

**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 U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE U.S. 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 U.S. 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 U.S. 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 U.S.\$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 U.S.\$100,000, (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 U.S. 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 U.S. 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.



## OA0 Severstal

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

### US\$3,000,000,000 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  
OA0 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**") setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed US\$3,000,000,000 (or the equivalent in other currencies).

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 JSC Severstal (the **Company** or the **Borrower**) as borrower, on the terms of a facility agreement between the Issuer and the Company dated 19 October 2010 (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**".

Application has been made to the UK Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (**FSMA**) for Notes issued under the Programme for the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the U.K. Listing Authority (the **UKLA**) (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Notes to be admitted to trading on the regulated market of the London Stock Exchange (the **Market**). The Market is regulated for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to listing on the Official List and to trading on the Market. Unlisted Notes may also be issued pursuant to the Programme. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be listed on the London Stock Exchange (or any other stock exchange) and admitted to trading on the Market (or any other market).

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 depository 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. 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 €50,000 (or its equivalent in any other currency as at the date of issue of the Notes).

#### *Arrangers and Permanent Dealers*

BARCLAYS CAPITAL

GOLDMAN SACHS INTERNATIONAL

THE ROYAL BANK OF SCOTLAND

The date of this Base Prospectus is 19 October 2010.

## IMPORTANT INFORMATION ABOUT THIS BASE PROSPECTUS

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (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. 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 Arrangers 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 Arrangers, 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 Arrangers, 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 Arrangers 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 Arrangers 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 Arrangers 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 or 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 Arrangers 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 Arrangers, 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 Arrangers, the Dealers or the Trustee or any of their respective affiliates or agents shall have any responsibility therefor.

Each of the Arrangers 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 U.S. 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) NAMED AS THE STABILISING MANAGER(S) (THE *STABILISING MANAGER(S)*) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE FINAL TERMS 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.

#### 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 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 LCI Arbitration Rules. Before any arbitration or arbitral tribunal has been appointed to determine a dispute, however, the Issuer may elect, by notice in writing to the Company, to require that all disputes or a specific dispute be heard by a court of law. 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 new 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.* CDU TEK is the central dispatch unit of the Russian Federation Ministry of Industry and Trade.
- *Chermet Corporation.* The Chermet Corporation (*Chermet*) is a Russian company that provides and publishes information, statistics and analytic surveys relating to producers of ferrous metals.
- *Commodities Research Unit.* Commodities Research Unit (*CRU*) is an independent business analysis and consultancy group focused on the mining, metals, power cables, fertiliser and chemical sectors.
- *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.
- *The John T. Boyd Company.* The John T. Boyd Company is a mining consulting firm of independent mining consultants exclusively serving the domestic and international coal and mineral industries. The company’s business address is 4000 Town Center Blvd., Suite 300, Canonburg, Pennsylvania, 15317, United States of America. The John T. Boyd Company employs engineers, geologists and technicians with decades of experience.
- *Metal Bulletin.* Metal Bulletin plc is an independent company quoted on the London Stock Exchange. It provides news, prices, analysis and research to financial, metals, minerals, energy and other commodity markets through online services and print media.
- *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.
- *Steel Business Briefing.* Steel Business Briefing is an independent publisher dedicated to providing news, information and prices to the global steel 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 Arrangers 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 Company's audited consolidated financial statements as at and for the years ended 31 December 2009, 2008 and 2007 included in this Base Prospectus beginning on page F-18 and ending on page F-93, together with the notes thereto (the *Annual Financial Statements*) and the Company's consolidated condensed interim financial statements as at and for the six months ended 30 June 2010 and 2009 included in this Base Prospectus beginning on page F-1 and ending on page F-17, together with the notes thereto (the *Interim Financial Statements* and together with the Annual Financial Statements, the *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.

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 Consulting Ltd 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. The report of IMC Consulting Ltd was not prepared for the purposes of this Base Prospectus. Reserves and resource estimations for Severstal Resources' PBS Coals Limited (**PBS Coals**) and the Putu Range iron ore project have been developed under the guidelines of National Instrument 43-101, which is the standard of public disclosure of information relating to mineral properties in Canada and essentially similar to the Australasian JORC standard. Reports for PBS Coals and the Putu Range project have been prepared by



the John T. Boyd Company and SRK Consulting, respectively. See also “*Industry—Mining Industry—International Reporting Methodologies*”. These reports have not been prepared for the purposes of this 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 JSC 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.

## SUPPLEMENTARY BASE PROSPECTUS

The Company will, in connection with the admission of the Notes to listing on the Official List and to trading on the Market, so long as any Note remains outstanding and listed on the Official List and traded on the 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 admitted to listing on the Official List and to trading on the Market.

If at any time the Issuer shall be required to prepare a supplementary prospectus pursuant to section 87G of the FSMA, the Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus or a further Base Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplementary prospectus as required by the UKLA and section 87G of the FSMA.

The Issuer and the Company may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the Terms and Conditions herein, in which event a supplementary Base Prospectus, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

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## 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 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 ninth largest producer of crude steel in 2009, by volume of production. The Group is a full production cycle operation which includes iron ore, coal and gold mining enterprises, scrap collection, steel mills and rolled product plants as well as 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, including Ukraine, Kazakhstan, Burkina Faso and Guinea. With a focus on high value added products in attractive niche markets and a track record of acquiring and integrating assets in Russia and other countries, the Group's corporate strategy is to improve its position as a leading global steel company in terms of profitability, with a vertically integrated and low-cost business structure.

The Group comprises three business divisions: Russian Steel Division, Severstal International (primarily North America) and Severstal Resources (including the Group's gold business).

