of that exchange so require, publish on the Regulatory News Service via the Companies Announcements Office of the Irish Stock Exchange or such other publication/information channel that is compliant with the rules or guidelines of such stock exchange. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

15 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and the date of the first payment of interest) so as to be consolidated and form a single Series with the Notes. Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other Series in certain circumstances where the Trustee so decides. In relation to any further issue which is to be consolidated and form a single Series with the Notes, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with Severstal on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Notes). The Issuer will provide a further fixed charge in favour of the Trustee and amend the existing Security Interests in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement which will secure both the Notes and such further Notes and which will amend and supplement the Security Interests in relation to the existing Notes of such Series.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

The Notes, the Agency Agreement and the Trust Deed, and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England. For the avoidance of doubt, the provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915, as amended, on commercial companies are excluded.

FORM OF FINAL TERMS

Final Terms dated ●

The form of Final Terms that will be issued in respect of each Series, subject only to completion and the deletion of non-applicable provisions, is set out below.

OAO SEVERSTAL

Issue of [Aggregate Principal Amount of Series] [Title of Loan Participation Notes]

by Steel Capital S.A.

a *société anonyme* incorporated in Luxembourg with limited liability whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B116975

for the sole purpose of financing a Loan to OAO SEVERSTAL

under a US$4,500,000,000 Programme for the Issuance of Loan Participation Notes (the "**Programme**")

Part A—Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated ● [and the supplemental Base Prospectus dated ●] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on Severstal, the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. [The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from the Issuer at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.]

[The following alternative language applies if the first issuance of a Series which is being increased was issued under a Base Prospectus with an earlier date.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the [Base Prospectus] dated [original date] [and the supplemental Base Prospectus dated ●]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated [current date] [and the supplemental Base Prospectus dated ●], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the [Base Prospectus] dated [original date] [and the supplemental Base Prospectus dated ●]]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the [Base Prospectuses] dated [original date] and [current date] [and the supplemental Base Prospectuses dated ● and ●]. [The [Base Prospectuses] [and the supplemental Base Prospectuses] are available for viewing at [address] [and] [website] and copies may be obtained from [address].]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

1	(i)	Issuer:	Steel Capital S.A.
	(ii)	Borrower:	OAO SEVERSTAL
2	[(i)]	Series Number:	●
	[(ii)	Tranche Number:	●
	[(iii)	Date on which the Notes will be consolidated and form a single series with existing Notes]:	[Not Applicable] [●]

3	Specified Currency:	●
4	Aggregate Principal Amount of Notes:	●
	[(i)**]** Series:	●
	[(ii) Tranche:	●**]**
5	Issue Price:	● percent of the Aggregate Principal Amount **[**plus accrued interest from **[**●**]]**
6	(i) Specified Denomination(s):	●
	(ii) Calculation Amount	●
7	(i) Closing Date:	●
	(ii) Interest Commencement Date:	**[**●/Closing Date/Not Applicable**]**
8	Issue Date:	**[**●**]**
9	Maturity Date:	**[**●**]** **[**The Interest Payment Date falling in or nearest to **[**●**]]**
10	Interest Basis:	**[**● percent Fixed Rate**]** **[[**●**]** +/− ● percent Floating Rate**]** (further particulars specified in paragraph **[**18**][**19**]** below)
11	Redemption/Payment Basis:	Redemption at par
12	Change of Interest Basis:	**[**●**]** **[**Not Applicable**]**
13	**[**Date of **[**Board**]** approval for issuance of Notes and borrowing of Loan obtained:	● **[**and ●, respectively**]]**
14	Method of distribution	●
15	Financial Centres in respect of Condition 7.2 (Payments on Business Days):	●
16	Specified Currency and Principal Amount of Loan:	
	(i) Specified Currency	●
	(ii) Principal Amount	●
17	Put/Call Options:	**[**Put Option/Call Option/Not Applicable**][**(further particulars specified in paragraph **[**22**][**23**]** below)**]**

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE UNDER THE LOAN

18	Fixed Rate Note Provisions:	**[**Applicable/Not Applicable**]**
	(i) Rate **[**(s)**]** of Interest:	● percent per annum **[**payable **[**annually/semi-annually/quarterly/monthly/●**]]** in arrear**]**
	(ii) Interest Payment Date(s):	● in each year**[**, not adjusted**]** **[**adjusted in accordance with **[**the **[**Floating Rate Business Day Convention**]** **[**Following Business Day Convention**]** **[**Modified Following Business Day Convention**]** **[**Preceeding Business Day Convention**]**
	Business Centre(s)	●
	(iii) Fixed Coupon Amount**[**(s)**]**:	● per Calculation Amount
	(iv) Broken Amount:	per Calculation Amount payable on the Interest Payment Date falling **[**in/on**]** ●
	(v) Day Count Fraction:	**[**30/360**]** **[**30E/360**][**Actual/Actual (ICMA/ISDA)**]**
	(vi) Determination Date(s):	● in each year.
19	Floating Rate Note Provisions:	**[**Applicable/Not Applicable**]**

(i)	Interest Period(s):	●
(ii)	Specified Interest Payment Dates:	●
(iii)	First Interest Payment Date:	●
(iv)	Interest Period Date(s):	●
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(vi)	Business Centre(s):	●
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent):	●
(ix)	Screen Rate Determination:	[Yes] [No]
(x)	ISDA Determination:	[Yes] [No]
(xi)	Margin(s):	[+/−] ● percent per annum
(xii)	Minimum Rate of Interest:	● percent per annum
(xiii)	Maximum Rate of Interest:	● percent per annum
(xiv)	Reference Rate:	[LIBOR/EURIBOR]
(xv)	Day Count Fraction:	[Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]

PROVISIONS RELATING TO REDEMPTION

20	Final Redemption Amount of each Note:	● per Calculation Amount
21	Early Redemption Amount(s) per Calculation Amount payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date:	●
22	**Call Option**:	[Applicable/Not Applicable]
	(i) Early Redemption Amount:	●
	(ii) Make Whole Amount:	●
	(iii) Optional Redemption Date(s):	●
	(iv) Call Notice Period:	●
23	**Put Option**:	[Applicable/Not Applicable]
	(i) Put Settlement Date(s):	●
	(ii) Put Notice Period:	●

DISTRIBUTION

24	(i) If syndicated, names of Managers:	[Not Applicable/give names]
	(ii) Stabilising Manager(s) (if any):	[Not Applicable/give names]
25	If non-syndicated, name of Dealer:	[Not Applicable/give names]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26	Form of Notes:	Registered Notes
27	Payment Time:	● a.m./p.m. (Relevant Time) ● Business Day[s]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading on the Main Securities Market of the Irish Stock Exchange the issue of Notes described herein pursuant to the U.S.$4,500,000,000 Programme for the Issuance of Loan Participation Notes by Steel Capital S.A. for the sole purpose of financing a Loan to OAO SEVERSTAL.**]**

RESPONSIBILITY

The Issuer and Severstal accept responsibility for the information contained in these Final Terms. **[** ● has been extracted from ● . Each of the Issuer and Severstal confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by ● , no facts have been omitted which would render the reproduced information inaccurate or misleading.**]**

Signed on behalf of the Issuer:
By:

Duly authorised
By:

Duly authorised

Signed on behalf of Severstal:
By:

Duly authorised

Part B—Other Information

1 LISTING

(i)	Listing:	**[**Irish Stock Exchange/ ● /None**]**
(ii)	Admission to trading:	**[**Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List (the "**Official List**") and trading on its regulated market (the "**Main Securities Market**") with effect from ●**]** **[**Not Applicable**]]**
(iii)	Estimate of total expenses related to admission to trading:	●

2 RATINGS

Ratings:	The Notes to be issued have been rated: **[**Standard & Poor's Credit Market Services Europe Limited: ●**]** **[**Moody's Investors Service Limited: ●**]** **[**Fitch Ratings Limited: ●**]** **[[***Insert credit rating agency***]** is established in the European Community and has applied for registration under Regulation (EC) No 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.**]** **[[***Insert credit rating agency***]** is established in the European Community and registered under Regulation (EC) No 1060/2009.**]** **[[***Insert credit rating agency***]** is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009.**]** **[[***Insert credit rating agency***]** is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009 but is endorsed by **[***insert credit rating agency***]** which is established in the European Union and registered under Regulation (EC) No 1060/2009.**]** **[[***Insert credit rating agency***]** is not established in the European Community and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.**]** A rating must be issued by a credit rating agency established in the European Community and registered under the Regulation (EC) No 1060/2009 (the "**CRA Regulation**") unless the rating is provided by a credit rating agency that operated in the European Community before 7 June 2010 and which has submitted an application for registration in accordance with the CRA Regulation and such application for registration has not been refused. (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3 [NOTIFICATION

The Central Bank has provided the competent authority(ies) of **[***insert details of relevant Host Member State(s)***]** with a certificate of approval attesting that the **[**Base Prospectus—*insert details of relevant Base Prospectus***]** has been drawn up in accordance with Directive 2003/71/EC and Commission Regulation (EC) No809/2004.**]**

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

If applicable a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest is to be included. This may be satisfied by the inclusion of the following statement:

"Save as discussed in "Subscription and Sale", so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer".**]**

5 [YIELD

Indication of yield:	●
	The yield is calculated at the Closing Date on the basis of the Issue Price. It is not an indication of future yield.**]**

6 ESTIMATED TOTAL EXPENSES

Estimated Total Expenses:	●

7 OPERATIONAL INFORMATION

ISIN Code (Reg S Notes):	●
ISIN Code (Rule 144A Notes):	●
Common Code (Reg S Notes):	●
Common Code (Rule 144A Notes):	●
Rule 144A CUSIP number:	●
Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme or DTC and the relevant identification number(s):	[Not Applicable]**[●]**
Names and addresses of initial Paying Agent(s):	●
Names and addresses of additional Paying Agent(s) (if any):	●

8 THE LOAN

Terms of the Loan

(i)	Principal Amount of the Loan:	●
(ii)	Specified Currency:	●
(iii)	Put Settlement Date:	[Not Applicable/●]
(iv)	Repayment Date:	●:
(v)	Early Redemption Amount:	● per ●
(vi)	[Make Whole Premium:	[Not Applicable] **[[●]** basis points]
(vii)	Treasury Publisher:	●
	Reference Treasury:	●
	Redemption Date:	●
	Business Centre:	●
	Financial Adviser:	●
(viii)	Put/Call Options:	[Put Option/Call Option/Not Applicable]
	Interest	

Fixed Rate Loan Provisions		[Applicable/Not Applicable]
(i)	Interest Commencement Date:	●
(ii)	Rate of Interest:	● per cent. per annum payable [annually/ semiannually] in arrear
(iii)	Interest Payment Date(s):	● in each year[, not adjusted] [adjusted in accordance with [the [Floating Rate Business Day Convention] [Following Business Day Convention] [Modified Following Business Day Convention] [Preceding Business Day Convention]]
(iv)	Fixed Amount(s):	● per ● in principal amount
(v)	Broken Amount:	[●]
(vi)	Day Count Fraction:	●
(vii)	Determination Date(s):	●in each year
Floating Rate Loan Provisions		[Applicable/Not Applicable]
(i)	Interest Commencement Date:	●
(ii)	Interest Period(s):	●
(iii)	Specified Interest Payment Dates:	●
(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(v)	Business Centre(s):	●
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii)	Interest Period Date(s):	[Not Applicable]
(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	
(ix)	Screen Rate Determination:	
	—Reference Rate:	[LIBOR/EURIBOR]
	—Interest Determination Date(s):	[●]
	—Relevant Screen Page:	[●]
	—Reference Banks (if Primary Source is "Reference Banks"):	[●]
	—Relevant Financial Centre:	[●]
	—Reference Rate:	[LIBOR/EURIBOR]
	—Representative Amount:	[●]
	—Effective Date:	[●]
	—Specified Duration:	[●]
(x)	ISDA Determination:	
	—Floating Rate Option:	●
	—Designated Maturity:	●
	—Reset Date:	●

(xi) Margin(s):	• per cent. per annum
(xii) Minimum Rate of Interest:	• per cent. per annum
(xiii) Maximum Rate of Interest:	• per cent. per annum
(xiv) Day Count Fraction:	[Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Certificates

Each Series of Notes will be evidenced on issue (i) in the case of Regulation S Notes, a Regulation S Global Certificate deposited with Citibank Europe plc as common depositary for, and registered in the name of Citivic Nominees Limited as nominee for, Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, a Rule 144A Global Certificate deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*—Book-Entry Procedures for the Global Certificates*". By acquisition of a beneficial interest in a Regulation S Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a US person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying and Transfer Agent by the relevant Dealer (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying and Transfer Agent shall notify each such relevant Dealer when all relevant Dealers have so certified) (the ***distribution compliance period***), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-US person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Selling and Transfer Restrictions*". Beneficial interests in a Rule 144A Global Certificate may only be held through DTC at any time. See "*—Book- Entry Procedures for the Global Certificates*". By acquisition of a beneficial interest in a Rule 144A Global Certificate, the purchaser thereof will be deemed to represent, among other things, that if it is a US person (within the meaning of Regulation S), it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Paying Agency Agreement dated 19 October 2010 (the ***Paying Agency Agreement***). See "*Selling and Transfer Restrictions*".

Beneficial interests in each Global Certificate will be subject to certain restrictions on transfer set forth therein and in the Paying Agency Agreement, and with respect to Rule 144A Global Certificate, as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under "*Selling and Transfer Restrictions*". A beneficial interest in a Regulation S Global Certificate may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Certificate in denominations greater than or equal to the minimum denominations applicable to interests in a Rule 144A Global Certificate and only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in a Rule 144A Global Certificate may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Certificate only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) from the transferor to the effect that the transfer is being made to a non-US person and in accordance with Regulation S.

Any beneficial interest in a Regulation S Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Rule l44A Global Certificate will, upon transfer, cease to be an interest in the Regulation S Global Certificate and become an interest in the Rule 144A Global Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Certificate for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Certificate will, upon transfer, cease to be an interest in the Rule 144A Global Certificate and become an interest in the Regulation S Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in Global Certificates will not be entitled to receive physical delivery of certificated Notes in definitive form (the ***Definitive Certificates***). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Certificate contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions. Certified terms not defined in this section have the same meaning as set out in the Global Certificate:

- *Payments.* All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the register of Noteholders as holder of the Global Certificate at the close of business on the Clearing System Business Day immediately prior to the date for payment (the ***Record Date***), where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January. Such payments shall be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. No person shall however be entitled to receive any payment on the Global Certificate falling due after the Exchange Date, unless the exchange of the Global Certificate for Definitive Certificates is improperly withheld of refused by or on behalf of the Issuer.
- *Notices.* All notices to Noteholders shall be deemed to have been duly given if (i) posted to such Noteholders at their respective addresses as shown on the relevant register and (ii) so long as the Notes are listed and/or admitted to trading on the Irish Stock Exchange and the rules of that exchange so require, file a notice with a Regulatory News Service via the Companies Announcements Office of the Irish Stock Exchange. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.
- *Meetings.* For the purposes of any meeting of Noteholders, the holder of a Global Certificate will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and as being entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes.
- *Trustee's Powers.* In considering the interests of Noteholders while a Global Certificate is held on behalf of a clearing system, the Trustee may, to the extent it reasonably considers it appropriate to do so in the circumstances (i) have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and (ii) consider such interests as if such accountholders were the holders of the Global Certificate.
- *Cancellation.* Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Certificate.

Exchange for Definitive Certificates

Exchange

Each Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Certificate is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Certificate or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 of the Notes which would not be suffered were the Notes in definitive form and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Certificate for Definitive Certificates on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the relevant Global Certificate may surrender such Global Certificate to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Certificate, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the

delivery of, an equal aggregate amount of duly executed and authenticated Definitive Certificates in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Certificate for definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

Exchange Date means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Certificate shall be exchanged in full for definitive Notes and the Issuer will, at the cost of the Company (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule l44A, a certification that the transfer is being made in compliance with the provisions of Rule l44A to a QIB that is also a QP. Definitive Certificates issued in exchange for a beneficial interest in a Rule 144A Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "Selling and Transfer Restrictions".

Legends

The holder of a Definitive Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Certificate bearing the legend referred to under "Selling and Transfer Restrictions" or upon specific request for removal of the legend on a Rule 144A Definitive Certificate, the Issuer will deliver only Rule 144A Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Certificates

For each Series of Notes evidenced by both a Regulation S Global Certificate and a Rule 144A Global Certificate, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*—Book Entry Ownership—Settlement and Transfer of Notes*".

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Certificates directly through Euroclear or Clearstream,

Luxembourg if they are accountholders (***Direct Participants***) or indirectly (***Indirect Participants*** and together with Direct Participants, ***Participants***) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the US Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Certificates directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Certificates as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "Exchange for Definitive Certificates", DTC will surrender the relevant Rule l44A Global Certificates for exchange for individual Rule 144A Definitive Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Certificate representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, B1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Certificate representing Rule 144A Notes of any Series will have a CUSIP number and, if specified in the relevant Final Terms or Series Prospectus, an ISIN and Common Code and unless otherwise indicated in such Final Terms or Series Prospectus, will be deposited with a custodian for and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System. The address of DTC is 55 Water Street, New York, New York 10041, U.S.A.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Certificate, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Certificate held through such Direct Participants in

any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the ***Beneficial Owner***) will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Certificate held within a clearing system are exchanged for Definitive Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule l44A Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement (***SDFS***) system in same-day funds, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global

Certificate (subject to the certification procedures provided in the Paying Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule l44A Global Certificate will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Certificate of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule l44A Global Certificate (subject to the certification procedures provided in the Paying Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Certificate who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Certificate; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Certificate.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Certificates among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three business days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisers.