**Russian Steel Division.** In 2009, the Russian Steel Division produced approximately 16.0 percent of total Russian crude steel production, accounting for 47.0 percent of the Group's total revenues. According to calculations by the Group's management based on data provided by Chermets, the Russian Steel Division was the fourth largest producer of crude steel products in Russia by volume of production in 2009. The Russian Steel Division 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, as well as at a number of its workshops, among which are high-grade automotive galvanising facilities at Seversky and Rolling Mill 5000, as well as at ZAO Severstal SMZ-Kolpino (**SMZ-Kolpino**). These facilities jointly constitute the full production cycle, from the creation of crude steel to production of high value-added products such as large diameter pipes for the oil and gas industry or coated flat products for the automotive industry. The Russian Steel Division produced 9.5 million tonnes of crude steel in 2009, and had total steelmaking capacity of 11.1 million tonnes of crude steel per year as at 31 December 2009.
- Pipes production is carried out at the ZAO Izhor'sky Pipe Mill (**Izhora Pipe Mill**), a large diameter pipe mill. With a total pipemaking capacity of 480 thousand tonnes as at 31 December 2009, the Izhora Pipe Mill produced 267.9 thousand tonnes in 2009.
- Metalware production consists of ZAO Severstal-Metiz's (**Severstal-Metiz**) wire drawing and metalware manufacturing businesses in Russia, Ukraine and Italy, with total sales of 683.0 thousand tonnes in 2009. According to the Association of Metalware Producers of Russia and the Association of Metalware Producers of Ukraine, the Group's metalware production represented approximately 38.2 percent of domestic Russian metalware production and approximately 38.3 percent of Ukrainian metalware production, respectively, in 2009.
- 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 both in the Russian Federation 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 currently composed primarily of Severstal North America, along with a minority stake in Lucchini SpA and its subsidiaries (**Lucchini**) (see "Business—Severstal International—Discontinued Operations—Lucchini").

- Severstal North America is comprised of Severstal Dearborn Inc. (**Dearborn**), Severstal Columbus LLC (**Severstal Columbus**), Severstal Sparrows Point LLC (**Sparrows Point**), Severstal Warren Inc. (**Severstal Warren**), Severstal Wheeling Inc. (**Severstal Wheeling**), Mountain State

Carbon LLC (*MSC*) and holding companies—Severstal US Holdings LLC and Severstal US Holdings 2 LLC (formerly known as Severstal Wheeling Holding Company). According to the Group's estimates these companies comprised the third largest steelmaking company in the United States in 2009. Severstal North America produces high-quality flat-rolled products and has 12.0 million tonnes of annual crude steel making capacity, 11.9 million tonnes of hot-rolled sheet, 4.9 million tonnes of cold-rolled sheet, 2.9 million tonnes of galvanised sheet and 0.7 million tonnes of tin plate capacity. In 2009, Severstal North America produced 5.5 million tonnes of slabs and shipped 5.3 million tonnes of steel products.

**Severstal Resources.** Severstal Resources comprises the following: iron ore production, coal production and gold production, as well as a smaller ferroniobium mining operation.

- The Group's iron ore business is comprised of two iron ore extracting complexes: OAO Karelsky Okatysh (*Karelsky Okatysh*), which produces iron ore pellets, and OAO Olkon (*Olkon*), which produces iron ore concentrate, as well as two iron ore projects in Africa: 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 the Group's investment in Core Mining Limited (*Core Mining*), which controls exploration licenses for the Avima iron ore deposit in the Republic of Congo and the Kango iron ore deposit in the Republic of Gabon.
- The Group's coal business comprises two coal mining complexes Vorkutaugol (*Vorkutaugol*) and PBS Coals. Vorkutaugol comprises five longwall mines, an open pit mine and three washing plants. It extracts both coking and steam coal, and is located in the European north of Russia. PBS Coals operates open mines and deep room and pillar mines in the United States. It extracts coking and steam coal, and produces coking coal concentrate.
- The Group's gold business comprises the Group's gold mining assets recently consolidated under Nord Gold N.V. (*NordGold*), Severstal's gold mining subsidiary. NordGold includes eight producing mines, two development projects, five advanced exploration projects and a broad portfolio of early exploration projects and licensees located across West Africa in Guinea and Burkina Faso, Kazakhstan and Russia. On 4 October 2010, the Company issued a press release noting some media speculation with regard to a possible IPO of its gold business. Whilst the Company does not comment on speculation, it repeated its previous statements that an IPO for the gold business is an option under consideration.

Severstal Resources was one of the largest producers of hard coking coal and iron ore pellets in Russia in 2009, according to Rasmin and Rudprom, respectively. With the capacity to supply almost all of the current iron ore and a substantial majority of the hard coking coal needs of the Russian Steel Division, 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 a total iron ore output of 40 million tonnes of iron ore and ROM output of 13.5 million tonnes of coal in 2009. Severstal Resources estimates that, as at 31 December 2009, it had iron ore reserves and resources of approximately 628.2 million tonnes and 2,670.6 million tonnes, respectively, and coal reserves and resources of approximately 318.0 million tonnes and 222.8 million tonnes, respectively.

## 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.

### 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.



Severstal Resources was one of the largest producers of hard coking coal and iron ore pellets in Russia in 2009, according to Rasmin and Rudprom, respectively. Currently, Severstal Resources has the capacity and product mix to provide almost all of the iron ore and the substantial majority of hard coking coal requirements of the Russian Steel Division's steel operations. In 2009, the Russian Steel Division's steel operations procured approximately 80.0 percent and 70.0 percent of its iron ore and coking coal requirements from Severstal Resources, respectively. 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 deposits of iron ore and coal are significant, with estimated mine lives extending several decades. The Group considers mining to be one of its core businesses.