TAXATION

The following is a general summary of certain Russian, Luxembourg, United Kingdom and United States tax considerations relating to the Notes and the Loans and does not purport to be a comprehensive analysis of all tax considerations relating to the Notes and the Loan.

This summary should not be used for the purposes of the analysis of any tax implications arising for any instruments other than the Notes and the Loans. It is based upon the laws as in effect on the date of this Base Prospectus. Neither the Borrower nor the Issuer assumes any obligation to update this summary after the date of this Base Prospectus for any changes or amendments in the applicable laws.

The information and analysis contained within this section are limited to tax issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes and/or the Loans.

Prospective purchasers of the Notes are advised to consult their own tax advisors with respect to tax consequences of the purchase, ownership and disposal of the Notes arising in their particular circumstances under the tax laws of countries of which they are tax residents, or any other country, including, but not limited to, the consequences of the receipt of interest on the Notes and the sale or redemption of the Notes (in particular, in view of the applicability and effect of any other tax laws or double tax treaties, and of pending or proposed changes to the applicable tax laws as at the date of this Base Prospectus, and of any actual changes in the applicable tax laws after such date). No representation with respect to tax consequences relevant to any particular Noteholder is made hereby.

RUSSIAN FEDERATION

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of any Series of the Notes, as well as taxation of interest payments on the corresponding Loans. This summary is based on the laws and regulations of Russia as in effect at the date of this Base Prospectus (where they are subject to changes which could occur frequently, at short notice and could apply retroactively).

This summary does not seek to address the applicability of, and/or any procedures in relation to, taxes levied by regions, municipalities or other non- federal authorities of Russia or tax implications arising for the Noteholders applying special tax regimes available under the Russian tax legislation. Similarly, this summary does not seek to address the availability of the double tax treaty relief to, and the eligibility for, the double tax relief of any Noteholder in respect of income payable to that Noteholder on any Series of the Notes or practical difficulties connected with claiming such double tax treaty relief. The analysis set out herein does not include any comments on tax implications which could arise for the Noteholders in connection with entering into REPO or stock-lending transactions with any Series of the Notes or into term deals, derivatives or any similar types of transactions with any Series of the Notes.

Many aspects of Russian tax laws and regulations are subject to significant uncertainty and lack of the interpretive guidance resulting in different interpretations and inconsistent applications of them by various authorities in practice. Further, provisions of Russian tax laws and regulations applicable to financial instruments may be subject to more rapid and unpredictable changes (possibly with the retroactive effect) and inconsistent interpretations than in jurisdictions with more developed capital markets and tax systems. In practice, interpretation and application of Russian tax laws and regulations by different tax inspectorates and their representatives may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Furthermore, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may be inconsistent or contradictory.

Taxation of the Notes

General

For the purposes of this summary, the term "**Non-Resident Noteholder**" means:

- a legal entity or an organisation, in each case not organised under the Russian law, which acquires, holds and/or disposes of the Notes otherwise than through its permanent establishment in Russia (the "**Non-Resident Noteholder-Legal Entity**"), and

- an individual who is not actually present in Russia for an aggregate period of 183 calendar days or more in a period comprised of 12 consecutive months (the "**Non-Resident Noteholder-Individual**"), who acquires, holds and/or disposes of the Notes.

The presence in Russia for Russian personal income tax residency purposes is not considered interrupted if an individual during this 12 consecutive months departs from Russia for short periods of time (less than 6 months) for medical treatment or education purposes.

Currently, the Russian Tax Code is generally interpreted by both the Russian tax authorities and taxpayers such that days of arrival as well as days of departure should be taken into account when calculating the total number of days of presence of an individual in Russia. However, the Group is aware of a court case where the court expressed the opinion that days of arrival should not be taken into account as opposed to days of departure.

For the purposes of this summary, the term "**Resident Noteholder**" means any Noteholder (including any individual and any legal entity or an organisation) not qualifying as a Non-Resident Noteholder.

For the purposes of this summary, definitions of "Resident Noteholder" and "Non-Resident Noteholder" in respect of individuals are taken at face value based on the wording of the Russian tax law as currently written. In practice, however, the application of the above formal residency definitions by the Russian tax authorities may differ depending on their position in each case. The law is currently worded in a way that implies the potential for a split year residency for individuals. However, both the Russian Ministry of Finance and the Russian tax authorities have expressed the view that an individual should be either a tax resident or non-tax resident in Russia for the full calendar year.

Consequently, if the travel pattern dictates a differing tax residency status for an individual for a part of the tax (calendar) year, the application of Russian personal income residency tax rate may in practice be disallowed. This situation may be altered by the introduction of amendments to provisions of the Russian Tax Code dealing with taxation of individuals, a change in the position of the Russian tax authorities or by positive outcomes of tax controversy through the courts.

Russian taxation rules may be affected by the provisions of the applicable double tax treaties. The Russian tax treatment of interest payments made by the Company to the Issuer (or to the Trustee, as the case may be) under any Loan Agreement may affect the Noteholders.

Resident Noteholders

Resident Noteholders will be subject to all applicable Russian taxes in respect of income realised by them in connection with the acquisition, ownership, sale and/or other disposal of the Notes.

Resident Noteholders should consult their own tax advisers with respect to the effect that the acquisition, holding and/or disposal of the Notes may have on their tax position.

Non-Resident Noteholders

Taxation of Non-Resident Noteholders-Individuals

Acquisition of the Notes

The acquisition of the Notes by Non-Resident Noteholders-Individuals may constitute a taxable event for Russian personal income tax purposes pursuant to provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of the acquisition of securities. In particular, if the acquisition price of the Notes is below the lower margin of the fair market value of the Notes determined for Russian personal income tax purposes, the difference may become subject to Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of the acquisition).

Under the Russian tax legislation, Russian tax treatment of income derived by Non-Resident Noteholders-Individuals will depend on whether this income qualifies as received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit receivable by individuals should be sourced, in practice the Russian tax authorities may infer that such income should be considered as Russian source income, if the Notes are purchased "in Russia". In the absence of any explicit guidance as to what should be considered as a purchase of securities "in Russia", in practice the Russian tax authorities may apply various criteria to determine the source of

the related material benefit, including looking at the place of conclusion of the acquisition transaction, the place of location of the Issuer, or other similar criteria.

There is no assurance therefore that as a result any material benefit received by the Non-Resident Noteholders-Individuals in connection with the acquisition of the Notes will not become taxable in Russia. In case however the Notes are initially issued at par, the above provisions are likely to be relevant for the acquisitions of the Notes in the secondary market only.

Interest on the Notes and Repayment of Principal on the Notes

Non-Resident Noteholders-Individuals should not generally be subject to Russian personal income tax in respect of payments of interest and principal on the Notes received from the Issuer.

Taxation of interest payable on the Notes may be affected however by the tax treatment of interest payable on the Loans (please see "Sale or other Disposal of the Notes" and "Taxation of Interest Payments on the Loans" below).

Sale or other Disposal of the Notes

If proceeds from the sale or other disposal of the Notes received by a Non-Resident Noteholder-Individual qualify as Russian source income for Russian personal income tax purposes, these proceeds will be subject to Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of disposal).

Since the Russian Tax Code does not contain any additional guidance as to when the sales or other disposal proceeds should be deemed to be received from Russian sources by an individual not qualifying as a Russian tax resident, in practice the Russian tax authorities may infer that such income should be treated as Russian source income if the Notes are sold or disposed "in Russia". In the absence of any explicit guidance as to what should be considered as the sale or other disposal of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of the conclusion of the sales transaction, the place of location of the Issuer, or other similar criteria. There is no assurance therefore that as a result sales or other disposal proceeds received by the Non -Resident Noteholders-Individuals will not become subject to Russian personal income tax.

In case the sales or other disposal proceeds are considered as derived from Russian sources, Russian personal income tax will apply to the gross amount of proceeds decreased by the amount of any available cost deductions (including the original acquisition costs of the Notes and documented expenses relating to the acquisition, holding and sale or other disposal) provided that such documentation is duly executed and is provided to the person obliged to calculate and withhold Russian personal income tax in relation to this income in a timely manner. There is a risk that, if the documentation supporting the cost deductions is deemed to be insufficient by the Russian tax authorities or the person remitting the respective income to a Non-Resident Noteholder-Individual (where such person is considered as the tax agent obliging to calculate and withhold Russian personal income tax and remit it to the Russian budget), the deduction will be disallowed and Russian personal income tax will apply to the gross amount of sales or other disposal proceeds.

Furthermore, there is also some uncertainty regarding tax treatment of the portion of the sales or disposal proceeds derived by a Non-Resident Noteholder-Individual from Russian sources in connection with the sale or disposal of the Notes, that is attributable to accrued interest on the Notes, if any. The Russian tax authorities could argue that such portion, provided that these sales or disposal proceeds are derived from Russian sources, should be subject to Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of payment), even if the sale or other disposal of the Notes results in a loss.

In certain circumstances, if sales and/or disposal proceeds are paid to a Non-Resident Noteholder-Individual by a licensed broker or an asset manager that is a Russian legal entity or organisation carrying out operations for the benefit of the Non-Resident Noteholder-Individual under an asset management agreement, a brokerage agreement, an agency agreement, a commission agreement or a commercial mandate agreement, the applicable Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of payment) will be withheld at source by that person considered as the tax agent.

In the context of deducting duly documented costs, if the costs were borne in connection with the acquisition of the Notes prior to making the agreement with the tax agent which is obliged to calculate and withhold Russian personal income tax under the respective agreement, upon the sale or other disposal of the Notes they may be taken into account by the tax agent upon written application of the Noteholders.

If the Notes are sold by a Non-Resident Noteholder-Individual to other legal entities, organizations (other than licensed brokers or asset managers as mentioned above) or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non Resident Noteholder Individual will then be required to file a personal income tax return individually, report on the amount of income realised to the Russian tax authorities and apply for a deduction in the amount of the acquisition and other expenses relating to the purchase, holding and sale or other disposal of the Notes confirmed by the supporting documentation. The applicable personal income tax must then be paid by the Non-Resident Noteholder-Individual on the basis of the filed personal income tax return.

Under certain circumstances, gains received and losses incurred by a Non-Resident Noteholder-Individual as a result of the sale or other disposal of the Notes and other securities occurring within the same tax year may be aggregated for Russian personal income tax purposes, which could affect the total amount of income of the Non-Resident Noteholder-Individual subject to taxation in Russia.

There is also a risk that any gain derived by a Non Resident Noteholder Individual from the sale or other disposal of the Notes may be affected by changes in the exchange rate between the currency of the acquisition of the Notes, the currency of the sale or other disposal of the Notes and roubles.

Taxation of Non-Resident Noteholders—Legal Entities

Acquisition of the Notes

The acquisition of the Notes by the Non-Resident Noteholders-Legal Entities (whether upon their issue or upon their acquisition in the secondary market) should not trigger any adverse Russian tax implications for the Non-Resident Noteholders-Legal Entities.

Interest on the Notes and Repayment of Principal on the Notes

Non-Resident Noteholders-Legal Entities should not generally be subject to any Russian taxes in respect of payments of interest and repayment of principal on the Notes received from the Issuer.

Taxation of interest on any Series of the Notes may however be affected by the tax treatment of interest on the Loans (please see "Taxation of Interest Payments on the Loans" below).

Sale and/or other Disposal of the Notes

According to the Russian Tax Code the list of Russian source income includes interest on Russian state and municipal securities as well as interest on debt obligations of Russian entities. Interest on debt obligations of foreign companies (including any portion of the sales or disposal proceeds derived in connection with the disposal of the debt obligations of such non-Russian entities (such as the Notes)), even if payable from Russian sources, is not included in the list of Russian source income and should not therefore be subject to Russian withholding tax.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions allowing to reduce or eliminate the applicable Russian income taxes imposed on income received by Non-Resident Noteholders from Russian sources in connection with the acquisition, holding, disposal (including sale) of the Notes. To the extent double taxation benefits are available, in order to obtain them, a Non-Resident Noteholder will have to comply with the certification, information and reporting requirements which are in force in Russia (relating, in particular, to the confirmation of the entitlement and eligibility to the respective double tax treaty benefits).

Under the Russian domestic tax legislation, in order to enjoy benefits of an applicable double tax treaty, a Non-Resident Noteholder-Individual will have to provide to the Russian tax authorities a tax residency certificate, issued by the competent authorities of his/her country of residence for tax purposes and a confirmation from the relevant foreign tax authorities of income received and the tax paid by that Non-Resident Noteholder-Individual outside Russia in relation to income with respect to which the

respective double tax treaty benefits are claimed. Technically, these requirements may mean that a Non-Resident Noteholder-Individual would not be able to rely on the applicable double tax treaty until he or she has pays the tax in relation to this income in the jurisdiction of his/her tax residency. In practice, individuals may not be able to obtain the advance treaty relief in relation to income derived by them from Russian sources, as it is very unlikely that the supporting documentation required for the treaty relief could be provided to the Russian tax authorities and, consequently, the approval from the latter could be obtained, before the receipt of income by a Non-Resident Noteholder-Individual occurs.

Non-Resident Noteholder-Individuals should consult their own tax advisors with respect to possible tax treaty relief and procedures which have to be satisfied in order to obtain tax relief in regards of Russian personal income tax, which may apply to interest on the Notes or proceeds received by them from the acquisition, sale or other disposal of the Notes.

Tax Reclaim

If Russian withholding tax is withheld at source from interest on the Notes payable to a Non-Resident Noteholder-Legal Entity, despite the domestic release available for the Russian tax agents, a claim for a refund of the Russian income tax that was excessively withheld at source can be filed by this Non-Resident Noteholder-Legal Entity with the Russian tax authorities within three calendar years following the calendar year in which the tax was withheld, provided that such Non-Resident Noteholder-Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income. There is no assurance that such refund will be available in practice.

If Russian personal income tax applicable to income derived from Russian sources by a Non-Resident Noteholder-Individual for whom double tax treaty relief is available was withheld at source despite the right of this Non-Resident Noteholder-Individual to rely on the benefits of the applicable double tax treaty allowing not to pay the tax in Russia or allowing to pay the tax at the reduced rate in relation to this income, a claim for the refund can be filed with the Russian tax authorities together with the supporting documents envisaged by this double tax treaty confirming the right of the Non-Resident Noteholder-Individual to such benefits within one year following the tax year in which the tax was withheld. Provided that such claim has been made in a timely manner, an application for a refund of Russian personal tax which was excessively withheld at source may be filed with the tax agent within three years following the date when the tax was withheld/paid. In the absence of the tax agent who withheld the Russian personal income tax under consideration, e.g. when the tax has been paid on the basis of the tax return, such an application may be filed with the Russian tax authorities within the same period (three years) accompanied by the Russian tax return from the date when the tax was paid. There can be no assurance that the tax agent and/or the Russian tax authorities would refund the tax in practice.

Although the Russian Tax Code arguably contains the exhaustive list of documents and information which have to be provided by the Non-Resident Noteholder-Individual to the Russian tax authorities for tax refund purposes, the Russian tax authorities, in practice, may require a wide variety of documentation confirming the right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

In practice Non-Resident Noteholder-Individuals when seeking for a refund of Russian personal income tax excessively withheld at source may face similar difficulties as when trying to obtain advance tax relief under the applicable double tax treaties, as discussed above.

In the light of the above, obtaining a refund of Russian income taxes that were excessively withheld at source is likely to be a time-consuming process requiring great efforts, and no assurance can be given that such refund will be granted to Non-Resident Noteholders in practice.

Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain the refund of Russian income taxes which were excessively withheld at source.

Taxation of Interest on the Loans

In general, payments of interest on borrowed funds made by a Russian legal entity to a non-resident legal entity or organisation having no registered presence and/or no permanent establishment in Russia are subject to Russian withholding tax at a rate of 20 percent, which could be reduced or eliminated pursuant

to the terms of an applicable double tax treaty subject to timely compliance with the respective treaty clearance formalities by the interest recipient.

In particular, the Convention allows to eliminate Russian withholding tax applicable to interest provided that certain criteria specified in the Convention are satisfied by the recipient of income. The application of the tax benefits under the Convention could be affected by the change in the interpretation by the Russian tax authorities of the concept of the factual/beneficial owner of income. Specifically, on December 30, 2011 the Russian Ministry of Finance issued letter No. 03-0813/1 (the "**Letter**") addressed to the Federal Tax Service, in which the Russian Ministry of Finance asserted that in the context of a very specific Eurobond structure, which is not identical to the transaction described in this Base Prospectus, a foreign issuer of Eurobonds cannot benefit from the provisions of the Russia- Ireland double tax treaty in respect of interest paid on the loan by the Russian borrower because, in view of the Russian Ministry of Finance, it may not be considered as the beneficial owners of interest. Conversely, the Letter says that holders of Eurobonds could apply provisions of the respective tax treaty (if any) concluded between Russia and the country of their tax residency. The Company cannot preclude the possibility that the Russian tax authorities might apply the same approach to the payments made under the structure of the Issue as described in this Base Prospectus.

Notwithstanding anything to the contrary above, no withholding tax should be withheld from interest on the loans payable under the Eurobonds structures by virtue of the exemption envisaged by Law No. 97-FZ, which stipulates that Russian borrowers should be fully released from the obligation to withhold Russian withholding tax from interest payable to foreign legal entities provided that the following conditions are all simultaneously met:

(1) interest is paid on debt obligations of Russian entities that arose in connection with the placement by foreign entities of "issued bonds," defined as bonds or other debt obligations

   (a) listed and/or admitted to trading on one of the specified foreign exchanges, and/or

   (b) that have been registered in foreign depository/clearing organizations.

   The lists of qualifying foreign exchanges and foreign depositary/clearing organizations were approved by Order No. 12-91/pz-n of the Federal Financial Markets Service dated 25 October 2012 (the "Order"). The Order was registered by the Ministry of Justice of the Russian Federation on 7 December 2012. The Order was published on 19 December 2012 and came into force on 30 December 2012. The Irish Stock Exchange and the clearing systems Euroclear and Clearstream, Luxembourg were included in the above-mentioned lists.

   The connection between the loan and "issued" bonds should be evident and supported with certain documents which are set forth in Law No. 97-FZ.

(2) there is a double tax treaty between Russia and the jurisdiction of tax residence of the recipient of interest of the loan (i.e., the Issuer) which can be confirmed by a tax residency certificate.

The release from the withholding tax obligations in relation to interest payable on the loans described herein will apply retrospectively to income paid since 2007 and will continue to be available in respect of "issued bonds" (including any Series of the Notes) issued before 1 January 2014.

Importantly, Law No. 97-FZ does not provide for the exemption for the foreign interest recipients from Russian withholding tax and/or Russian personal income tax, as the case may be. Currently however there is no requirement and mechanism in the Russian tax legislation for the foreign legal entities to self-assess and pay the tax to the Russian tax authorities, in case the tax was not withheld at source; such rules however are set out for non-Russian tax residents which are individuals. At the same time earlier the Russian Ministry of Finance acknowledged in its information letter published on its website that the release of Russian companies from withholding tax agent obligations within the Eurobonds structures should effectively mean that no Russian withholding tax should arise, since there is neither a mechanism nor obligation for a non- resident to calculate and pay independently under such circumstances the tax to the Russian budget. There can be no assurance, therefore, that requirements will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients, including the Issuer or the Noteholders.

If payments on any Loan become payable to the Trustee pursuant to the security arrangements described herein, there is some residual uncertainty as to whether the release of the Company from the

withholding tax agent obligation under Law No. 97-FZ would be applicable to interest payable by the Company to the Trustee. There is a potential risk that such interest on the relevant Loan payable to the Trustee will become subject to Russian withholding tax at the rate of 20 percent (or such other tax rate as may be effective at the time of payment) or Russian personal income tax at the rate of 30 percent (or such other tax rate that may be effective at the time of payment). Further it is not expected that the Trustee will, or will be able to, claim the exemption from or the reduction in standard Russian withholding tax rate applicable to interest under any double tax treaty under such circumstances. In addition, while some of the Noteholders that are persons not residing in Russia for tax purposes might be eligible for the exemption from or the reduction in standard Russian withholding tax rate or Russian personal income tax rate, as the case may be, under the applicable double tax treaties entered into between their countries of tax residence and the Russian Federation, where such treaties exist and to the extent that they are applicable and could be relied upon by these Noteholders, there is no assurance that such exemption or reduction will be available to them (and, particularly, to the Non-Resident Noteholder-Individuals due to difficulties related to the advance tax relief) in practice under such circumstances.

If interest payable on any Loan becomes subject to Russian withholding tax or Russian personal income tax, as may be applicable, (as a result of which the Issuer will reduce interest payable under the corresponding Series of the Notes by the amount of such withholding taxes), the Company will be obliged (subject to certain conditions) under the terms of the relevant Loan Agreement to increase the amounts payable by it under the relevant Loan ("gross up") as may be necessary to ensure that the net payments received by the Issuer and/or the Noteholders will not be less than the amounts they would have received in the absence of such withholding. It is currently unclear, however, whether provisions of the relevant Loan Agreement obliging the Company to gross up interest payable on the Loans will be enforceable under the Russian law as currently in effect. If the Company fails to increase interest payable on the relevant Loan, such failure will constitute an Event of Default pursuant to the relevant Loan Agreement.

If the Company is obliged to increase any payments on any Loan (as described above), it may (without premium or penalty), subject to certain conditions, prepay the relevant Loan in full. In such case, all outstanding Notes of the corresponding Series will each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of the redemption. See "Terms and Conditions of the Notes".

No VAT should be payable in Russia in respect of interest and principal payments under any Loan.

LUXEMBOURG

The following general summary is based upon the tax laws of Luxembourg as in effect on the date of this Base Prospectus and is subject to any change that may come into effect after that date.

The following is a general description of certain tax laws relating to the Notes and the tax position of the Noteholders. As such it does not purport to be a comprehensive description of all the Luxembourg tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes. Each prospective holder or beneficial owner of the Notes should consult its tax advisor as to the tax consequences of the purchase, ownership and disposition of the Notes in the light of their particular circumstances.

Luxembourg tax residence of the Noteholders

Noteholders will not be deemed to be resident, domiciled or carrying on business in Luxembourg solely by reason of holding, execution, performance, delivery, exchange and/or enforcement of the Notes.

Withholding Tax and Self-Applied Tax

Under current Luxembourg tax law, payments of interest by the Issuer under the Notes will, with the possible exception of interest payments made to individual Noteholders and certain residual entities, be made free of withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein to the extent that such interest has been negotiated at arm's length and is not profit participating. There is also no Luxembourg withholding tax, with the possible exception of payments made to certain individual Noteholders or certain entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

Luxembourg non-resident individuals

Under the Luxembourg laws dated 21 June 2005 (the ***Laws***) implementing the European Council Directive 2003/48/EC on the taxation of savings income (the ***Savings Directive***) and several agreements concluded between Luxembourg and certain dependent or associated territories of the European Union (***EU***), a Luxembourg based paying agent (within the meaning of the Savings Directive) is required since 1 July 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual or a so-called residual entity resident or established in another Member State or in certain EU dependent or associated territories, unless the beneficiary of the interest payments elects for the exchange of information or, in the case of an individual beneficiary, the tax certificate procedure. "Residual entities" within the meaning of Article 4.2 of the Savings Directive are entities which are not legal persons (the Finnish and Swedish companies listed in Article 4.5 of the Savings Directive are not considered as legal persons for this purpose), whose profits are not taxed under the general arrangements for the business taxation and which are not and have not opted to be treated as UCITS recognised in accordance with the European Council Directive 85/611/EEC as replaced by the European Council Directive 2009/65/EC or similar collective investment funds located in Jersey, Guernsey, the Isle of Man, the Turks and Caicos Islands, the Cayman Islands, Montserrat or the British Virgin Islands.

The currently applicable withholding tax rate is 35 percent. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries.

Luxembourg resident individuals

In accordance with the law of 23 December 2005, as amended by the law of 17 July 2008, on the introduction of a withholding tax on certain interest payments on savings income (the ***Law***), interest payments made by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg individual residents or to certain residual entities that secure interest payments on behalf of such individuals (unless such entities have opted either to be treated as UCITS recognised in accordance with the European Council Directive 85/611/EEC as replaced by the European Council Directive 2009/65/EC or for the exchange of information regime) are subject to a 10 percent withholding tax.

Pursuant to the Law, Luxembourg resident individuals, acting in the course of their private wealth, can opt to self-declare and pay a 10 percent tax on interest payments made after 31 December 2007 by paying agents (defined in the same way as in the Savings Directive) located in an EU Member State other than Luxembourg, a Member State of the European Economic Area other than an EU Member State or in a State or territory which has concluded an international agreement directly related to the Savings Directive.

Taxation of the Noteholders

A Noteholder who derives income from a Note or who realises a gain on the disposal or redemption of a Note will not be subject to Luxembourg taxation on income or capital gains (except for the potential application of the Savings Directive to interest payments) unless:

- the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- such income or gain is attributable to an enterprise or part thereof which is carried on by a non-resident through a permanent establishment or a permanent representative in Luxembourg.

Luxembourg resident individual Noteholders are however not subject to taxation on capital gains upon the disposal of a Note, unless such a disposal precedes the acquisition of the Note or the Note is disposed of within six months of its date of acquisition. The Luxembourg tax treatment of the accrued and unpaid interest upon the sale, redemption or exchange of the Notes should be addressed by the Noteholders' advisors depending on their particular circumstances.

Luxembourg resident corporate Noteholders which benefit from a special tax regime (such as family wealth management companies subject to the law of 11 May 2007, undertakings for collective investment subject to the law of 17 December 2010 or specialised investment funds subject to the law of 13 February 2007) are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax

(i.e., corporate income tax, municipal business tax and net wealth tax) other than the annual subscription tax calculated on their (paid up) share capital (and share premium) or net asset value.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a Noteholder unless:

- the Noteholder is, or is deemed to be, a fully taxable company resident in Luxembourg (other than a securitisation company within the meaning of the law of 22 March 2004 on securitisations); or
- such Noteholder is a non-resident company carrying out business activities through a permanent establishment or a permanent representative in Luxembourg and the Note is attributable to such permanent establishment.

Other Taxes

Luxembourg gift or inheritance taxes will not be levied on the transfer of a Note by way of gift by, or on the death of, a Noteholder unless:

- the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- the transfer is construed as an inheritance or as a gift made by or on behalf of a person who, at the time of death or gift, is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- such Note is attributable to an enterprise or part thereof which is carried on by a non-resident through a permanent establishment or a permanent representative in Luxembourg; or
- the gift is registered in Luxembourg, which is not mandatory.

There is no Luxembourg registration tax, capital tax, stamp duty or any other similar tax or duty (other than nominal court fees and contributions for the registration with the Chamber of Commerce) payable in Luxembourg in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes or the performance of the Issuer's obligations under the Notes, except that in the case of court proceedings in a Luxembourg court or the presentation of the documents relating to the Notes to an "autorité constituée", such court or "autorité constituée" may require registration thereof, in which case the documents will be subject to registration duties depending on the nature of the documents and, in particular, a loan agreement will be subject to an ad valorem registration duty of 0.24 percent calculated on the amounts mentioned therein.

There is no Luxembourg VAT payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of a Note. Luxembourg VAT may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg VAT purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from VAT does not apply with respect to such services.

EU Savings Directive on the Taxation of Savings Income in the Form of Interest Payments (Directive 2003/48/EC)

Under the European Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a paying agent within its jurisdiction to or for an individual beneficial owner who is resident in that other Member State. However, for a transitional period, Austria and Luxembourg will (unless during such period they elect otherwise) instead apply a withholding system in relation to such payments. Under such a withholding system, tax will be deducted unless the recipient of the interest payment elects instead for an exchange of information procedure or presents a certificate from the relevant tax authority establishing exemption therefrom. The current rate of withholding tax is 35 percent as from 1 July 2011.

The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted or agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to an individual beneficial owner resident in, or certain limited types of entities established in, a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to an individual beneficial owner who is resident in one of those territories. The attention of the Noteholders is drawn to Condition 8(c) of the Terms and Conditions of the Notes.

A proposal for amendments to the Savings Directive has been published, including a number of suggested changes which, if implemented, would broaden the scope of the rules described above. Noteholders and potential investors are advised to consult their professional advisors concerning possible taxation or other consequences of purchasing, holding, selling or otherwise disposing of the Notes under the laws of their country of incorporation, establishment, citizenship, residence or domicile.

The above statements on taxation are based on the laws and practices in force at the date of this Base Prospectus. As is the case with any investment, there can be no guarantee that the tax position or proposed tax position at the time of an investment will endure indefinitely.

Certain U.S. Federal Income Tax Considerations

The following discussion is a summary based on present law of certain US federal income tax considerations relevant to the purchase, ownership and disposition of the Notes. This discussion addresses only US Holders (as defined below) who purchase Notes in the original offering at the original offering price, hold the Notes as capital assets and use the US dollar as their functional currency. This discussion is not a complete description of all US tax considerations relating to the purchase, ownership and disposition of Notes that may be relevant to particular purchasers. It does not address the tax treatment of prospective purchasers subject to special rules, such as banks, dealers in currencies and securities, traders that elect to mark-to-market, insurance companies, investors liable for the alternative minimum tax, US expatriates, tax-exempt entities or persons holding Notes as part of a hedge, straddle, conversion or other integrated financial transaction. It also does not address the tax treatment of prospective purchasers that will hold the Notes in connection with a permanent establishment outside of the United States. This discussion does not consider US federal estate and gift tax, US state or local tax matters or non-US tax considerations. Finally, this discussion does not address prospective purchasers of further Notes, which may be issued at a discount or premium.

THE FOLLOWING STATEMENTS ABOUT US FEDERAL TAX ISSUES ARE MADE TO SUPPORT MARKETING OF THE NOTES. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN NOTES UNDER THE LAWS OF LUXEMBOURG, THE RUSSIAN FEDERATION, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

For purposes of this discussion, a ***US Holder*** is a beneficial owner of a Note that is, for purposes of US federal income taxation, (i) an individual citizen or resident of the United States, (ii) a corporation or other business entity treated as a corporation for US federal income tax purposes created or organised under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of a US person and the primary supervision of a US court, or (iv) an estate the income of which is subject to US federal income taxation regardless of its source.

If a partnership acquires or holds the Notes, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A prospective investor that is a partnership for US federal income tax purposes should consult its own tax advisors about the tax consequences for its partners of the partnership purchasing, holding and disposing of Notes.

Characterisation of the Notes

No authority directly addresses the US federal income tax characterisation of securities like the Notes and the Issuer has not and will not seek a ruling from the US Internal Revenue Service (***IRS***) as to their characterisation for such purposes. Although the matter is not free from doubt, to the extent relevant for US tax purposes, the Issuer intends to take the position that a beneficial owner of a Note will be treated as

the beneficial owner of a debt instrument that is not a contingent payment debt instrument. The discussion below assumes that the Notes are properly treated as debt instruments that are not contingent payment debt instruments for US federal income tax purposes. No assurance can be given that the IRS will not assert, or a court would not sustain, a position regarding the characterisation of the Notes that is contrary to this treatment. Alternative characterisations include treatment of the Notes as equity in the Issuer, which would be a passive foreign investment company, as contingent payment debt instruments subject to special rules relating to accrual of OID and contingent interest, or as other types of financial instruments. If the Notes were to be treated as contingent payment debt instruments or as equity in the Issuer, US Holders may be required, among other things, to recognize income for US federal income tax purposes at different times and in different amounts, or subject to higher rates of tax, than described below and may suffer additional adverse US federal income tax consequences. Prospective investors should seek advice from their own tax advisors as to the consequences to them of alternative characterisations of the Notes for US federal income tax purposes.

Interest

Stated interest paid on the Notes, including any additional payments, will be includible in the gross income of a US Holder in accordance with the holder's regular method of tax accounting. The interest, including any additional amounts paid on account of withheld tax, and OID, if any, accrued on the Notes will generally be ordinary income from sources outside the United States.

A US Holder of a Note issued with OID must accrue the OID into income on a constant yield to maturity basis whether or not it receives cash payments. Generally, a Note will have OID to the extent that its stated redemption price at maturity exceeds its issue price. However, a Note generally will not have OID if the stated redemption exceeds its issue price by less than ¼ of 1 percent of the Note's stated redemption price at maturity multiplied by the number of complete years to maturity (***de minimis OID***). The issue price of a Note is the initial offering price at which a substantial amount of the Notes are sold (excluding sales to brokers or similar persons). The stated redemption price at maturity of a Note is the total of all payments due on the Note other than payments of qualified stated interest. In general, qualified stated interest is interest that is unconditionally payable at least annually at a single fixed rate, provided reasonable legal remedies exist to compel timely payment or the terms of which make non-payment remote.

A US Holder may elect to recognise all yield on a Note (including de minimis OID) using a constant yield method. The constant yield election generally will apply only to the Note with respect to which it is made, and it may not be revoked without the consent of the IRS.

It is possible that interest on the Notes will not be treated as qualified stated interest. In such circumstances, all interest (and any discount) on the Notes would be treated as OID and a US Holder would be required to include the OID in income on a constant yield to maturity basis whether or not it receives a cash payment on any payment date. Assuming the Notes are issued at par and stated interest is paid on time, US Holders generally would recognise income for each interest accrual period equal to the amount paid during that period.

In the case of Notes denominated in a currency other than US dollars (***foreign currency***), a cash basis US Holder receiving stated interest in foreign currency must include in income a US dollar amount based on the spot exchange rate on the date of receipt whether or not the payment is converted into US dollars on such date. An accrual basis US Holder (and a cash basis US Holder in the case of OID, if any) accruing interest or OID in foreign currency generally must include in income a US dollar amount based on the average exchange rate during the accrual period (or, for an accrual period that spans two taxable years, the partial accrual period within each taxable year). Upon receipt of an interest payment (or other payment treated as a payment of accrued OID, if any) in foreign currency (including, amounts received upon sale of a Note that are attributable to accrued and unpaid interest previously included in income), US Holders that have accrued interest (or OID, if any) will recognise exchange gain or loss equal to the difference, if any, between the US dollar amount previously accrued and the US dollar value of the payment received at the spot exchange rate on the date of receipt. Foreign exchange gain or loss will be US source ordinary income or loss and generally will not be considered additional interest income or expense.