The Group's North American business units source the majority of their 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 long term contracts with Cliffs Natural Resources for the supply of iron ore to Severstal Warren and Dearborn until the years 2014 and 2022, respectively. Severstal North America also sources a portion of its coal needs through its sister company PBS Coals, located in Somerset, Pennsylvania, and intends to increase this portion as PBS Coals expands its production capacity. Additionally, the North American business units also have long-term contracts in place for coking coal as well as one of the largest coking plants in North America to support blast furnace operations. The balance of its requirements is purchased in 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. 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 transportation, given the proximity of its production facilities to producers of raw materials in that region, 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 production and negotiating 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 capital expenditures in upgrading its facilities to increase productivity and improve energy efficiency, as well as optimising the size of its labour force. For example, in 2009 the Group's largest steel production facility, located in Cherepovets, was estimated to be approximately 59.0 percent self-sufficient in terms of its own generation and consumption of electricity, and the Group plans to further increase the plant's level of energy self-sufficiency. In addition, the Group pursued effective cost management policies in 2009, resulting in a reduction in general and administrative costs by 28.4 percent compared to 2008. See *"Business—Strategy—Pursue Low-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, including Ukraine, Kazakhstan, Burkina Faso and Guinea. 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 Kazakhstan and Africa. The Group's largest steel production facility, located in Cherepovets in northwest Russia, provides it with the ability to access the Russian, CIS and Eastern European steel markets. Furthermore, the Group believes that, as a result of its presence in Europe and the United States, it also benefits from greater access to the technologically advanced European and 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, as well as its facilities in the United States and Africa, aimed at expanding production and achieving operational efficiencies. In 2008 and 2009, the Group's capital expenditure at its three business divisions amounted to approximately US\$3.1 billion. In the period ended 30 June 2010, the Group had capital expenditures of US\$523.8 million, excluding Lucchini. 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 an additional US\$6.4 billion (not including maintenance capital expenditures), from 2010 to 2014 as part of its continuing capital expenditure programme, with current investment priorities focused on facilitating the brownfield 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, particularly the construction sector, aided by the Balakovo project and new galvanising and organic coating lines. The capital expenditure programme includes investments in the Severstal North America Dearborn facility, where the completion of a new pickle line and tandem cold mill is expected to result in a reduction in costs and improvements in energy efficiency, while also upgrading product quality and yields. Investments in Severstal Columbus are expected to double its production capacity by 2012, reduce costs and increase 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 to 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, for example, the introduction of pulverised coal injection (*PCI*) technology into blast furnace "C" at the Dearborn facility during the recent major refurbishments of that blast furnace in 2007. In addition, aggregate annual capital expenditure on maintenance for the Group is expected to be approximately US\$450 million in 2010, and is expected to gradually increase to approximately US\$650 million in 2014 (provided that the Group undertakes the expansion projects contemplated by the current business plan). 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 of the Company (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. 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 of the Cherepovets Steel Mill in recent years and cost reduction achievements across the divisions.

### **Strong Corporate Governance**

The Group seeks to adhere to international corporate governance standards. In addition to half of its board of directors, including the chairman, being independent, according to UK standards of independence, 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 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. All transactions with its affiliates are appropriately approved by the Board of Directors within their authority.

## **STRATEGY**

The Group's corporate strategy is to build upon and improve its position as a leading global steel and mining company in terms of profitability, with a vertically-integrated, low-cost business structure. To successfully implement this strategy, the Group intends to do the following:

### **Increase Production of High-Demand Steel Products in Russia**

The Group views the Russian market for steel products as providing significant growth potential. Accordingly, the Group plans to continue to invest in its production facilities in Russia in order to increase production capacity, particularly of long products, pipes, sections and other products used in the construction and infrastructure industries, where the Group expects demand to grow in the long term. In line with this strategy, starting from June 2010, the Group has started operating ZAO Severstal TPZ-Sheksna (*TPZ-Sheksna*) in test mode. TPZ-Sheksna is located close to the Group's main Russian steelmaking facilities in Cherepovets and is capable of producing 250 thousand tonnes per year of electric-welded pipes and other profiles. The Group is also constructing the Balakovo mini-mill in central Russia, with an expected capacity of one million tonnes per year upon completion in 2013. The Balakovo mini-mill is expected to produce long products for the construction and infrastructure industries. The plant is well located logistically to benefit from local scrap supplies and to serve the growing steel markets of the Volga region. The Group is planning to construct a new galvanising line and two new colour-coating lines in 2012 and 2013, intended to provide primarily construction-related products.

The Group plans to continue to focus on providing a high standard of customer service, including the customisation of products, supply of premium quality products and just-in-time deliveries through its own distribution network, with a view of differentiating itself from other producers in Russia. To this end, the Group plans to leverage its North American logistical, sales and marketing experience.

### **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 coal production as well as its other mining operations. The Group plans to significantly expand 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. The Group is planning to expand its coking coal and iron ore production through brownfield projects in Russia (such as Karelsky Okatysh and Vorkutaugol) and its coking coal production in the United States. The Group is also pursuing two major greenfield projects: the exploration and development license for the Tsentralnyi field in the Republic of Tyva, Russia; and the Putu Range project in Liberia. The Group also plans to expand its non-steel-related mining businesses and other high-margin commodities. The Group is developing a number of gold mining operations in Russia and in West Africa. The Group intends to continue stringent cost control and productivity improvements at its Russian mining facilities. See "*Business—Severstal Resources*".