An accrual basis US Holder (and a cash basis US Holder with respect to OID, if any) may elect to translate accrued interest into US dollars at the spot exchange rate on the last day of the accrual period (or, for an accrual period that spans two taxable years, in the case of the first partial period, the last day of the taxable year). If accrued interest actually is received within five business days of the last day of the

accrual period (or the taxable year, in the case of a partial accrual period), an electing accrual basis US Holder instead may translate the accrued interest at the spot exchange rate on the date of actual receipt for purposes of translating accrued interest income into US dollars (in which case no exchange gain or loss will be taken into account upon receipt). Currency translation elections will apply to all debt instruments that the electing US Holder holds or acquires as of the beginning of that taxable year or thereafter acquires and cannot be revoked without the consent of the IRS. For purposes of determining exchange gain or loss, all payments on a Note (other than payments of stated interest) will be viewed as payments, first, of stated interest, then of previously accrued OID (with payments considered made for the earliest accrual periods first) and, finally, payments of principal.

For purposes of this discussion, the "spot exchange rate" generally means a rate that reflects a fair market rate of exchange available to the public for currency under a "spot contract" in a free market and involving representative amounts. The "average exchange rate" for an accrual period (or partial period) is the average of the spot exchange rates for each business day of such period or other average exchange rate for the period reasonably derived and consistently applied by a US Holder.

To the extent payments under the Loan are reduced by Russian withholding tax, it is unclear whether a US Holder that is eligible for benefits under the income tax treaty between the Russian Federation and the United States may claim an exemption from or reduction in Russian withholding tax, if any, imposed on the Notes. It is also unclear wither a US Holder could claim a deduction or foreign tax credit for any Russian tax withheld from payments on the Loan. Each US Holder should consult its own tax advisor about its eligibility for exemption from, and its ability to credit or deduct any Russian withholding tax which reduces payments on the Notes.

For the tax years beginning after 31 December 2012, interest received by certain individuals, estates and trusts will generally be includible in "net investment income" for purposes of the Medicare contribution tax.

Disposition

A US Holder will recognise gain or loss on the sale, exchange, retirement or other disposition of a Note in an amount equal to the difference between the US dollar value of the amount realised (less any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the US Holder's adjusted tax basis in the Note. A US Holder's adjusted tax basis in a Note generally will equal the US Holder's US dollar cost of the Note determined at the spot exchange rate on the date of purchase increased by previously accrued OID, if any, and reduced by payments on the Notes other than payments of qualified stated interest.

A US Holder that receives foreign currency upon the sale, exchange, retirement or other disposition of a Note will realise an amount equal to the US dollar value of the foreign currency on the date of sale, exchange, retirement or other disposition. If the Notes are traded on an established securities market at the time of acquisition or disposition, a cash basis US Holder or electing accrual basis US Holder will determine its US dollar cost of the Note and the US dollar amount realised, as applicable, on the settlement date. A US Holder will have a tax basis in the foreign currency received equal to the US dollar amount realised. Any gain or loss realised by a US Holder on a subsequent conversion of foreign currency for US dollars will be US source ordinary income or loss.

In the case of Notes denominated in a foreign currency, gain or loss recognised on the sale, exchange, retirement or other disposition of a Note that is attributable to changes in the spot exchange rate for foreign currency between the dates of acquisition (or accrual, in the case of accrued interest or OID, if any) and disposition of the Note, generally will be treated as US source ordinary income or loss and will not be considered additional interest income or expense. However, exchange gain or loss is taken into account only to the extent of total gain or loss recognised on the sale, exchange, retirement or other disposition of a Note. Generally, any gain or loss recognised on the sale, exchange, retirement or other disposition of a Note in excess of such exchange gain or loss generally will be US source capital gain or loss and will be long-term capital gain or loss if the Note has been held for more than one year. The long term capital gains of non-corporate US Holders may be taxed at lower rates. Deductions for capital losses are subject to limitations. Exchange loss recognised on a sale, exchange, retirement or other disposition of a Note or foreign currency received in respect of a Note may be required to be reported to the IRS. US Holders should consult their own tax advisors to determine the tax return obligations, if any, with respect to an investment in the Notes.

For the tax years beginning after 31 December 2012, gain or loss on the disposition of Notes by certain non-corporate US Holders will generally be includible in "net investment income" for purposes of the Medicare contribution tax.

Substitution of the Issuer

The terms of the Notes and the Trust Deed provide that, in certain circumstances and without the consent of the Noteholders, another entity may be substituted in place of the Issuer as creditor under the Loan Agreement and as issuer and principal obligor in respect of the Notes. In certain circumstances, it is possible that such an assumption might be treated as a deemed disposition of Notes by a US Holder in exchange for new notes issued by the new obligor for US federal income tax purposes. As a result of this deemed disposition, a US Holder could be required to recognise capital gain or loss equal to the difference, if any, between the issue price of the new notes (as determined for US federal income tax purposes), and the US Holder's adjusted tax basis in the Notes. US Holders should consult their own tax advisors concerning the US federal income tax consequences to them of a change in obligor with respect to the Notes.

Further Notes

Further notes issued in additional offerings by the Issuer may not be fungible for US federal income tax purposes with the Notes issued in the original offering. Further notes will not be fungible for US federal income tax purposes unless they are issued in a qualified reopening of the original offering. Whether the issuance of further notes is a qualified reopening will depend on the interval after the original offering, the yield of the outstanding Notes at that time (based on their fair market value), whether the outstanding Notes were issued with OID and whether any outstanding Notes are publicly traded or quoted at the time of the new issuance. If issuance of the further notes is not a qualified reopening, the further notes may have OID, in which event, the market value of the Notes may be adversely affected unless the further notes can be distinguished from the Notes.

Information Reporting and Backup Withholding

Payments of principal, interest and accruals of OID on and proceeds from the sale, redemption or other disposition of a Note by a US paying agent or other US intermediary may be reported to the IRS unless the holder (i) is a corporation, (ii) provides a properly executed IRS Form W 8BEN or (iii) otherwise establishes a basis for exemption. Backup withholding tax may apply to these payments, including payments of accrued OID, if the holder fails to provide an accurate taxpayer identification number, otherwise fails to certify its exempt status or fails to report all interest and dividends required to be shown on its US federal income tax returns. A holder can claim a credit against its US federal income tax liability for the amount of any backup withholding tax and a refund of any excess. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Certain US Holders are required to report to the IRS information with respect to certain non US financial accounts, including Notes not held through an account with certain financial institutions. Investors who fail to report required information could become subject to substantial penalties. Potential investors should consult their own tax advisors regarding the possible implications of this reporting obligation for their investment in the Notes.

THE ABOVE DISCUSSION IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS STRONGLY URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE NOTES.

CERTAIN ERISA CONSIDERATIONS

Notes are not permitted to be acquired by employee benefit plans as defined in Section 3(3) of ERISA and subject to Title I of ERISA, including collective investment funds, separate accounts or accounts whose underlying assets are treated as assets of such plans pursuant to the US Department of Labor (***DOL***) "plan assets" regulation as modified by Section 3(42) of ERISA (collectively, ***ERISA Plans***), plans not subject to ERISA but subject to Section 4975 of the Code, including IRAs, Keogh Plans which cover only self- employed persons and their spouses and other employee benefit plans which cover only the owners of a business (collectively, ***4975 Plans***), or by entities whose underlying assets include plan assets by reason of an investment in the entity by ERISA Plans or 4975 Plans or otherwise (collectively, ***Plan Asset Entities***). ERISA Plans, 4975 Plans and Plan Asset Entities are collectively referred to as ***Benefit Plan Investors***. Notes are permitted to be acquired by governmental plans and non-electing church plans that are not subject to ERISA or Section 4975 of the Code (collectively, ***Non-ERISA Plans***).

ERISA imposes fiduciary standards and certain other requirements on ERISA Plans and on those persons who are fiduciaries with respect to ERISA Plans. 4975 Plans are subject to certain restrictions similar to ERISA's prohibited transaction rules. Non-ERISA Plans are subject to applicable state, local or federal law, as well as the restrictions of duties of common law, and may also be subject to prohibited transaction provisions that operate similarly to those under ERISA.

Under the regulations issued by the DOL, as modified by Section 3(42) of ERISA (the ***Plan Asset Regulations***), unless certain exceptions apply, if an ERISA Plan or a 4975 Plan invests in an "equity interest" of an entity, the plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets. This "look through" rule will only apply where Benefit Plan Investors own 25 percent or more of the value of any class of equity interest in the entity. For purposes of this 25 percent determination, the value of equity interests held by persons (other than Benefit Plan Investors) that have discretionary authority or control with respect to the assets of the entity or that provide investment advice for a fee (direct or indirect) with respect to such assets (or any affiliate of such person) is disregarded. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features.

If the underlying assets of an entity are deemed to be plan assets, those with discretionary authority or control over the entity would be fiduciaries with respect to the entity's assets. The assets of the entity would also be subject to the prohibited transaction rules of ERISA and Section 4975 of the Code, as well as other rules applicable to plan assets.

Non-ERISA Plans and entities that include the assets of Non-ERISA Plans are permitted to acquire the Notes. If the Non-ERISA Plan is a governmental plan, as defined in Section 3(32) of ERISA, the Non-ERISA Plan must represent and warrant that the acquisition and holding of the Notes does not violate any statute, regulation, administrative decision, policy or other legal authority applicable to the Non-ERISA Plan. Non-ERISA Plans are generally not subject to ERISA nor do the prohibited transaction provisions of ERISA or Section 4975 of the Code apply to these types of plans. However, such plans are subject to prohibitions on related-party transactions under Section 503 of the Code, which prohibitions operate similarly to the prohibited transaction rules under ERISA or Section 4975 of the Code. In addition, the fiduciary of a Non-ERISA Plan must consider applicable state or local laws, if any, imposed upon such plan before purchasing a Note or any interest therein.

BY ITS PURCHASE AND HOLDING OF A NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, THAT (1) IT IS NOT AND WILL NOT BE (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF ERISA THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED APPLIES OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE, (2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN SECTION 3(32) OF ERISA, THE PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR ANY OTHER LEGAL AUTHORITY APPLICABLE TO SUCH GOVERNMENTAL PLAN AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE

OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

The foregoing is not intended to be exhaustive and the law governing investments by Plans is subject to extensive administrative and judicial interpretations. The foregoing discussion should not be construed as legal advice. Any potential purchaser of Notes should consult counsel with respect to issues arising under ERISA, the Code and other applicable laws and make their own independent decisions.

SELLING AND TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby.

Rule 144A Notes

Each purchaser of a beneficial ownership interest in Rule 144A Notes, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(1) If it is a US Person within the meaning of Regulation S, it is (a) a QIB that is also a QP, (b) not a broker-dealer which owns and invests on a discretionary basis less than US$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acquiring such Notes for its own account, or for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A and the Issuer is relying on an exemption from the Investment Company Act provided by Section 3(c)(7) thereof.

(2) It will, (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than US$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book-entry depositories.

(3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP or (b) to a person that is not a US person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State or another jurisdiction of the United States.

(4) It understands that the Issuer has the power to compel any beneficial owner of Rule 144A Notes that is a US person and is not a QIB and also a QP to sell its interest in the Rule l44A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a US person who is not both a QIB and a QP.

(5) It understands and acknowledges that its purchase and holding of such Notes or any interest therein constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan described in Section 4975(e)(i) of the US Tax Code to which Section 4975 of the US Tax Code applies, or (iii) an entity whose underlying assets include plan assets by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a governmental plan, as defined in Section 3(32) of ERISA, the purchase and holding of the Notes or any interest therein does not violate any statute, regulation, administrative decision, policy or any other legal authority applicable to such governmental plan and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations and warranties from that person.

(6) It understands that the Rule 144A Global Certificate and any Definitive Certificates issued in respect thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF

RULE 144A (A "**QIB**") THAT IS A QUALIFIED PURCHASER (A "**QP**") WITHIN THE MEANING OF SECTION 2(a)(51) OF THE US INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs EACH OF WHICH IS A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN US$200,000 PRINCIPAL AMOUNT OF NOTES AND THAT CAN REPRESENT, IN EACH CASE, THAT (A) IT IS A QIB THAT IS ALSO A QP; (B) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (C) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (D) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, EACH OF WHICH IS A QP; (E) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (F) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES; (G) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS, WILL HOLD AND TRANSFER AT LEAST US $200,000 IN PRINCIPAL AMOUNT OF NOTES AND (H) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES, OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A US PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, AND, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

IF THE BENEFICIAL OWNER HEREOF IS A US PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS NOTES, WILL HOLD AND TRANSFER AT LEAST US $100,000 IN PRINCIPAL AMOUNT OF NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A US PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT BOTH A QIB AND A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (I) A US PERSON WHO IS A QIB AND ALSO A QP AND THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) OUTSIDE THE UNITED STATES AND IS NOT A US PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO OAO SEVERSTAL, THE ISSUER OR AN AFFILIATE OF EITHER OR

TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER, IN ANY CASE, AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A US PERSON WHO IS NOT BOTH A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF OR OF ANY INTEREST HEREIN REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED APPLIES OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE, (2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN SECTION 3(32) OF ERISA, THE PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR ANY OTHER LEGAL AUTHORITY APPLICABLE TO SUCH GOVERNMENTAL PLAN AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THIS NOTE TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS BOTH A QIB AND A QP.

(7) It acknowledges that the Issuer, the Company, the Registrar, the Arranger and the Dealers and their respective affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Company, the Arranger and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(8) It understands that Rule l44A Notes of a Series will be evidenced by a Rule 144A Global Certificate. Before any interest in a Rule l44A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of a beneficial ownership interest in Regulation S Notes outside the United States, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a US person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, the Company or a person acting on behalf of such an affiliate.

(2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person

that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(3) It understands that Regulation S Notes of a Series will be evidenced by a Regulation S Global Certificate. Before any interest in a Regulation S Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

(4) It understands and acknowledges that its purchase and holding of such Regulation S Notes and any interest therein constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan described in Section 4975(e)(i) of the US Tax Code to which Section 4975 of the US Tax Code applies, or (iii) an entity whose underlying assets include plan assets by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a governmental plan, as defined in Section 3(32) of ERISA, the purchase and holding of the Notes or any interest therein does not violate any statute, regulation, administrative decision, policy or any other legal authority applicable to such governmental plan and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations and warranties from that person.

(5) It acknowledges that the Issuer, the Company, the Registrar, the Arranger and the Dealers and their respective affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Regulation S Notes is no longer accurate, it shall promptly notify the Issuer, the Company, the Arranger and the Dealers. If it is acquiring any Regulation S Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(6) It understands that the Regulation S Global Certificate and any Definitive Certificates issued in respect thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT. EACH BENEFICIAL OWNER HEREOF OR OF ANY INTEREST HEREIN REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN DESCRIBED IN SECTION 4975(E)(I) OF THE US TAX CODE TO WHICH SECTION 4975 OF THE US TAX CODE APPLIES, OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE, (2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN SECTION 3(32) OF ERISA, THE PURCHASE AND HOLDING OF THE NOTES OR ANY INTEREST THEREIN DOES NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR ANY OTHER LEGAL AUTHORITY APPLICABLE TO SUCH GOVERNMENTAL PLAN AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated dealer agreement dated 15 March 2013 (the ***Dealer Agreement***) between the Company, the Issuer, the Arranger and the Permanent Dealers, the Notes will be offered from time to time by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be severally or jointly and severally underwritten by two or more Dealers.

Each of the Issuer and the Company has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes or possession or distribution of any offering material or publicity material in relation thereto, in any country or jurisdiction where action for that purpose is required.

United States

The Notes and the corresponding Loans have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Dealer has severally agreed that, except as permitted by the Dealer Agreement, it will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution compliance period within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Terms used in this section have the meanings given to them by Regulation S.

Notes offered and sold outside the United States to non-US persons may be sold in reliance on Regulation S. The Dealer Agreement provides that the Dealer(s) may directly or through their respective US broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to persons whom they reasonably believe are QIBs and also QPs who can represent that (a) they are QIBs within the meaning of Rule 144A who are also QPs, (b) they are not broker-dealers who own and invest on a discretionary basis less than US$25 million in securities of unaffiliated issuers, (c) they are not a participant-directed employee plan, such as a 401(k) plan, (d) they are acting for their own account, or the account of one or more QIBs each of which is also a QP, (e) they are not formed for the purpose of investing in the Notes or the Issuer, (f) each account for which they are purchasing will hold and transfer at least US$200,000 in principal amount of Notes at any time, (g) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories and

(h) they will provide notice of the transfer restrictions set forth in this Base Prospectus to any subsequent transferees.

This Base Prospectus has been prepared by the Issuer and the Company for use in connection with the offer and sale of the Notes outside the United States and the resale of the Notes in the United States and for the listing of Notes on the Official List and trading on the Market, or other stock exchange specified in the Final Terms or Series Prospectus. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any US person other than any QIB who is also a QP and to whom an offer has been made directly by one of the Dealers or its US broker-dealer affiliate. Distribution of this Base Prospectus by any non-US person outside the United States or by any QIB/QP within the United States to any US person or to any other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-US person or QIB/QP with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such US person or other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-US person or QIB/QP, is prohibited.

United Kingdom

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes which are the subject of this Base Prospectus and/or any future prospectus in relation to a Series of Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or to the Company; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

Russian Federation

Each Dealer has represented that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

General

These selling restrictions may be modified by the agreement of the Issuer, the Company and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in a supplement to this Base Prospectus.

The Arranger, the Dealers and their respective affiliates have engaged and are engaged in transactions with the Company and other members of the Group (including, in some cases, credit agreements and credit lines) in the ordinary course of their banking business and the Arranger and the Dealers performed various investment banking, financial advisory, and other services for the Company, for which they received customary fees, and the Arranger, the Dealers and their respective affiliates may provide such services in the future.

LEGAL MATTERS

Certain legal matters in connection with the update of the Programme and the issue of Notes thereunder will be passed upon for the Company with respect to the laws of the Russian Federation and the United States by Freshfields Bruckhaus Deringer LLP. Certain legal matters in connection with the update of the Programme and the issue of the Notes thereunder will be passed upon for the Arranger with respect to the laws of the United Kingdom, Luxembourg and the United States by Linklaters LLP and with respect to the laws of the Russian Federation by Linklaters CIS.

INDEPENDENT AUDITORS

The Annual Financial Statements included in this Base Prospectus, have been audited by ZAO KPMG, independent auditors, 10 Presnenskaya Naberezhnaya Block C Moscow 123317 as stated in their report appearing herein.

The Issuer's Financial Statements included in this Base Prospectus, have been audited by Fiduciaire Patrick Sganzerla S.à.r.l., acting as statutory auditor to the Issuer. Fiduciaire Patrick Sganzerla S.à.r.l. has its registered office at 46, Boulevard Grande-Duchesse Charlotte, B.P. 2650, L-1026 Luxembourg and is a member of the *Institut des Réviseurs d'Enterprises* of Luxembourg and supervised by the *Commission de Surveillance du Seteur Financier*.

GENERAL INFORMATION

(1) Transactions in the Notes will normally be effected for delivery on the third working day after the day of the transaction. However, Notes may be issued pursuant to the Programme that will not be listed on any stock exchange. The listing agent is not seeking admission to listing of the Notes on the Irish Stock Exchange for the purposes of the Prospectus Directive on its own behalf, but as agent on behalf of the Company and the Issuer. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List or trading on its regulated market for the purposes of the Prospectus Directive.

(2) As of the date of this Base Prospectus, the Company had approved loans from the Issuer in the principal amount of up to US$4,500,000,000, with total outstanding amounts of up to US$4,500,000,000. The update of the Programme was approved by a resolution of the Board of Directors of the Issuer on 12 March 2013. The Company and the Issuer will obtain all necessary consents, approvals and authorisations in Russia and Luxembourg in connection with any Loan and the issue and performance of the corresponding Series of Notes.

(3) Except as disclosed in this Base Prospectus, there has been no significant change in the financial or trading position of the Company or the Group since 31 December 2012 and no material adverse change in the prospects of the Company or the Group since 31 December 2012.

(4) There has been no significant change in the financial or trading position of the Issuer and no material adverse change in its prospects since 31 December 2011.

(5) Except as disclosed in this Base Prospectus, neither the Company nor any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Base Prospectus that may have or have had in the recent past significant effects on the financial position or profitability of the Company or the Group.

(6) The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Base Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer.

(7) ZAO KPMG has rendered an unqualified audit report on the annual financial statement of the Group prepared according to IFRS as at and for the years ended 31 December 2012, 2011 and 2010.

(8) The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number (***ISIN***) and (where applicable) the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms or Series Prospectus, as the case may be.

(9) The issue price and the amount of the relevant Notes will be determined before filing of the relevant Final Terms or Series Prospectus of each Series, based on then prevailing market conditions. The Company and the Issuer do not intend to provide any post-issuance information in relation to any issues of Notes and corresponding Loans.

(10) For so long as the Programme remains in effect or any Notes remain outstanding, the following documents in physical form will be available from the date hereof, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Principal Paying Agent:

- the articles of association of the Issuer and the charter of the Company;
- the Trust Deed (which includes the form of the Global Notes and the Definitive Notes);
- the Dealer Agreement;
- the Facility Agreement;
- the audited consolidated financial statements of the Company as at and for the years ended 31 December 2012, 2011, and 2010, in each case together with the audit reports thereon;
- the audited financial statements of the Issuer as at and for the years ended 31 December 2011 and 2010, in each case together with the audit reports thereon;

- each Final Terms or Series Prospectus, as the case may be, for Notes which are listed on the Irish Stock Exchange or any other stock exchange (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, the Company and the Principal Paying Agent as to its holding of Notes and identity); and
- a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus.

(11) Any website referred to in this document does not form part of this Base Prospectus.

GLOSSARY

Annealing	The heat treatment process by which steel products are reheated to a suitable temperature in order to remove stresses resulting from previous processing and to soften them and/or improve their machinability and cold- forming properties.
Bars	Long steel products that are rolled from billets. Merchant bar and reinforcing bar, or rebar, are two common categories of bars, where merchants include rounds, flats, angles, squares and channels that are used by fabricators to manufacture a wide variety of products such as furniture, stair railings and farm equipment. Rebar is used to strengthen concrete structures.
Basic oxygen furnace	A pear-shaped furnace, lined with refractory bricks, which refines molten pig iron from the blast furnace and scrap into steel. Scrap is charged into the furnace vessel, followed by the hot metal from the blast furnace. A lance is lowered from above, through which blows a high-pressure stream of oxygen to cause chemical reactions that separate impurities into fumes or slag.
Beneficiation	The treatment of mined material to make it more concentrated or richer. Uses the process of crushing, grinding, and often froth-flotation to remove waste rock from ore. The metal content is increased as the waste is removed.
Billet	A semi-finished steel product with a square cross section up to 150 millimetres by 150 millimetres. This product is either rolled or continuously cast and is further processed by rolling to produce finished long products. The range of semi-finished products above 150 millimetres by 150 millimetres are called blooms.
Blast furnace	A furnace used in the integrated metallurgical process in which iron ore in the form of sinter is melted down under a hot air flow (enriched with oxygen), using coal in the form of coke as a heating and reducing agent in the chemical process. As a result, a liquid hot metal is produced, also called pig iron.
Blooms	See "*Billet*".
Coated steel	Steel sheet coated by immersion in a bath of molten material (known as hot-dip) to protect the base metal (substrate) against corrosion. The most commonly used protective material is zinc. An organic coating (paint, plastic) can also be deposited on the layer of zinc. The zinc-coated steel is often referred to as "galvanised steel".
Cogging	An intermediate rolling process when a hot ingot is reduced to a bloom or slab in a cogging mill.
Coils	Steel that has been wound.
Coke	A fuel obtained by the pyrolysis of coal in coke-ovens and used as a reducing agent for iron ore in the blast furnace.
Coke breeze	A lightweight aggregate stone formed by a refractory process.
Coking coal	Coal used for making coke, used to make steel.
Cold-rolled sheet	Sheet steel that has been run through a cold-rolling mill.
Cold-rolling mill	Equipment that reduces the thickness, or gauge, of flat steel products by rolling steel between alloy steel cylinders without prior reheating. Several roll passes are generally necessary to gradually reduce the steel to the desired thickness.

Colour-coated steel products	A variety of products produced either by film coating or direct extrusion of a multi-layer colour coating.
Continuous casting	The process pursuant to which molten steel is cooled into semi-finished products such as billets, blooms and slabs. The molten steel is poured at a steady rate from a ladle into a bottomless mould. As the molten steel enters the water-cooled mould, it starts to cool into a pliable solid that can then be cut into required lengths.
Cooling-tower	A structure which cools heated refining process water by circulating the water through a series of louvers and baffles through which cool air is forced by large fans.
Cowper	A modern furnace to pre-heat the blast air to high temperatures in order to avoid cooling (and thus having to re-heat) the mix, and use fairly complex systems to extract the heat from the hot carbon dioxide when it escapes from the top of the furnace, further improving efficiency.
Debottlenecking	When the output of a multi-step process is limited by the capacity of one unit or activity, that unit or activity is a bottleneck. Debottlenecking a step in a process can increase the capacity of the other steps both upstream and downstream.
Direct Reduced Iron (*DRI*)	The product of iron oxide pellets, lump ores, and/or fines that have been reduced (i.e., oxygen removed) in a direct reduction process at temperatures in excess of 900° Celsius, thereby increasing the percentage (by weight) of total iron in the reduced product. All other oxides in the ore remain in their natural state.
Dolomite	A sedimentary rock composed largely of calcium magnesium carbonate.
Draglines	Large scale mining equipment for removing overburden and inter-zone rock intervals. The rock is removed along a long strip by dragging a bucket capable of holding up to 90 cubic metres until the top of the coal is exposed. Waste rock is deposited behind the active mining area on land under which the coal has already been removed. This waste rock is then smoothed and land surface reclamation to restore the surface to its pre-mining condition is undertaken.
Electric arc furnace (*EAF*)	A furnace that refines molten pig iron from the blast furnace and scrap into steel. In this process, the proportion of scrap used can be increased to 100 percent of the metal charge. Once the furnace is charged and covered, graphite electrodes are lowered through holes in the roof. The electric arc travelling between the electrodes and the metallic charge creates intense heat that melts the charge. Alloying elements can be added during the process.
Ferro-alloy	A metal product commonly used as a raw materials feed in steelmaking, usually containing iron and other metals that improve the physical and chemical properties of the final steel product.
Ferrous	Metals that consist primarily of iron.

Flat products	A product that is produced by rolls with smooth surfaces and ranges of dimension, varying in thickness and width. The major flat steel product categories are (i) thin flat products (up to 4mm in thickness), (ii) thick flat products (between 4 millimetres and 50 millimetres in thickness); and (iii) plates (over 50 millimetres in thickness). Flat products are used in the automotive and white-goods industries, for production of large welded pipes, shipbuilding, construction, major works and boilers. They include hot- and cold-rolled sheet, plates and coils.
Galvanised steel	See "*Coated Steel*".
Galvannealed	Steel that is zinc-iron alloy-coated by the hot-dip process followed by heating the steel to induce diffusion alloying between the molten zinc coating and the steel.
High Strength Low Alloy steel (*HSLA*)	A type of steel that provides many benefits over regular steel. It is much tougher and stronger than ordinary carbon-based steel. It is used in cars, trucks, cranes, bridges and other structures that must be able to handle a lot of strain.
Hot Briquetted Iron (*HBI*)	The form of DRI that has been compacted at a temperature greater than 650° Celsius at the time of compaction and has a density greater than 5.0 grams per cubic centimetre. Its higher density and pillow shape provide superior handling, shipping, storage and melting characteristics.
Hot-rolled steel	Steel rolled in a hot-rolling mill.
Hot-rolling	A process whereby solidified steel, preheated to a high temperature, is continuously rolled between rotating cylinders.
Ingot	An intermediate product made by pouring molten steel into moulds of given dimensions. In further processing steps carried out in a cogging mill, the ingots are transformed first to simple shape semi-finished products like blooms or slabs and then fed to hot-rolling mills. Ingot casting is now largely replaced by continuous casting.
Integrated metallurgical process	The process including all stages starting from raw coal and iron ore to rolling finished products at one site.
Ladle furnace	A furnace used for refining hot metal between the converter or electric arc furnaces and casting.
Lance (Oxygen)	A length of pipe used to convey oxygen onto a bath of molten metal. A steel tube, consumed during cutting, through which cutting oxygen passes, for the cutting or boring of holes.
Long products	Long products are used in all industrial sectors, particularly in the construction and engineering industries. They include all types of bars, wire rod and a wide range of cold-formed profiles like closed profile, S-shape profile, E-shape profile, trough-shape profile, angle profile and others. They also include pipes with circular, oblong and semi-oblong, square and rectangular cross sections of a wide range of sizes.
Long-wall mining	A mining technique in which large blocks of coal are removed in a single pass. This technique uses two tunnels which are about 1,500 metres long and 250 metres apart and are joined together at the end by a third tunnel. The third tunnel marks the spot where longwall mining starts.

Metallurgical lime	Quick lime. Slag-former and lining protector used in metallurgical processes.
Metalware	Small industrial, household and similar articles made of metal.
Middlings	The mixture of water, clay, sand and bitumen that remains between the bitumen froth at the surface and the sand at the bottom of a primary separation vessel.
Open-hearth furnace	A broad, shallow hearth to refine pig iron and scrap into steel (also known as a ***Martin furnace***). Heat is supplied from a large flame over the surface and the refining takes 7-9 hours.
Open-pit methods	Open-pit mining refers to a method of extracting rock or minerals from the earth by their removal from an open pit or borrow. The term is used to differentiate this form of mining from extractive methods that require tunnelling into the earth.
Pellets	Iron ore or limestone particles which are baked into little balls of a specified size in a balling drum and hardened by heat.
Pickling	The process in which the surface of the steel is cleaned with acid to remove scale, rust and dirt, such process being preparation for further processing, such as cold-rolling, galvanising or polishing.
Refining	A stage in the process of making crude steel, during which most residual impurities are removed from the crude steel and additions of other metals may be made before it is cast (see also "Ladle furnace").
Reinforcing bar or Rebar	A commodity-grade steel used to strengthen concrete in highway and building construction.
Run of mine (ROM)	The raw material from mining as it is delivered by the mine trucks, skips or conveyors prior to any treatment such as magnetic separation in the case of iron ore, or washing/flotation in the case of coal.
Scrap	Iron containing material (mainly industrial or household waste) that generally is remelted and recast into new steel. The scrap could be used as part of a metal charge together with pig iron loaded into steel-melting furnaces.
Semi-finished products	Steel products such as billet, blooms and slabs. These products can be made by direct continuous casting of hot steel or by pouring the liquid steel into ingots, which are then hot-rolled into semi-finished products.
Sinter	Particles in roughly one-inch chunks produced by mixing and baking iron ore concentrate and limestone flux prior to loading it into the blast furnaces for reduction into pig iron.
Slab	A semi-finished steel product obtained by rolling ingots on a rolling mill or processed through a continuous caster and cut into various lengths. The slab has a rectangular cross section and is used as a starting material in the production process of flat products.
Slag	A by-product, containing inert materials, produced during the blast- furnace smelting process and other steelmaking operations.
Slitting	Cutting a sheet of steel into narrower strips.

Strip	Flat steel products used for production of pipes. Strips with widths of less than 600 millimetres are used for large pipes with a spiral welded seam and smaller pipes with a straight-line welded seam. Large-diameter pipes (of up to 1,420 millimetres diameter) with a straight-line welded seam require strips up to 4,600 millimetres wide and 30 millimetres thick.
Tandem mill	A cold-rolling mill that gives greater strength, a more uniform and smoother surface, and a reduced thickness to the steel sheet. This mill rolls steel through a series of rolls, to achieve a desired thickness and surface quality.
Tempering	A process of re-heating quench-hardened or normalised steel to a temperature below the transformation range and then cooling at any rate desired. The primary purpose of tempering is to impart a degree of plasticity or toughness to the steel to alleviate the brittleness of its martensite.
Vacuum degasser	An advanced steel refining facility that removes oxygen, hydrogen and nitrogen under low pressures (in a vacuum) to produce ultra-low-carbon steel for demanding electrical and automotive applications. Normally performed in the ladle, the removal of dissolved gases results in cleaner, higher-quality, more pure steel.

INDEX TO FINANCIAL STATEMENTS

Annual Financial Statements for the years ended 31 December 2012, 2011 and 2010

Auditors' Report F-4
Consolidated income statements F-6
Consolidated statements of comprehensive income F-7
Consolidated statements of financial position F-8
Consolidated statements of cash flows F-9
Consolidated statements of changes in equity F-10
Notes to the consolidated financial statements F-11

Issuer's Annual Financial Statements for the year ended 31 December 2011

Report of the Statutory Auditor F-91
Balance sheet F-92
Profit and loss account F-96
Notes F-98

Issuer's Annual Financial Statements for the year ended 31 December 2010

Report of the Statutory Auditor F-106
Balance sheet F-107
Profit and loss account F-108
Notes F-109

OAO Severstal
and subsidiaries

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

OAO Severstal and subsidiaries

Consolidated financial statements
Years ended December 31, 2012, 2011 and 2010

Contents

		Page
Auditors' Report		1
Consolidated income statements		3
Consolidated statements of comprehensive income		4
Consolidated statements of financial position		5
Consolidated statements of cash flows		6
Consolidated statements of changes in equity		7
Notes to the consolidated financial statements		8-85
1.	Operations	8
2.	Basis for preparation of the consolidated financial statements	9
3.	Summary of the principal accounting policies	16
4.	Revenue	30
5.	Staff costs	30
6.	Loss on remeasurement and disposal of financial investments	31
7.	(Impairment)/reversal of impairment of non-current assets	31
8.	Net other non-operating expenses	36
9.	Taxation	37
10.	Related party transactions	39
11.	Related party balances	40
12.	Cash and cash equivalents	41
13.	Short-term bank deposits	41
14.	Short-term financial investments	41
15.	Trade accounts receivable	41
16.	Inventories	41
17.	Other current assets	42
18.	Long-term financial investments	42
19.	Investments in associates and joint ventures	42
20.	Property, plant and equipment	44
21.	Intangible assets	46
22.	Debt finance	47
23.	Other current liabilities	49
24.	Retirement benefit liabilities	50
25.	Other non-current liabilities	52
26.	Shareholders' equity	54
27.	Discontinued operations and assets held for sale	56
28.	Subsidiaries, associates and joint ventures	61
29.	Segment information	68
30.	Financial instruments	75
31.	Commitments and contingencies	84
32.	Subsequent events	85

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

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

Auditors' Report

To the Shareholders and Board of Directors

OAO Severstal

We have audited the accompanying consolidated financial statements of OAO 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: OAO 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
Revenue				
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)
Gross profit		3,318,414	4,909,178	4,102,352
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)
Profit from operations		1,370,833	2,917,357	2,205,306
(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)
Profit before financing and taxation		1,246,180	2,852,414	2,081,577
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
Profit before income tax		1,036,921	2,428,974	1,674,123
Income tax expense	9	(263,485)	(466,012)	(427,306)
Profit from continuing operations		773,436	1,962,962	1,246,817
Profit/(loss) from discontinued operations	27	46,363	210,773	(1,761,396)
Profit/(loss) for the period		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**
Profit/(loss) for the period	819,799	2,173,735	(514,579)
Other comprehensive income/(loss)			
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)	-	-
Other comprehensive income/(loss) for the period, net of tax	173,840	(430,448)	(214,468)
Total comprehensive income/(loss) for the period	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
Assets				
Current assets:				
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
Total current assets		5,696,694	8,929,776	9,570,727
Non-current assets:				
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
Total non-current assets		10,010,521	8,980,015	9,837,654
Total assets		15,707,215	17,909,791	19,408,381
Liabilities and shareholders' equity				
Current liabilities:				
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
Total current liabilities		3,369,662	5,369,798	6,379,027
Non-current liabilities:				
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
Total non-current liabilities		5,122,310	5,472,670	5,679,701
Equity:				
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
Total equity attributable to shareholders of OAO Severstal		7,194,460	6,679,496	7,034,939
Non-controlling interests		20,783	387,827	314,714
Total equity		7,215,243	7,067,323	7,349,653
Total equity and liabilities		15,707,215	17,909,791	19,408,381

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
Operating activities:			
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)
Cash generated from operations	2,374,325	3,132,384	2,401,181
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)
Net cash from operating activities	1,750,359	2,579,435	1,259,174
Investing activities:			
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)
Cash used in investing activities	(1,102,026)	(1,901,520)	(1,499,266)
Financing activities:			
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)
Cash used in financing activities	(835,103)	(539,054)	(287,881)
Effect of exchange rates on cash and cash equivalents	7,339	(70,852)	(104,719)
Net (decrease)/increase in cash and cash equivalents	(179,431)	68,009	(632,692)
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)
Cash and cash equivalents at beginning of the period	1,863,538	2,012,662	2,853,376
Cash and cash equivalents at end of the period	1,726,275	1,863,538	2,012,662

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.