### **Modernise, Restructure and Bring to Sustainable Profitability Operations in the United States**

Following the expansion of the Severstal International division, with the acquisition of Sparrows Point, Severstal Wheeling and Severstal Warren in 2008, and the sale of its Northern Steel Group Inc. assets in May 2010, 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 by the beginning of 2012, 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, Dearborn is expected to benefit from its long-term contract with Cliffs Natural Resources. In addition, investments in the pickling line and tandem cold mill in Dearborn is expected to further improve its cost position and enable it to produce advanced automotive steels. The Group's management believes that this will make Dearborn one of the principal suppliers of high-quality flat products in North America. Each of Sparrows Point, Severstal Wheeling and Severstal Warren are expected to focus on continuous cost optimisation and restructuring to achieve sustainable profitability levels.

### **Pursue Low-Cost Steel Production**

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). The Group believes that this 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 Group's capital expenditure programme includes various projects to improve operational efficiencies and to reduce raw material consumption, such as a reduction in the silicon content in hot metal, increasing the tundish ladle lifetime, excluding desulphurisation in the strip production process, optimising the basic oxygen furnace (*BOF*) charge (varying hot metal and scrap consumption, using low-price scrap), optimising the consumption of ferro-alloys and decreasing the cost of repairs at the Cherepovets Steel Mill. The Group aims to expand its mining operations to target at least 70.0 to 80.0 percent self-sufficiency in coking coal and iron ore globally. The Group also plans to continue to focus on optimising the size of its labour force, particularly in Russia, while seeking to maintain its relationships with labour unions.

### **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 the Group's products
- Any 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 22.

### **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.



## RECENT DEVELOPMENTS

### Crew Gold Corporation

From July to September 2010, the Group acquired additional stakes in Crew Gold Corporation (**Crew Gold**), increasing its ownership to 93.4 percent. Crew Gold is a mining company headquartered in London, and listed on the Toronto Stock Exchange and the Oslo Stock Exchange. Crew Gold owns and operates a gold mining project in Guinea, West Africa.

### Sacre-Coeur Minerals, Ltd.

In September 2010, the Group acquired, through NordGold, a 19.7 percent stake of Sacre-Coeur Minerals, Ltd. (**SCM**). 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.

### Intex Resources ASA

In September 2010, the Group acquired a 21.7 percent stake in Intex Resources ASA (**Intex Resources**). Intex Resources is a public mining and exploration company listed on the Oslo Stock Exchange with its headquarters in Oslo, Norway. Intex Resources' main asset is the Mindoro Nickel Project, a substantial nickel laterite deposit in the Philippines. In addition, Intex Resources has two molybdenum assets in Norway, as well as Maniitsoq, a diamond province in Greenland.

### Iron Mineral Beneficiation Services (Proprietary) Limited

In the third quarter of 2010, the Group completed the acquisition of a 25.6 percent stake in Iron Mineral Beneficiation Services (Proprietary) Limited (**IMBS**), 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. As a part of the transaction, the Group acquired a 51.0 percent stake in International Iron Beneficiation Group Limited (**IIBG**), a newly formed company that has an exclusive license to commercialise the technology worldwide (outside of South Africa and neighbouring countries).

### Potential Mining “Greenfield Projects” and Acquisitions

The Group also plans to expand its mining operations by actively participating in “greenfield” projects in Russia and neighbouring countries. The Group has been authorised to receive and is in the process of obtaining a license for further exploration and coal extraction at the Tsentralnyi field in the western part of the Ulug-Khemskiy basin in the Tyva Republic, Russia. This license has been granted by Rosnedra, the Federal Agency of Subsoil Use. See “*Business—Strategy—Expanding Mining Business Globally*”.

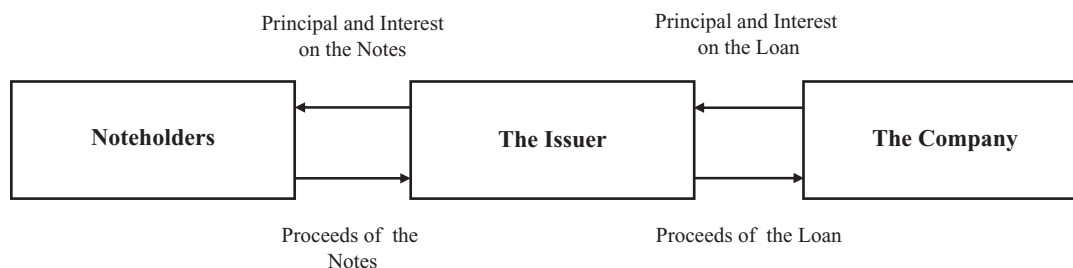
## OVERVIEW OF THE PROGRAMME

*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. Words and expressions defined in “Terms and Conditions of the Notes” below shall have the same meanings in this overview. The Issuer and the Company may agree with any Dealer that Notes may be issued in a form other than that contemplated in “Terms and Conditions of the Notes,” in which event a supplement to this Base Prospectus, if appropriate, will be made available that will describe the effect of the agreement reached in relation to such Notes.*

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 a principal trust deed (the **Principal Trust Deed**) 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

<b>Issuer</b> .....	Steel Capital S.A.
<b>Company (as Borrower)</b> .....	JSC Severstal with its registered office and business headquarters at Ul. Mira 30, 162600 Cherepovets, Russia.
<b>Description</b> .....	Programme for the Issuance of Loan Participation Notes pursuant to which the Issuer may issue Notes.
<b>Offering</b> .....	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 U.S. 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 “ <i>Selling and Transfer Restrictions</i> ”. 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 “ <i>Selling and Transfer Restrictions</i> ” on behalf of itself and each account for which it is purchasing. Any transfer in breach of the transfer restrictions set forth in “ <i>Selling and Transfer Restrictions</i> ” 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 “ <i>Subscription and Sale</i> ” and “ <i>Selling and Transfer Restrictions</i> ”.
<b>Programme Size</b> .....	Up to US\$3,000,000,000 (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 “ <i>Subscription and Sale</i> ”). 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.
<b>Arrangers</b> .....	Barclays Bank PLC, Goldman Sachs International and The Royal Bank of Scotland plc.
<b>Permanent Dealers</b> .....	Barclays Bank PLC, Goldman Sachs International and The Royal Bank of Scotland plc.
<b>Dealers</b> .....	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.
<b>Trustee</b> . . . . .	Citibank, N.A.
<b>Principal Paying and Transfer Agent</b> .	Citibank, N.A., London Branch, unless it is specified in the relevant Final Terms 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.
<b>Registrar</b> . . . . .	Citigroup Global Markets Deutschland AG, unless it is specified in the relevant Final Terms 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.
<b>Paying Agent</b> . . . . .	Citibank, N.A., unless it is specified in the relevant Final Terms 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.
<b>Transfer Agent</b> . . . . .	Citibank, N.A., unless it is specified in the relevant Final Terms 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.
<b>Calculation Agent</b> . . . . .	Citibank, N.A., London Branch, unless it is specified in the relevant Final Terms 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.
<b>Method of Issue</b> . . . . .	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a <i>Series</i> ) 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 which shall complete the " <i>Terms and Conditions of the Notes</i> ".
<b>Status</b> . . . . .	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 “ <i>Terms and Conditions of the Notes—1. Status</i> ”.
<b>Security</b> .....	<p>The Issuer’s payment obligations in respect of each Series of Notes will be secured by a first fixed charge on:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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, together with the debt represented thereby (including interest from time to time earned thereon) pursuant to the Trust Deed.</li> </ul>
<b>Assignment of Rights</b> .....	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.
<b>Form</b> .....	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 “ <i>Summary of the Provisions relating to the Notes in Global Form</i> ”) in the limited circumstances specified in the Global Certificates.
<b>Clearing Systems</b> .....	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).
<b>Initial Delivery of Notes</b> .....	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.
<b>Currencies</b> .....	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).
<b>Maturities</b> .....	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).
<b>Denomination</b> . . . . .	Notes will be in such denominations as may be specified in the relevant Final Terms, 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\$100,000 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 €50,000 (or its equivalent in any other currency as at the issue date of the relevant Notes).
<b>Rate of Interest</b> . . . . .	The Notes may be issued on a fixed rate or a floating rate basis.
<b>Fixed Rate Notes</b> . . . . .	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
<b>Floating Rate Notes</b> . . . . .	<p>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 and Loan Supplement):</p> <ul style="list-style-type: none"> <li>(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</li> <li>(ii) by reference to the London inter-bank offered rate (<b>LIBOR</b>) or the Euro inter-bank offered rate (<b>EURIBOR</b>) (or such other benchmark as may be specified in the relevant Final Terms and Loan Supplement) as adjusted for any applicable margin.</li> </ul>
<b>Interest Periods and Interest Rates</b> . .	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.
<b>Redemption</b> . . . . .	The relevant Final Terms 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).

<b>Issuer's Restrictions and Covenants . .</b>	So long as any Note remains outstanding, the Issuer will not, without the prior written consent of the Trustee, <i>inter alia</i> , 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 " <i>Terms and Conditions of the Notes—4. Restrictive Covenants</i> ". 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.
<b>Use of Proceeds of the Notes . . . . .</b>	The Issuer will apply the gross proceeds of the issue of each Series of Notes to fund the corresponding Loan to the Company.
<b>Redemption by the Issuer at the Option of the Company . . . . .</b>	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.
<b>Mandatory Redemption . . . . .</b>	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.
<b>Relevant Events . . . . .</b>	In the case of a Relevant Event (as defined in the " <i>Terms and Conditions of the Notes—9. Enforcement</i> ") the Trustee may, subject to the provisions of the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.
<b>Withholding Tax . . . . .</b>	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.
<b>Further Issues</b> . . . . .	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.
<b>Listing and Trading</b> . . . . .	Application will be made, where specified in the relevant Final Terms, for a Series of Notes to be admitted to listing on the Official List and to trading on the Market or to be listed on such other stock exchange or official list and traded on such other market as shall be specified in the relevant Final Terms or the Series of Notes will remain unlisted.
<b>Rating</b> . . . . .	<p>Series of Notes issued under this Programme may be rated or unrated. Where a Series of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Programme and will be specified in the relevant Final Terms.</p> <p>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.</p>
<b>Governing Law</b> . . . . .	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.
<b>Selling Restrictions</b> . . . . .	United States, United Kingdom and Russia and any other jurisdiction relevant to any Series. See “ <i>Subscription and Sale</i> ”.
<b>ERISA Considerations</b> . . . . .	A Series of Notes issued under the Programme may be regarded for purposes of the United States Employee Retirement Income Security Act of 1974 ( <i>ERISA</i> ) 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 U.S. 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** . . . . . JSC 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.

**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.

**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, consolidated balance sheet, income statement and other information relating to the Group. Such information has been derived from the Financial Statements of the Group prepared in accordance with IFRS. The reports of ZAO KPMG appear elsewhere in this Prospectus. The financial information presented below should be read in conjunction with such Financial Statements, reports and “*Operating and Financial Review*”.

### CONSOLIDATED INCOME STATEMENT

	Year ended 31 December			Six months ended 30 June	
	2009	2008 <sup>(1)</sup>	2007	2010	2009 <sup>(2)</sup>
(Amounts expressed in thousands of US dollars, except as otherwise stated)					
<b>Sales</b>					
Sales—external . . . . .	12,951,669	22,138,418	15,352,404	7,291,728	4,733,992
Sales—to related parties . . . . .	102,830	254,299	150,984	95,431	75,671
	<u>13,054,499</u>	<u>22,392,717</u>	<u>15,503,388</u>	<u>7,387,159</u>	<u>4,809,663</u>
Cost of sales . . . . .	(11,356,293)	(16,499,914)	(10,821,582)	(5,394,049)	(4,480,139)
<b>Gross profit . . . . .</b>	<b>1,698,206</b>	<b>5,892,803</b>	<b>4,681,806</b>	<b>1,993,110</b>	<b>329,524</b>
General and administrative expenses . . . . .	(735,561)	(1,026,790)	(766,890)	(338,460)	(316,788)
Distribution expenses . . . . .	(864,225)	(1,117,776)	(942,533)	(464,235)	(348,920)
Other taxes and contributions . . . . .	(171,601)	(178,886)	(154,070)	(81,654)	(68,555)
Share of associates’ profit/(loss) . . . . .	11,488	(3,400)	6,240	12,509	5,167
Net (loss)/gain from securities operations . . . . .	(15,304)	(96,812)	25,564	(60,136)	(6,098)
Loss on disposal of property, plant and equipment and intangible assets . . . . .	(32,001)	(43,278)	(35,525)	(30,059)	(7,415)
Net other operating (expenses)/income . . . . .	(36,329)	790,580	(7,266)	(5,331)	(12,845)
<b>(Loss)/profit from operations . . . . .</b>	<b>(145,327)</b>	<b>4,216,441</b>	<b>2,807,326</b>	<b>1,025,744</b>	<b>(425,930)</b>
Impairment of non-current assets . . . . .	(219,019)	(1,540,263)	(28,895)	(60,626)	(26,524)
Negative goodwill . . . . .	—	292,326	12,223	—	—
Net other non-operating (expenses)/income . . . . .	(34,441)	238,945	(58,676)	(19,404)	(21,681)
<b>(Loss)/profit before financing and taxation . . . . .</b>	<b>(398,787)</b>	<b>3,207,449</b>	<b>2,731,978</b>	<b>945,714</b>	<b>(474,135)</b>
Interest income . . . . .	103,822	155,232	166,639	62,725	43,781
Interest expense . . . . .	(601,244)	(508,369)	(325,580)	(323,875)	(258,908)
Foreign exchange difference . . . . .	(205,028)	(274,920)	3,206	(29,622)	(215,058)
<b>(Loss)/profit before income tax . . . . .</b>	<b>(1,101,237)</b>	<b>2,579,392</b>	<b>2,576,243</b>	<b>654,942</b>	<b>(904,320)</b>
Income tax (expense)/benefit . . . . .	(17,858)	(517,466)	(700,153)	(184,590)	101,675
<b>(Loss)/profit from continuing operations . . . . .</b>	<b>(1,119,095)</b>	<b>2,061,926</b>	<b>1,876,090</b>	<b>470,352</b>	<b>(802,645)</b>
Profit/(loss) from discontinued operations . . . . .	—	—	433	(1,036,929)	(187,403)
<b>(Loss)/profit for the year/period . . . . .</b>	<b>(1,119,095)</b>	<b>2,061,926</b>	<b>1,876,523</b>	<b>(566,577)</b>	<b>(990,048)</b>
Attributable to:					
shareholders of JSC Severstal . . . . .	(1,037,240)	2,028,972	1,849,531	(592,593)	(945,580)
non-controlling interests . . . . .	(81,855)	32,954	26,992	26,016	(44,468)
Weighted average number of shares outstanding during the period (millions of shares) . . . . .	1,005.2	1,007.2	1,007.7	1,005.2	1,005.2
Basic and diluted (loss)/profit per share (US dollars) . . . . .	<u>(1.03)</u>	<u>2.01</u>	<u>1.84</u>	<u>(0.59)</u>	<u>(0.94)</u>
Basic and diluted (loss)/profit per share— continuing operations (US dollars) . . . . .	<u>(1.03)</u>	<u>2.01</u>	<u>1.84</u>	<u>0.44</u>	<u>(0.75)</u>

(1) These amounts reflect adjustments made in connection with the completion of purchase price allocations.

(2) These amounts reflect adjustments made in connection with the completion of purchase price allocations and the presentation of the discontinued operation.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December			As at 30 June
	2009	2008 <sup>(1)</sup>	2007	2010
	(Amounts expressed in thousands of US dollars)			
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	2,853,376	2,652,888	1,622,542	1,839,842
Short-term bank deposits	95,533	818,545	666,327	165,010
Short-term financial investments	73,129	112,782	215,494	205,561
Trade accounts receivable	1,457,651	1,941,876	1,769,038	1,462,759
Amounts receivable from related parties	26,716	63,831	47,193	20,183
Inventories	2,974,227	4,271,886	2,720,634	2,688,214
VAT recoverable	288,032	361,542	284,122	240,557
Income tax recoverable	106,019	172,947	81,963	88,469
Other current assets	285,453	279,707	318,961	310,710
Assets held for sale	24,415	8,872	465,341	1,885,332
<b>Total current assets</b>	<b>8,184,551</b>	<b>10,684,876</b>	<b>8,191,615</b>	<b>8,906,637</b>
<b>Non-current assets:</b>				
Long-term financial investments	128,616	70,342	112,959	155,112
Investment in associates and joint ventures	143,857	110,907	202,987	252,947
Property, plant and equipment	9,485,480	9,827,392	8,289,116	7,924,955
Intangible assets	1,369,204	1,510,658	687,067	1,248,614
Restricted cash	17,541	21,703	13,810	50,709
Deferred tax assets	239,835	246,541	64,185	149,078
Other non-current assets	74,802	41,507	39,084	82,882
<b>Total non-current assets</b>	<b>11,459,335</b>	<b>11,829,050</b>	<b>9,409,208</b>	<b>9,864,297</b>
<b>Total assets</b>	<b>19,643,886</b>	<b>22,513,926</b>	<b>17,600,823</b>	<b>18,770,934</b>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities:</b>				
Trade accounts payable	1,378,300	1,528,453	1,211,373	1,105,357
Amounts payable to related parties	16,656	71,960	91,547	17,623
Short-term debt finance	1,478,301	2,038,693	1,129,216	988,882
Income taxes payable	34,150	46,131	41,323	35,362
Other taxes and social security payable	209,084	213,315	199,349	161,243
Dividends payable	5,704	128,715	107,485	5,446
Other current liabilities	693,844	811,178	620,369	570,545
Liabilities related to assets held for sale	11,979	4	91,750	1,860,291
<b>Total current liabilities</b>	<b>3,828,018</b>	<b>4,838,449</b>	<b>3,492,412</b>	<b>4,744,749</b>
<b>Non-current liabilities:</b>				
Long-term debt finance	5,748,559	6,227,225	2,813,166	5,302,879
Deferred tax liabilities	394,990	496,379	509,409	370,398
Retirement benefit liabilities	787,714	779,296	387,398	653,503
Other non-current liabilities	508,266	619,961	324,652	444,891
<b>Total non-current liabilities</b>	<b>7,439,529</b>	<b>8,122,861</b>	<b>4,034,625</b>	<b>6,771,671</b>
<b>Equity:</b>				
Share capital	3,311,288	3,311,288	3,311,288	3,311,288
Treasury shares	(26,303)	(26,303)	—	(26,303)
Additional capital	1,165,530	1,165,530	1,165,530	1,165,530
Foreign exchange differences	(52,478)	84,987	1,145,499	(382,453)
Retained earnings	3,436,270	4,488,396	3,951,116	2,915,271
Other reserves	43,600	27,601	—	50,720
<b>Total equity attributable to shareholders of JSC Severstal</b>	<b>7,877,907</b>	<b>9,051,499</b>	<b>9,573,433</b>	<b>7,034,053</b>
<b>Non-controlling interests</b>	<b>498,432</b>	<b>501,117</b>	<b>500,353</b>	<b>220,461</b>
<b>Total equity</b>	<b>8,376,339</b>	<b>9,552,616</b>	<b>10,073,786</b>	<b>7,254,514</b>
<b>Total equity and liabilities</b>	<b>19,643,886</b>	<b>22,513,926</b>	<b>17,600,823</b>	<b>18,770,934</b>

(1) These amounts reflect adjustments made in connection with the completion of purchase price allocations.

## SUMMARY CASH FLOW DATA

	Year ended 31 December			Six months ended 30 June	
	2009	2008 <sup>(1)</sup>	2007	2010	2009 <sup>(2)</sup>
(Amounts expressed in thousands of US dollars)					
Net cash from operating activities	1,611,189	3,433,866	2,236,139	132,267	354,669
Cash from investing activities	(254,023)	(4,810,751)	(2,099,708)	(1,012,156)	(25,597)
Cash from financing activities	(1,158,454)	2,424,428	(339,770)	272,594	(727,749)

(1) These amounts reflect adjustments made in connection with the completion of purchase price allocations.

(2) These amounts reflect adjustments made in connection with the completion of purchase price allocations and the presentation of the discontinued operation.

## OTHER MEASURES

	Year ended 31 December			Six months ended 30 June	
	2009	2008	2007	2010	2009
(US\$ millions)					
EBITDA <sup>(1)</sup>	843.6	5,357.9	3,688.1	1,446.7	(30.2)
Interest expense <sup>(2)</sup>	601.2	508.4	325.6	323.9	258.9
Net interest expense <sup>(3)</sup>	497.4	353.2	159.0	261.2	215.1
Total debt <sup>(4)</sup>	7,226.9	8,265.9	3,942.4	6,291.8	7,522.0
Cash and cash equivalents	2,853.4	2,652.9	1,622.5	1,839.8	2,247.2
Short-term deposits	95.5	818.5	666.3	165.0	331.6
Net debt <sup>(5)</sup>	4,278.0	4,794.5	1,653.6	4,287.0	4,943.2
Certain ratios					
EBITDA/Interest expense	1.4	10.5	11.3	4.5	(0.1)
EBITDA/Net interest expense	1.7	15.2	23.2	5.5	(0.1)
Net debt/EBITDA	5.1	0.9	0.4	1.5 <sup>(6)</sup>	(81.8) <sup>(6)</sup>
Total debt/EBITDA	8.6	1.5	1.1	2.2 <sup>(7)</sup>	(124.5) <sup>(7)</sup>

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 amortization 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 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.



**Consolidated EBITDA Reconciliation**

	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2010</b>	<b>2009</b>
	<b>(US\$ millions)</b>				
(Loss)/profit from Operations . . . . .	(145.3)	4,216.4	2,807.3	1,025.7	(425.9)
Add:					
Depreciation and amortization of productive assets . . . . .	956.9	1,098.2	845.3	390.9	388.3
Loss on disposal of plant, property, plant and equipment and intangible assets . . . . .	32.0	43.3	35.5	30.1	7.4
Consolidated EBITDA <sup>(1)</sup> . . . . .	<u>843.6</u>	<u>5,357.9</u>	<u>3,688.1</u>	<u>1,446.7</u>	<u>(30.2)</u>

- (2) Interest expense consists of the interest expense portion of net financing (expense)/income and does not include the interest expense portion of net income from banking/bank lending operations.
- (3) Net interest expense consists of the interest expense and interest income.
- (4) Total debt consists of short-term and long-term debt finance.
- (5) Net debt consists of total debt less cash and cash equivalents and short-term deposits.
- (6) Based on EBITDA for the six months ended 30 June, multiplied by two, and net debt as at 30 June.
- (7) Based on EBITDA for the six months ended 30 June, multiplied by two, and total debt as at 30 June.