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 depositary 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.

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.

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

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.

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.

Standards and Interpretations	Effective for annual periods beginning on or after
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

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:

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

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.

Standards	Effective for annual periods beginning on or after
IAS 1 (Amended) "Presentation of financial statements"	July 1, 2012, January 1, 2013
IAS 16 (Amended) "Property, Plant and Equipment"	January 1, 2013
IAS 27 (Amended) "Separate financial statements"	January 1, 2013, 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

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.

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

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

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.

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.

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

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.

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.

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

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.

l. 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.

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

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.

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.

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.

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.

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
	14,103,706	15,812,400	12,819,118

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
	14,103,706	15,812,400	12,819,118

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)
	(2,070,480)	(1,887,284)	(1,460,385)

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.

6. Loss on remeasurement and disposal of financial investments

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

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)
	(54,117)	438	(80,130)

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

- 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.

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).

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.

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.

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

	Year ended December 31,		
	2012	**2011**	**2010**
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
	(70,536)	(65,381)	(43,599)

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	(263,485)	(466,012)	(427,306)

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	(263,485)	(466,012)	(427,306)

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	606,810	622,987	627,509
Less offsetting with deferred tax liabilities	(506,014)	(523,336)	(523,732)
Recognized deferred tax assets	100,796	99,651	103,777

	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	(844,092)	(810,462)	(1,038,803)
Less offsetting with deferred tax assets	506,014	523,336	523,732
Recognized deferred tax liabilities	(338,078)	(287,126)	(515,071)
Net deferred tax liability	(237,282)	(187,475)	(411,294)

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	(237,282)	(187,475)	(411,294)

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
	2,419.2	2,064.2	2,116.9

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).

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

11. Related party balances

	December 31,		
	2012	2011	2010
Joint ventures' balances			
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
Associates' balances			
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
Other related party balances			
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.

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).

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
	302,120	327,163	298,183

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
	108,060	182,262	204,542

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
Associates			
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
Joint ventures			
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
	316,503	301,315	158,564

The following is summarized financial information in respect of associates:

	December 31,		
	2012	2011	2010
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

	Year ended December 31,		
	2012	2011	2010
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:

	December 31,		
	2012	2011	2010
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

	Year ended December 31,		
	2012	2011	2010
Revenue	546,587	609,852	91,749
Net (loss)/income	(12,100)	19,785	6,095

20. Property, plant and equipment

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction-in-progress	Total
Cost:						
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.

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction-in-progress	Total
Depreciation and impairment:						
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	835,052	3,682,501	219,337	69,686	44,425	4,851,001
Net book values:						
December 31, 2010	1,392,947	3,674,348	113,764	42,410	2,076,380	7,299,849
December 31, 2011	1,448,569	4,087,263	199,243	35,850	1,692,469	7,463,394
December 31, 2012	1,523,090	4,745,470	257,356	50,464	1,886,331	8,462,711

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

21. Intangible assets

	Goodwill	Mineral rights	Software	Evaluation and exploration assets	Other intangible assets	Total
Cost:						
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
Amortization and impairment:						
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
Net book values:						
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

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)
	5,709,540	5,976,098	6,146,477
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
	5,709,540	5,976,098	6,146,477
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
	5,709,540	5,976,098	6,146,477

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

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.

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
	637,947	655,420	554,577

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.

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	66,590	59,841	55,427

* 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
	273,059	230,517	237,109

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
	66,590	59,841	55,427

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.

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
	255,268	233,179	277,149

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	136,495	119,302	182,894

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.

	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

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:

	Number of shares, mln.	US$'000
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:

	Number of shares, mln.
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

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:

	Treasury shares
Balance before Gold segment separation	26,303
Gold segment separation effect:	
Gold segment's net identifiable assets	2,290,388
Net identifiable assets attributable to non-controlling interests	(274,892)
Disposal costs	12,507
Intercompany debts	(364,164)
Repurchase of issued shares	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:

	Year ended December 31,		
	2012	2011	2010
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

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.

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)
Profit/(loss) before income tax	87,820	229,283	(1,616,703)
Income tax expense	(10,112)	(77,605)	(144,693)
Profit/(loss) net of tax	77,708	151,678	(1,761,396)
Net (loss)/gain on disposal	(31,345)	59,095	-
Profit/(loss) for the period	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.

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).

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.

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**
Current assets:			
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
Total current assets	-	742,663	2,152,563
Non-current assets:			
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
Total non-current assets	-	1,934,647	1,357,319
Total assets	-	2,677,310	3,509,882
Current liabilities:			
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
Total current liabilities	-	274,634	2,043,774
Non-current liabilities:			
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
Total non-current liabilities	-	275,489	1,228,580
Total liabilities	-	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.

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, 2012	2011	2010	Location	Activity
Severstal Russian Steel segment:					
Subsidiaries:					
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
Associates:					
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.

Company	December 31, 2012	2011	2010	Location	Activity
Severstal Russian Steel segment (continue):					
Joint ventures:					
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
Subsidiary classified as held for sale:					
OOO Severstal-metiz: welding consumables	n/a	n/a	100.0%	Russia	Welding consumables
Severstal International segment:					
Subsidiaries:					
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
Associate:					
Delaco Processing LLC	49.0%	49.0%	49.0%	USA	Steel slitting
Joint ventures:					
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
Subsidiaries classified as discontinued operations:*					
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
Lucchini segment (classified as discontinued operation)*:					
Subsidiaries:					
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
Associates:					
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.

Company	December 31, 2012	2011	2010	Location	Activity
Severstal Resources segment:					
Subsidiaries:					
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
Associates:					
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
Gold segment (classified as discontinued operation)*:					
Subsidiaries:					
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.

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%.

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:

	Year ended December 31,		
	2012	**2011**	**2010**
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

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.

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 %.

29. Segment information

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

	Severstal Resources		Severstal Russian Steel	Severstal International	Inter segment balances	Conso-lidated
Assets						
Current assets:						
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
Total current assets	2,976,118		4,820,652	1,090,417	(3,190,493)	5,696,694
Non-current assets:						
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
Total non-current assets	3,197,974		10,381,290	2,996,314	(6,565,057)	10,010,521
Total assets	6,174,092		15,201,942	4,086,731	(9,755,550)	15,707,215
Liabilities						
Current liabilities:						
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
Total current liabilities	459,623		4,168,380	1,376,909	(2,635,250)	3,369,662
Non-current liabilities:						
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
Total non-current liabilities	1,058,555		4,183,617	1,387,484	(1,507,346)	5,122,310
Equity	4,655,914	**	6,849,945	1,322,338	(5,612,954)	7,215,243
Total equity and liabilities	6,174,092		15,201,942	4,086,731	(9,755,550)	15,707,215

* 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).

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

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

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

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

	Severstal Resources	Gold	Severstal Russian Steel	Lucchini	Severstal International	Inter segment balances	Conso-lidated
Assets							
Current assets:							
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
Total current assets	656,848	567,734	5,107,044	1,853,849	2,460,032	(1,074,780)	9,570,727
Non-current assets:							
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
Total non-current assets	2,964,269	1,911,748	10,279,998	-	2,361,045	(7,679,406)	9,837,654
Total assets	3,621,117	2,479,482	15,387,042	1,853,849	4,821,077	(8,754,186)	19,408,381
Liabilities							
Current liabilities:							
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
Total current liabilities	542,610	467,769	2,334,029	2,026,696	2,149,396	(1,141,473)	6,379,027
Non-current liabilities:							
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
Total non-current liabilities	569,094	386,107	4,009,774	-	1,459,060	(744,334)	5,679,701
Equity	2,509,413	1,625,606	9,043,239	(172,847)	1,212,621	(6,868,379)	7,349,653
Total equity and liabilities	3,621,117	2,479,482	15,387,042	1,853,849	4,821,077	(8,754,186)	19,408,381

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

	Severstal Resources	Gold	Severstal Russian Steel	Severstal International	Inter segment transactions	Conso-lidated
Revenue						
Revenue - third parties	1,611,174	-	8,426,091	3,878,340	-	13,915,605
Revenue - related parties	1,393,381	-	191,039	145	(1,396,464)	188,101
	3,004,555	-	8,617,130	3,878,485	(1,396,464)	14,103,706
Cost of sales	(1,724,862)	-	(6,711,442)	(3,774,920)	1,425,932	(10,785,292)
Gross profit	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)	3,726	-	27,267	(5,025)	(5,725)	20,243
Profit/(loss) from operations	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)
Profit/(loss) before financing and taxation	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
Profit/(loss) before income tax	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)
Profit/(loss) from continuing operations	1,085,144	-	751,113	(151,336)	(911,485)	773,436
Profit/(loss) from discontinued operations	-	153,797	-	(107,434)	-	46,363
Profit/(loss) for the period	1,085,144	153,797	751,113	(258,770)	(911,485)	819,799
Additional information:						
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.

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

	Severstal Resources	Gold	Severstal Russian Steel	Lucchini	Severstal International	Inter segment transactions	Conso-lidated
Revenue							
Revenue - third parties	1,762,604	-	10,388,391	-	3,422,095	-	15,573,090
Revenue - related parties	1,948,828	-	158,440	-	-	(1,867,958)	239,310
	3,711,432	-	10,546,831	-	3,422,095	(1,867,958)	15,812,400
Cost of sales	(1,745,500)	-	(7,748,673)	-	(3,291,548)	1,882,499	(10,903,222)
Gross profit	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)
Profit from operations	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)
Profit before financing and taxation	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)
Profit/(loss) before income tax	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)
Profit/(loss) from continuing operations	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
Profit/(loss) for the period	1,071,618	277,582	948,465	129,217	(267,673)	14,526	2,173,735
Additional information:							
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)	-

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

	Severstal Resources	Gold	Severstal Russian Steel	Lucchini	Severstal International	Inter segment transactions	Conso-lidated
Revenue							
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
	2,732,016	-	8,814,754	-	2,911,512	(1,639,164)	12,819,118
Cost of sales	(1,387,112)	-	(6,006,406)	-	(2,909,333)	1,586,085	(8,716,766)
Gross profit	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	(10,997)	-	(2,855)	-	1,473	(3,574)	(15,953)
Profit/(loss) from operations	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	(17,088)	-	(26,511)	-	-	-	(43,599)
Profit/(loss) before financing and taxation	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	62,214	-	47,522	-	-	-	109,736
Profit/(loss) before income tax	839,563	-	1,180,131	-	(254,134)	(91,437)	1,674,123
Income tax expense	(144,722)	-	(235,830)	-	(58,505)	11,751	(427,306)
Profit/(loss) from continuing operations	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)
Profit/(loss) for the period	694,841	148,700	944,301	(1,210,076)	(1,055,323)	(37,022)	(514,579)
Additional information:							
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)	-

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
	9,439,839	8,342,643	9,370,771

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.

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:

	December 31, 2012		
	Market value	**Book value**	**Difference**
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
	4,897,384	4,662,417	234,967

	December 31, 2011		
	Market value	**Book value**	**Difference**
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
	3,881,419	3,875,342	6,077

	December 31, 2010		
	Market value	**Book value**	**Difference**
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
	3,603,949	3,427,904	176,045

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.

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.

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)
	1,160,229	(105,045)	1,343,097	(89,959)	1,041,096	(67,250)

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	(105,045)	(89,959)	(67,250)

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).

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.

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

December 31, 2012

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
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)	-
Derivative financial liabilities	11,532	(13,487)	(11,899)	(1,588)	-	-
	7,009,088	(8,513,851)	(2,885,755)	(925,358)	(3,172,330)	(1,530,408)

December 31, 2011

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
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)	-
Derivative financial liabilities	38,180	(43,089)	(15,286)	(26,360)	(1,443)	-
	7,340,745	(8,639,180)	(2,768,167)	(1,806,167)	(2,360,540)	(1,704,306)

December 31, 2010

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
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)
Derivative financial liabilities	22,286	(28,445)	(9,377)	(4,642)	(14,426)	-
	7,204,812	(8,785,048)	(2,804,588)	(1,137,289)	(2,652,664)	(2,190,507)

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.

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

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
Net profit			
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
Variable rate instruments			
Financial assets	44,219	21,091	31,386
Financial liabilities	(978,008)	(1,942,638)	(2,279,275)
	(933,789)	(1,921,547)	(2,247,889)

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

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**
December 31, 2012		
Financial assets	442	(442)
Financial liabilities	(8,897)	8,897
Cash flow sensitivity (net)	(8,455)	8,455
December 31, 2011		
Financial assets	28	(28)
Financial liabilities	(14,304)	14,304
Cash flow sensitivity (net)	(14,276)	14,276
December 31, 2010		
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)

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:

	Available-for-sale financial assets	Held-for-trading securities
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	-

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).

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.

Steel Capital S.A.
Société Anonyme

Report of the Statutory Auditor
on the annual accounts as at December 31, 2011

2, boulevard Konrad Adenauer
L-1115 Luxembourg
R.C.S. Luxembourg B 116.975

Steel Capital S.A.

INDEX

Report of the Statutory Auditor

Balance sheet

Profit and Loss Account

Notes

STATUTORY AUDITOR'S REPORT

To the shareholders of

Steel Capital S.A.
Société Anonyme
2, boulevard Konrad Adenauer
L-1115 Luxembourg

In accordance with legal and statutory requirements, we have the honor to report to you on the statutory audit assignment that you have entrusted to us during your annual general meeting on June 3, 2011, for the year ending as at December 31, 2011.

We have conducted our assignment in accordance with article 62 of the amended law of August 10, 1915 on commercial companies which does not impose the statutory auditor to express an opinion on the annual accounts. Therefore, we have not examined the annual accounts in accordance with international standards on auditing.

We found that the annual accounts for the year ending as of December 31, 2011, with a balance sheet total of EUR 1 906 761 881,00 and a NIL result for the period, are in accordance with the accounting records and the supporting documents submitted to us.

We have no comments to make on the annual accounts.

Luxembourg, May 4, 2012

Fiduciaire Patrick Sganzerla S.à r.l.
Statutory Auditor
Represented by Patrick Sganzerla, Managing Partner

Helpdesk Comptes annuels

Tél. : (+352) 26 428-1
Email : helpdesk@rcsl.lu

No. RCSL : B 116 975 | Matricule : 2006 2214 261

BALANCE SHEET

Financial year from 01 **01/01/2011** **to** 02 **31/12/2011** **(in** 03 **EUR)**

STEEL CAPITAL S.A.
2 boulevard Konrad Adenauer
L-1115 Luxembourg

ASSETS

		Financial year		Previous financial year
A. Subscribed capital unpaid	101		102	
I. Subscribed capital not called	103		104	
II. Subscribed capital called but not paid	105		106	
B. Formation expenses	107		108	
C. Fixed assets	109	**1 863 865 598**	110	**1 444 801 566**
I. Intangible assets	111		112	
1. Costs or research and development	113		114	
2. Concessions, patents, licences, trade marks and similar rights and assets, if they were	115		116	
a) acquired for valuable consideration and need not be shown under C.I.3	117		118	
b) created by the undertaking itself	119		120	
3. Goodwill, to the extent that it was acquired for valuable consideration	121		122	
4. Payments on account and tangible fixed assets under development	123		124	
II. Tangible assets	125		126	
1. Land and buildings	127		128	
2. Plant and machinery	129		130	
3. Other fixtures and fittings, tools and equipment	131		132	
4. Payments on account and tangible assets in course of construction	133		134	
III. Financial assets	135		136	
1. Shares in affiliated undertakings	137		138	
2. Loans to affiliated undertakings	139	**1 863 865 598**	140	**1 444 801 566**
3. Shares in undertakings with which the company is linked by virtue of participating interests	141		142	
4. Loans to undertakings with which the company is linked by virtue of participating interests	143		144	
5. Investments held as fixed assets	145		146	
6. Loans and claims held as fixed assets	147		148	
7. Own shares or own corporate units	149		150	

No. RCSL : B 116 975	Matricule : 2006 2214 261

		Financial year		Previous financial year
D. Current assets	151	**42 896 283**	152	**31 555 840**
I. Stocks	153		154	
1. Raw materials and consumables	155		156	
2. Work and contracts in progress	157		158	
3. Finished goods and goods for resale	159		160	
4. Payments on account	161		162	
II. Debtors	163	**42 893 875**	164	**31 538 582**
1. Trade debtors	165		166	
a) becoming due and payable after less than one year	167		168	
b) becoming due and payable after more than one year	169		170	
2. Amounts owed by affiliated undertakings	171	**42 892 487**	172	**31 538 432**
a) becoming due and payable after less than one year	173	**42 892 487**	174	**31 538 432**
b) becoming due and payable after more than one year	175		176	
3. Amounts owed by undertakings with which the company is linked by virtue of participating interests	177		178	
a) becoming due and payable after less than one year	179		180	
b) becoming due and payable after more than one year	181		182	
4. Other debtors	183	**1 388**	184	**150**
a) becoming due and payable after less than one year	185	**1 388**	186	**150**
b) becoming due and payable after more than one year	187		188	
III. Investments	189		190	
1. Shares in affiliated undertakings and in undertakings with which the company is linked by virtue of participating interets	191		192	
2. Own shares or own corporate units	193		194	
3. Other investments	195		196	
IV. Cash at bank and in hand	197	**2 408**	198	**17 258**
E. Prepayments and accrued income	199		200	
TOTAL (ASSETS)	201	**1 906 761 881**	202	**1 476 357 406**

No. RCSL : B 116 975 Matricule : 2006 2214 261

LIABILITIES

		Financial year		Previous financial year
A. Capital and reserves	301	**31 000**	302	**31 000**
I. Subscribed capital	303	31 000	304	31 000
II. Share premium and similar premiums	305		306	
III. Revaluation reserves	307		308	
IV. Reserves	309		310	
1. Legal reserve	311		312	
2. Reserves for own shares	313		314	
3. Reserves provided for by the articles of association	315		316	
4. Other reserves	317		318	
V. Profit or loss brought forward	319		320	
VI. Result for the financial year	321		322	
VII. Interim dividends	323		324	
VIII. Investment subsidies	325		326	
IX. Immunised appreciation	327		328	
B. Subordinated creditors	329		330	
C. Provisions	331	**216 854**	332	**12 716**
1. Provisions for pensions and similar obligations	333		334	
2. Provisions for taxation	335	200 941	336	
3. Other provisions	337	15 913	338	12 716
D. Non subordinated debts	339	**1 906 514 027**	340	**1 476 313 690**
1. Debenture loans	341		342	
a) Convertible loans	343		344	
i) becoming due and payable after less than one year	345		346	
ii) becoming due and payable after more than one year	347		348	
b) Non convertible loans	349	**1 863 865 598**	350	**1 444 801 566**
i) becoming due and payable after less than one year	351		352	
ii) becoming due and payable after more than one year	353	1 863 865 598	354	1 444 801 566
2. Amount owed to credit institutions	355		356	
i) becoming due and payable after less than one year	357		358	
ii) becoming due and payable after more than one year	359		360	
3. Payment received on account of orders in so far as they are not shown separately as deductions from stocks	361		362	
i) becoming due and payable after less than one year	363		364	
ii) becoming due and payable after more than one year	365		366	
4. Trade creditors	367		368	
i) becoming due and payable after less than one year	369		370	
ii) becoming due and payable after more than one year	371		372	

		Financial year	Prevous financial year
5.	Bills of exchange payable	373	374
a)	becoming due and payable after less than one year	375	376
b)	becoming due and payable after more than one year	377	378
6.	Amount owed to affiliated undertakings	379	380
a)	becoming due and payable after less than one year	381	382
b)	becoming due and payable after more than one year	383	384
7.	Amounts owed to undertakings with which the company is linked by virtue of participating interests	385	386
a)	becoming due and payable after less than one year	387	388
b)	becoming due and payable after more than one year	389	390
8.	Tax and social security	391	392
a)	Tax	393	394
b)	Social security	395	396
9.	Other creditors	397 42 648 429	398 31 512 124
a)	becoming due and payable after less than one year	399 **42 648 429**	400 **31 512 124**
b)	becoming due and payable after more than one year	401	402
E.	**Accruals and deferred income**	403	404
	TOTAL (LIABILITIES)	405 **1 906 761 881**	406 **1 476 357 406**

Helpdesk Comptes annuels	No. RCSL : B 116 975	Matricule : 2006 2214 261
Tél. : (+352) 26 428-1 Email : helpdesk@rcsl.lu		

PROFIT AND LOSS ACCOUNT

Financial year from 01/01/2011 **at** 02 31/12/2011 (*in* 0 EUR)

STEEL CAPITAL S.A.
2 boulevard Konrad Adenauer
L-1115 Luxembourg

A. CHARGES

		Financial year		Previous financial year
1. Raw materials and consumables	601		602	
2. Other external charges	603		604	
3. Staff costs	605		606	
a) Wages and salaries	607		608	
b) Social security costs	609		610	
c) Social security costs relating to pensions	611		612	
d) Other social security costs	613		614	
4. Value adjusments	615		616	
a) On formation expenses and on tangible and intangible fixed assets	617		618	
b) On elements of current assets	619		620	
5. Other operating charges	621	**891 856**	622	**4 460 037**
6. Value adjustments and fair value adjustments on financial fixed assets	623		624	
7. Value adjustments and fair value adjustments on financial current assets. Loss on disposal of transferable securities	625		626	
8. Interest payable and similar charges	627	**120 779 237**	628	**118 762 287**
a) Concerning affiliated undertakings	629		630	
b) Other interest payable and similar charges	631	120 779 237	632	118 762 287
9. Extraordinary charges	633		634	
10. Tax on profit or loss	635	**200 941**	636	
11. Other taxes not included in the previous caption	637		638	
12. Profit for the financial year	639		640	
TOTAL CHARGES	641	**121 872 034**	642	**123 222 324**

No. RCSL : B 116 975	Matricule : 2006 2214 261

B. INCOME

		Financial year		Previous financial year
1. Net turnover	701		702	
2. Change in inventories of finished goods and of work and contracts in progress	703		704	
3. Fixed assets under development	705		706	
4. Reversal of value adjustments	707		708	
a) On formation expenses and on tangible and intangible fixed assets	709		710	
b) On elements of current assets	711		712	
5. Other operating income	713	**1 092 797**	714	**4 460 037**
6. Income from financial fixed assets	715	**120 779 237**	716	**118 762 287**
a) Derived from affiliated undertakings	717	120 779 237	718	118 762 287
b) Other income from participating interests	719		720	
7. Income from financial current assets	721		722	
a) Derived from affiliated undertakings	723		724	
b) Other income	725		726	
8. Other interests and other financial income	727		728	
a) Derived from affiliated undertakings	729		730	
b) Other interest receivable and similar income	731		732	
9. Extraordinary income	733		734	
10. Loss for the financial year	735		736	
TOTAL INCOME	737	**121 872 034**	738	**123 222 324**

STEEL CAPITAL S.A.
société anonyme
Registered Office: 2, boulevard Konrad Adenauer
L-1115 Luxembourg
R.C.S. Luxembourg B 116.975
(the "Company")

Notes to the Annual Accounts
for the year ended 31 December 2011

Note 1 - General information

STEEL CAPITAL S.A. is a Luxembourg Company incorporated on 11 May 2006, for an unlimited duration, as a public limited Company «société anonyme» and is subject to the Luxembourg law of August 10, 1915, as subsequently amended.

The registered office of the Company is established at 2, boulevard Konrad Adenauer, L-1115 Luxembourg.

The Company's financial year starts on 1 January and ends on 31 December of each year.

The Company shall have as its business purpose the issue of loan participation notes for the purpose of financing loans to Open Joint Stock Company Severstal and to its affiliated companies, the granting of security interests over its assets in relation to the issuance of the loan participation notes and the making of deposits at banks or with other depositaries.

The Company may carry out any transaction, whether commercial or financial, which are directly or indirectly connected with its corporate object at the exclusion of any banking activity. In general, the Company may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Note 2 - Summary of significant accounting policies

Note 2.1 - Basis of preparation

The Annual Accounts have been prepared in accordance with Luxembourg legal and regulatory requirements under the historical cost convention.

Accounting policies and valuation rules are, besides the ones laid down by the Law of 19 December 2002, determined and applied by the Board of Mangers.

Since the implementation of the New Law of 10 December 2010 modifying the law of 19 December 2002, the layout of the balance sheet set forth in article 34 has been modified.

The preparation of Annual Accounts requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise their judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the Annual Accounts in the period in which the assumptions changed. The Directors believe that the underlying assumptions are appropriate and that the Annual Accounts therefore present the financial position and results fairly.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities in the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Note 2.2 - Significant accounting policies

The main valuation rules applied by the Company are the following:

Note 2.2.1 - Financial fixed assets

Historical cost model

Valuation at purchase price
The Loans and claims held as fixed assets are valued at nominal value including the expenses incidental thereto.

Notes to the Annual Accounts
for the year ended 31 December 2011 *(continued)*

Note 2 - Summary of significant accounting policies *(continued)*

Note 2.2 - Significant accounting policies *(continued)*

Note 2.2.1 - Financial fixed assets *(continued)*
In the case of durable depreciation in value according to the opinion of the Board of Directors, value adjustments are made in respect of fixed assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

Note 2.2.2 - Debtors
Debtors are valued at their nominal value. They are subject to value adjustments where their recovery is compromised. These value adjustments are not continued if the reasons for which the value adjustments we made have ceased to apply.

Note 2.2.3 - Foreign currency translation
Transactions expressed in currencies other than the currency of the Annual Accounts are translated into currency of the Annual Accounts at the exchange rate effective at the time of the transaction.

Cash at bank is translated at the exchange rate effective at the Balance Sheet date. Exchange losses and gains are recorded in the Profit and Loss Account of the year.

Other assets and liabilities are translated separately respectively at the lower or at the higher of the value converted at the historical exchange rate or the value determined on the basis of the exchange rates effective at the Balance Sheet date. The realised and unrealised exchange losses are recorded in the Profit and loss account. The exchange gains are recorded in the Profit and Loss account at the moment of their realisation.

Where there is an economic link between an asset and a liability, these are valued in total according to the method described above and the net unrealised losses are recorded in the Profit and Loss account and the net unrealised exchange gains are not recognised.

Note 2.2.4 - Provisions
Provisions are intended to cover losses or debts, the nature of which is clearly defined and which, at the date the balance sheet, are either likely to be incurred or certain to be incurred but uncertain as to their amount the date on which they will arise.

Provisions may also be created to cover charges which originate in the financial year under review or in a previous financial year, the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred or certain to be incurred but uncertain as to their amount or the date on which it will arise.

Provision for taxation

Current tax provision
Provisions for taxation corresponding to the difference between the tax liability estimated by the Company and the advance payments for the financial years for which the tax return has not yet been filed are recorded under the caption "Tax debts".

Note 2.2.5 - Subscribed capital
The subscribed capital of the Company consists of 310 shares with a par value of EUR 100 each (EUR 31.000). As at 31 December 2011, 310 shares were issued and fully paid.

Notes to the Annual Accounts
for the year ended 31 December 2011 *(continued)*

Note 2 - Summary of significant accounting policies *(continued)*

Note 2.2 - Significant accounting policies *(continued)*

Note 2.2.6 - Legal reserve
In accordance with Luxembourg Company law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders.

Note 3 - Financial fixed assets

Loans to affiliated undertakings, in the amount of **EUR 1.863.865.598,** are comprised as follows:

Loan to OAO Severstal:							
Currency	Loan amount	Interest rate	Maturity date	Balance as at 1-Jan-2011 EUR	(Disposals) / additions during the year EUR	Foreign currency revaluation EUR	Balance as at 31-Dec-2011 EUR
USD	543 552 000	9.75%	29 July 2013	409 332 028	-	9 558 231	418 890 259
USD	375 000 000	9.25%	19 April 2014	282 400 783	-	6 594 285	288 995 068
USD	1 000 000 000	6.70%	25 April 2017	753 068 755	-	17 584 759	770 653 514
USD	500 000 000	6.25%	26 July 2016	-	345 208 506	40 118 251	385 326 757
				1 444 801 566	**345 208 506**	**73 855 526**	**1 863 865 598**

The Company issues Loan Participation Notes for the sole purpose of financing loan to OAO Severstal.

On 25 July 2008, the Company issued a USD 1.250.000.000 Loan Participation Notes due 2013. Interest is receivable on a semi-annual basis, every 29 January and 29 July, starting on 29 January 2009. On 28 October 2010, the Notes was repurchased for an aggregate principal amount of USD 706.448.000 and interest amount of USD 17.028.340. The corresponding loan amount was reduced by the same amount.

On 30 June 2008, following the supplemental loan agreement, the Company acquired the rights and assume the obligation of the USD 375.000.000 Loan Participation Notes due 2014, issued by Citibank on 14 April 2004. Interest is receivable on a semi-annual basis, every 19 April and 19 October.

On 19 October 2010, the Company issued a USD 1.000.000.000 Loan Participation Notes due 2017. Interest is receivable on a semi-annual basis, every 25 April and 25 October, starting on 25 April 2011.

On 26 July 2011, the Company issued a USD 500.000.000 6.25% Loan Participation Notes due 2016. Interest is receivable on a semi-annual basis, every 26 January and 26 July, starting on 26 January 2012.

Note 4 - Amounts owed by affiliated undertakings

	31-Dec-2011 EUR	31-Dec-2010 EUR
Amounts owed by affiliated undertakings, in the amount of **EUR 42.892.487**, are comprised as follows:		
Interest receivable on loans	42 569 382	31 465 598
Arrangement fees receivable	323 105	72 834
	42 892 487	**31 538 432**

Notes to the Annual Accounts
for the year ended 31 December 2011 ***(continued)***

Note 5 - Cash at bank	**31-Dec-2011**	**31-Dec-2010**
	EUR	**EUR**
Cash at bank, in the amount of **EUR 2.408**, are comprised as follows:		
Cash account with Deutsche Bank Luxembourg S.A. - USD	2 408	16 783
Cash account with Deutsche Bank Luxembourg S.A. - EUR	-	475
	2 408	**17 258**

Note 6 - Capital and reserves

The carrying value of the capital and reserves is comprised as follows:

Balance at year end	**31 000**	**31 000**

Note 7 - Provisions for taxation

Provisions for taxation, in the amount of **EUR 200.941**, are comprised as follows:

Corporate tax - 2008	27 272	-
Corporate tax - 2009	50 591	-
Corporate tax - 2010	53 640	-
Corporate tax - 2011	69 438	-
	200 941	**-**

Note 8 - Other provisions

Other provisions, in the amount of **EUR 15.913**, are comprised as follows:

Administration fees	10 255	7 188
Accountancy fees	4 025	4 025
Audit fees	1 458	1 328
Other costs	175	175
	15 913	**12 716**

Note 9 - Non-convertible loans

Non-convertible loans issued, in the amount of **EUR 1.863.865.598**, are comprised as follows:

Notes	**Currency**	**Notes Outstanding**	**Interest rate**	**Maturity date**	**Balance as at 1-Jan-2011**	**additions during the year**	**Foreign currency revaluation**	**Balance as at 31-Dec-2011**
					EUR	**EUR**	**EUR**	**EUR**
Notes 1	USD	543 552 000	9.75%	29 July 2013	409 332 028	-	9 558 231	418 890 259
Notes 2	USD	375 000 000	9,25%	19 April 2014	282 400 783	-	6 594 285	288 995 068
Notes 3	USD	1 000 000 000	6,70%	25 April 2017	753 068 755	-	17 584 759	770 653 514
Notes 4	USD	500 000 000	6.25%	26 July 2016	-	345 208 506	40 118 251	385 326 757
					1 444 801 566	**345 208 506**	**73 855 526**	**1 863 865 598**

Notes to the Annual Accounts
for the year ended 31 December 2011 *(continued)*

Note 10 - Other creditors	**31-Dec-2011**	**31-Dec-2010**
	EUR	**EUR**
Other creditors, in the amount of **EUR 42.648.429,** are comprised as follows:		
Interest payable on Notes	42 569 382	31 465 598
Professional fees	51 043	41 948
Administration fees	19 254	-
Accountancy fees	8 050	-
Other costs	700	350
Listing fees	-	4 228
	42 648 429	**31 512 124**

Note 11 - Other operating charges	**Year ended 0-Jan-1900**	**Year ended 31-Dec-2010**
	EUR	**EUR**
Other operating charges, in the amount of **EUR 891.856**, are comprised as follows:		
Joint lead managers fees	770 137	4 255 046
Professional fees	76 520	173 156
Administration fees	33 978	17 529
Accountancy fees	8 050	8 050
Audit fees	1 456	1 328
Net foreign exchange loss	997	-
Other costs	700	700
Listing fees	18	4 228
	891 856	**4 460 037**

Note 12 - Interest payable and similar charges

Interest payable and similar charges, in the amount of **EUR 120.779.237**, is comprised as follows:		
Interest payable on Notes	**120 779 237**	**118 762 287**

Notes to the Annual Accounts
for the year ended 31 December 2011 ***(continued)***

Note 13 - Other operating income	**Year ended 31-Dec-2011 EUR**	**Year ended 31-Dec-2010 EUR**
Other operating income, in the amount of **EUR 1.092.797**, are comprised as follows:		
Recharge of ongoing fees and expenses	1 092 797	4 443 463
Net foreign exchange gains	-	16 574
	1 092 797	**4 460 037**

Note 14 - Income from financial fixed assets

Income from financial fixed assets derived from affiliated undertakings, in the amount of **EUR 120.779.237,** is comprised as follows:

Interest receivable on loans	**120 779 237**	**118 762 287**

Note 15 - Personnel

During the year under review, the Company did not employ any personnel and, consequently, no payments for wages, salaries or social securities were made.