## RISK FACTORS

*An investment in any Notes issued under the Programme 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***

Beginning in 2008 and continuing into 2009, the global economy experienced a significant downturn. According to the International Monetary Fund (*IMF*), global GDP decreased by 0.8 percent in 2009 compared to 2008. According to Rosstat, Russian GDP fell by 7.9 percent from 2008 to 2009, total investments decreased by 16.2 percent and industrial production fell by 9.3 percent. This pronounced contraction in industrial activity had a significant impact on both pricing and demand for steel products and iron ore and coal. This in turn had a significant negative impact on the Group's financial results for the fourth quarter of 2008 and the year ended 31 December 2009.

The second half of 2009 and 2010 to date were characterised by a number of positive developments in the global markets, as key emerging and developing economies demonstrated strong demand for raw materials products supported by government stimulus initiatives. This was coupled with general restocking in the steel market and growth of consumption in the US market. Nevertheless, a global economic recovery is subject to a number of uncertainties, including mounting government deficits, discontinuation of certain stimulus programmes, deflation and continuing high levels of unemployment. Uncertainty created by the possibility of a further deterioration of the financial markets could make it more difficult for the Group to fund its capital and liquidity requirements. If global economic conditions do 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 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 recent global economic downturn resulted in a decline in demand for and prices of steel and iron ore products. Although prices have risen significantly in 2010 in response to the start of the global recovery, there is no guarantee that this recovery will continue. 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 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 North America operations have secure iron ore supply through long-term contracts, the availability of coal, iron ore and/or slabs for Severstal North America, 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 increases in the prices of such raw materials. Any 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 2010 and is scheduled to run through 2014, involving the expenditure of approximately US\$6.4 billion (excluding maintenance) over that period. Thus far, the Group had capital expenditures of US\$2.2 billion in 2008, US\$978 million in 2009 and US\$523.8 million (excluding Lucchini) for the six months ended 30 June 2010. 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.

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 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, both gold and iron ore, by Severstal Resources and several other acquisitions by Severstal International in the United States (see "*Business—Severstal International—North America*"). 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 Africa, specifically in Liberia, Congo, Burkina Faso, Guinea and Gabon and other emerging markets. The Group is also exploring the further diversification of its mining operations in non-steel related commodities, in addition to its existing gold and silver mining operations.

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 targets 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 if, 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.

***A substantial portion of the Group's gold assets were obtained through the acquisitions of interests in public companies and limited due diligence was conducted in connection with such acquisitions***

The Group holds the Irokinda, Zun-Holba, Berezitovy and Taparko mines through its interest in High River Gold Mines, Ltd (***High River Gold***), a company listed on the Toronto Stock Exchange, which was acquired primarily in market transactions after performing limited due diligence. Some of the Group's gold assets in Kazakhstan were originally obtained through market purchases of shares in a listed entity, Celtic Resources Holdings plc (***Celtic***). Most recently, the Group's controlling interest in Crew Gold, a company listed on the Toronto Stock Exchange and the Oslo Stock Exchange, was obtained through a series of market transactions where the Group was not able to perform the same level of due diligence as it would otherwise be able to undertake in the acquisition of a private company. As a consequence, there can be no assurances that liabilities will not materialise of which the Group was unaware or that the target's operations and asset base are not worse than expected, all of which could have been exposed as part of a more thorough due diligence exercise. Such liabilities could include claims by third-parties to challenge the validity of transactions entered into by the previous owner of the acquired assets, for which the Group had no direct responsibility. Any such liabilities could have an adverse effect on the Group's operations 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 equipment, such as furnaces, continuous casters and rolling equipment, and electrical equipment, such as transformers. 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 North America'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, blasting 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*"). Any 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 estimate based on a rang 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 Prospectus are calculated by reference to estimates provided by IMC Consulting Ltd in its report dated June 2006, and for PBS Coals by John T. Boyd Company in its report dated 30 May 2008 prepared in accordance with JORC 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, reserve and resource estimates do not account for the possibility that the initial phase of drilling and exploration may take several years before production is possible or for the effect of market prices of iron ore or coal on the economic feasibility of mining any particular deposit.

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***

Some of the products of the Group's Russian operations are subject to various trade barriers, such as anti-dumping duties, tariffs and quotas, in its principal export markets, including the European Union and the United States. See "*Regulatory Matters—Trade Barriers and Anti-Dumping Regulations*". These trade barriers affect the demand for the Group's products by effectively increasing the prices for those products compared to domestically available products. 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 reduction or elimination of trade barriers in the Group's principal domestic markets may increase competition, which could adversely affect the demand for or prices of its products in those markets***

The Russian Government has enacted various trade barriers, such as import customs duties, specific kinds of duties (including anti-dumping duties) and licensing against imports of foreign steel products. For



example, Russia has in place import customs duties with respect to certain steel products imported from outside of Russia, excluding countries in the CIS. These customs duties are generally: (i) 5.0 percent of the customs value of some commodity steel products (for example, rolled steel and steel rod); (ii) 15.0 percent of the customs value of a variety of value added products (for example, pipe); and (iii) 20.0 percent of the customs value of certain high value added products. See “*Regulatory Matters—Trade Barriers and Anti Dumping Regulations*”. These trade barriers provide protection for domestic steel producers in Russia against foreign competition by effectively increasing the prices of imported products compared to domestically available products. However, in the event of Russia’s entry into the WTO, Russia may be required to reduce or eliminate these trade barriers and there can be no assurance that