Note 16 -Taxation

The Company is subject to the general tax regulations to all commercial companies in Luxembourg.

Note 17 - Subsequent events

There were no significant events since 31 December 2011, which could influence the presentation of the current Annual Accounts.

Note 18 - Related party transactions

During the financial year, there were no significant transactions entered into with related parties.

During the year, the Company incurred a fee of EUR 39.311 (2010: EUR 25.929) relating to administration services provided by Deutsche Bank Luxembourg S.A. In the opinion of the Directors, the Company has no key management personnel.

Note 19 - Advances and loans granted to members of the administrative, managerial and supervisory bodies

No loans, advances and emoluments were granted to the Board of Directors and any other bodies during the year ended 31 December 2011.

Steel Capital S.A.
Société Anonyme

Report of the Statutory Auditor
on the annual accounts as at December 31, 2010

2, boulevard Konrad Adenauer
L-1115 Luxembourg
R.C.S. Luxembourg B 116.975

Steel Capital S.A.

INDEX

Report of the Statutory Auditor

Balance sheet

Profit and Loss Account

Notes

FIDUCIAIRE PATRICK SGANZERLA

EXPERT-COMPTABLE
RÉVISEUR D'ENTREPRISES AGRÉÉ

STATUTORY AUDITOR'S REPORT

To the shareholders of

Steel Capital S.A.
Société Anonyme
2, boulevard Konrad Adenauer
L-1115 Luxembourg

In accordance with legal and statutory requirements, we have the honor to report to you on the statutory audit assignment that you have entrusted to us during your extraordinary general meeting on May 2, 2008, for the year ending as at December 31, 2010.

We have conducted our assignment in accordance with article 62 of the amended law of August 10, 1915 on commercial companies which does not impose the statutory auditor to express an opinion on the annual accounts. Therefore, we have not examined the annual accounts in accordance with international standards on auditing.

We found that the annual accounts for the year ending as of December 31, 2010, with a balance sheet total of EUR 1 476 357 406 and a NIL result for the period, are in accordance with the accounting records and the supporting documents submitted to us.

We have no comments to make on the annual accounts.

Luxembourg, May 30, 2011

Fiduciaire Patrick Sganzerla S.à r.l.
Statutory Auditor
Represented by Patrick Sganzerla, Managing Partner

STEEL CAPITAL S.A.
Société Anonyme
Registered Office: 2 Boulevard Konrad Adenauer
L-1115 Luxembourg
R.C.S. Luxembourg B 116.975
(the "Company")

Balance Sheet
as at 31 December 2010
(expressed in EURO)

ASSETS	**Note(s)**	**31-Dec-2010 EUR**	**31-Dec-2009 EUR**
Fixed assets			
Financial assets			
Other loans	(3)	1 444 801 566	1 136 125 289
Current assets			
Debtors			
Other debtors	(4)	31 538 582	40 876 161
Cash at bank	(5)	17 258	7 530
Total assets		**1 476 357 406**	**1 177 008 980**
LIABILITIES			
Capital and reserves			
Subscribed capital	(6)	31 000	31 000
Provisions for risks and charges			
Other provisions	(7)	12 716	12 595
Creditors			
Bonds			
Non-convertible bonds	(8)		
becoming due and payable after more than one year		1 444 801 566	1 136 125 289
Other creditors			
becoming due and payable within one year	(9)	31 512 124	40 840 096
Total liabilities		**1 476 357 406**	**1 177 008 980**

STEEL CAPITAL S.A.
Société Anonyme
Registered Office: 2 Boulevard Konrad Adenauer
L-1115 Luxembourg
R.C.S. Luxembourg B 116.975
(the "Company")

Profit and Loss Account
for the year ended 31 December 2010
(expressed in EURO)

	Note(s)	Year ended 31-Dec-2010 EUR	Year ended 31-Dec-2009 EUR
CHARGES			
Other operating charges	(10)	4 460 037	75 684
Interest payable and similar charges	(11)	118 762 287	117 638 664
Total charges		**123 222 324**	**117 714 348**
INCOME			
Other operating income	(12)	4 460 037	75 684
Other interest receivable and similar income	(13)	118 762 287	117 638 664
Total income		**123 222 324**	**117 714 348**

STEEL CAPITAL S.A.
Société Anonyme
Registered Office: 2 Boulevard Konrad Adenauer
L-1115 Luxembourg
R.C.S. Luxembourg B 116.975
(the "Company")

Notes to the Annual Accounts
for the year ended 31 December 2010

Note 1 - General information

STEEL CAPITAL S.A. is a Luxembourg Company incorporated on 11 May 2006, for an unlimited duration, as a public limited Company «société anonyme» and subject to the Luxembourg law of August 10, 1915, as subsequently amended.

The registered office of the Company is established at 2 Boulevard Konrad Adenauer, L-1115 Luxembourg.

The Company's financial year starts on 1 January and ends on 31 December of each year.

The Company shall have as its business purpose the issue of loan participation notes for the purpose of financing loans to Open Joint Stock Company *Severstal* and to its affiliated companies, the granting of security interests over its assets in relation to the issuance of the loan participation notes and the making of deposits at banks or with other depositaries.

The Company may carry out any transaction, whether commercial or financial, which are directly or indirectly connected with its corporate object at the exclusion of any banking activity. In general, the Company may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Note 2 - Summary of significant accounting policies

Note 2.1 - Basis of preparation
The Annual Accounts of the Company are prepared under the provision of the law of 10 August 1915 (as subsequently amended) including the adoption of the law of 19 December 2002, in accordance and compliance with Luxembourg Generally Accepted Accounting Principles, under the historical cost convention. In accordance with article 4 of the law dated December 10, 2010, the Board of Directors of the Company has resolved for the year ended 31 December 2010 not to implement the changes brought by this law to the content and the layout of the annual accounts, as well as to the related accounting principles and valuation policies.

Note 2.2 - Significant accounting policies
The main valuation rules applied by the Company are the following:

Note 2.2.1 - Assets and liabilities
Unless stated otherwise, assets have been stated at their historical cost less any durable impairment and liabilities have been stated at their repayable amount, expressed in EUR.

Note 2.2.2 - Interest income and expenses
Interest income and expenses are recorded on an accrual basis.

Note 2.2.3 - Cash at bank
Cash at bank comprise cash in hand, cash at bank, deposits held at call with banks. In the Balance Sheet, bank overdrafts are included in Creditors under Amount owed to credit institutions.

Note 2.2.4 - Provisions for risks and charges
Provisions for risks and charges are intended to cover losses or debts the nature of which is clearly defined and which, at the date of the Balance Sheet are either likely to be incurred or certain to be incurred but uncertain as to their amount or as to the date on which they will arise.

Notes to the Annual Accounts
for the year ended 31 December 2010 (continued)

Note 2 - Summary of significant accounting policies *(continued)*

Note 2.2.5 - Foreign currencies
Transactions expressed in currencies other than EUR are translated into EUR at the exchange rate effective at the time of the transaction.

Long term assets and liabilities, expressed in foreign currencies, are translated into EUR at the exchange rate effective at the time of the transaction. At the Balance Sheet date, these assets remain translated at historic exchange rates.

Other assets and liabilities are translated separately respectively at the lower or at the higher of the value converted at the historic exchange rate or the value determined on the basis of the exchange rates effective at the Balance Sheet date. The realised and unrealised exchange losses are recorded in the Profit and Loss Account whereas exchange gains are recorded in the Profit and Loss Account at the moment of their realisation.

Note 2.2.6 - Subscribed capital
The subscribed capital of the Company consists of 310 shares with a par value of EUR 100 each (EUR 31.000). As at 31 December 2010, 310 shares were issued and fully paid.

Note 2.2.7 - Legal reserve
In accordance with Luxembourg Company law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders.

Notes to the Annual Accounts
for the year ended 31 December 2010 (continued)

Note 3 - Other loans

Other loans, in the amount of **EUR 1.444.801.566,** are comprised as follows:

Loan to OAO Severstal:				Balance as at 1-Jan-2010	additions during the year	Foreign currency revaluation	Balance as at 31-Dec-2010
				EUR	EUR	EUR	EUR
Currency	Loan amount	Interest rate	Maturity date				
USD	1 250 000 000	9.75%	29-juil-13	873 942 530	(508 345 686)	43 735 184	409 332 028
USD	375 000 000	9.25%	19-avr-14	262 182 759	-	20 218 024	282 400 783
USD	1 000 000 000	6.70%	25-avr-17	-	715 333 162	37 735 593	753 068 755
				1 136 125 289	**206 987 476**	**101 688 801**	**1 444 801 566**

On 25 July 2008, the Company issued a USD 1.250.000.000 Loan Participation Notes due 2013, for the sole purpose of financing a five year loan to OAO Severstal. Interest is receivable on a semi-annual basis, every 29 January and 29 July, starting on 29 January 2009.

On 30 June 2008, following the supplemental loan agreement, the Company acquired the rights and assume the obligation of the USD 375.000.000 Loan Participation Notes due 2014, issued by Citibank on 14 April 2004. The purpose of issuing the Notes was to finance a loan to OAO Severstal. Interest is receivable on a semi-annual basis, every 19 April and 19 October.

On 19 October 2010, the Company issued a USD 1.000.000.000 Loan Participation Notes due 2017, for the sole purpose of financing a loan to OAO Severstal. Interest is receivable on a semi-annual basis, every 25 April and 25 October, starting on 25 April 2011.

On 28 October 2010, the Loan Participation Notes due on 29 July 2013 was repurchased for an aggregate principal amount of USD 706.448.000 and interest amount of USD 17.028.340. The corresponding loan amount was reduced by the same amount.

Note 4 - Other debtors	31-Dec-2010	31-Dec-2009
	EUR	EUR
Other debtors, in the amount of **EUR 31.538.582**, are comprised as follows:		
Interest receivable on loans	31 465 598	40 827 682
Arrangement fees receivable	72 834	48 479
Tax receivable	150	-
	31 538 582	**40 876 161**

Note 5 - Cash at bank

Cash at bank, in the amount of **EUR 17.258**, are comprised as follows:

Cash account with Deutsche Bank Luxembourg S.A. - USD	16 783	4 671
Cash account with Deutsche Bank Luxembourg S.A. - EUR	475	2 859
	17 258	**7 530**

Notes to the Annual Accounts
for the year ended 31 December 2010 (continued)

Note 6 - Capital and reserves

The carrying value of the capital and reserves is comprised as follows:	Subscribed capital EUR
Balance as at 1 January 2010 and 31 December 2010	**31 000**

Note 7 - Other provisions

	31-Dec-2010 EUR	31-Dec-2009 EUR
Other provisions, in the amount of **EUR 12.716**, are comprised as follows:		
Administration fees	7 188	7 187
Accountancy fees	4 025	4 025
Audit fees	1 328	1 208
Other costs	175	175
	12 716	**12 595**

Note 8 - Non-convertible bonds

Non-convertible bonds issued, in the amount of **EUR 1.444.801.566**, are comprised as follows:

becoming due and payable after more than one year

Notes	Currency	Notes amount	Interest rate	Maturity date	Balance as at 1-Jan-2010 EUR	(Disposals) / additions during the year EUR	Foreign currency revaluation EUR	Balance as at 31-Dec-2010 EUR
Notes 1	USD	1 250 000 000	9.75%	29-juil-13	873 942 530	(508 345 686)	43 735 184	409 332 028
Notes 2	USD	375 000 000	9,25%	19-avr-14	262 182 759	-	20 218 024	282 400 783
Notes 3	USD	1 000 000 000	6,70%	25-oct-17	-	715 333 162	37 735 593	753 068 755
					1 136 125 289	**206 987 476**	**101 688 801**	**1 444 801 566**

Interest is payable on Notes 1 on a semi-annual basis, every 29 January and 29 July, starting on 29 January 2009.
Interest is payable on Notes 2 on a semi-annual basis, every 19 April and 19 October.

On 19 October 2010, the Company issued 6.7% Loan Participation Notes due in 2017 for an amount of USD1,000,000,000. Interest is payable on these notes on a semi-annual basis, every 25 April and 25 October.

On 28 October 2010, the Loan Participation Notes due on 29 July 2013 was repurchased for an aggregate principal amount of USD 706.448.000 and interest amount of USD 17.028.340.

Notes to the Annual Accounts
for the year ended 31 December 2010 (continued)

Note 9 - Other creditors	**31-Dec-2010 EUR**	**31-Dec-2009 EUR**
Other creditors, in the amount of **EUR 31.512.124,** are comprised as follows:		
Interest payable on Notes	31 465 598	40 827 682
Professional fees	41 948	-
Listing fees	4 228	-
Other costs	350	175
Administration fees	-	7 188
Accountancy fees	-	4 025
Audit fees	-	1 026
	31 512 124	**40 840 096**

Note 10 - Other operating charges	**Year ended 31-Dec-2010 EUR**	**Year ended 31-Dec-2009 EUR**
Other operating charges, in the amount of **EUR 4.460.037**, are comprised as follows:		
Joint lead managers fees	4 255 046	-
Professional fees	173 156	47 491
Administration fees	17 529	17 529
Accountancy fees	8 050	8 050
Listing fees	4 228	-
Audit fees	1 328	1 350
Other costs	700	504
Other taxes	-	760
	4 460 037	**75 684**

Note 11 - Interest payable and similar charges

Interest payable and similar charges, in the amount of **EUR 118.762.287**, is comprised as follows:

Interest payable on Notes	**118 762 287**	**117 638 664**

Notes to the Annual Accounts
for the year ended 31 December 2010 (continued)

Note 12 - Other operating income	**Year ended 31-Dec-2010 EUR**	**Year ended 31-Dec-2009 EUR**
Other operating income, in the amount of **EUR 4.460.037**, are comprised as follows:		
Income for funding of expenses	4 443 463	72 762
Currency result	16 574	2 922
	4 460 037	**75 684**

Note 13 - Other interest receivable and similar income

Other interest receivable and similar income, in the amount of **EUR 118.762.287**, is comprised as follows:		
Interest receivable on loan	**118 762 287**	**117 638 664**

Note 14 - Personnel

During the year under review, the Company did not employ any personnel and, consequently, no payments for wages, salaries or social securities were made.

Note 15 -Taxation

The Company is subject to the general tax regulations to all commercial companies in Luxembourg.

Note 16 - Subsequent events

There were no significant events since 31 December 2010, which could influence the presentation of the current Annual Accounts.

Note 17 - Emoluments granted to members of the administrative, managerial and supervisory bodies

No emoluments were granted to the Board of Directors and any other bodies during the year ended 31 December 2010.

Note 18 - Advances and loans granted to members of the administrative, managerial and supervisory bodies

No loans or advances were granted to the management bodies during the year under review.

REGISTERED OFFICE OF THE COMPANY

OAO Severstal

UL. Mira 30
162608 Cherepovets
Russian Federation

REGISTERED OFFICE OF THE ISSUER
Steel Capital S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg

ARRANGER AND PERMANENT DEALER
Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
England

PRINCIPAL PAYING AGENT AND TRANSFER AGENT
Citibank, N.A., London Branch
21st Floor, Citigroup Centre
Canada Square
London E14 5LB
England

REGISTRAR
Citigroup Global Markets Deutschland AG
Reuterweg 16
60323 Frankfurt
Germany

TRUSTEE
Citibank, N.A.
13th Floor, Citigroup Centre
Canada Square
London E14 5LB
England

PAYING AGENT AND TRANSFER AGENT
Citibank, N.A., New York Branch
388 Greenwich Street
14th Floor
New York, NY 10013
United States

LEGAL ADVISERS

To the Arranger as to English and United States law and to the Trustee as to English law:
Linklaters LLP
One Silk Street
London EC2Y 8HQ
England

To the Arranger as to Russian law:
Linklaters CIS
Paveletskaya Sq. 2, bld 2
115054 Moscow
Russian Federation

To the Arranger as to Luxembourg law:
Linklaters LLP
Avenue John F. Kennedy 35
L-1855 Luxembourg

To the Company as to English and United States law:
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS
England

To the Company as to Russian law:
Freshfields Bruckhaus Deringer LLP
Kadashevskaya nab. 14/2
Moscow 119017
Russian Federation

AUDITORS TO THE COMPANY
ZAO KPMG
10 Presnenskaya
Naberezhnaya
Block C
Moscow 123317
Russian Federation

TAX ADVISER TO THE COMPANY
Ernst & Young (CIS) B.V.
Sadovnicheskaya Nab. 77, bld. 1
Moscow 115035
Russian Federation

LISTING AGENT
Arthur Cox Listing Services Limited
Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland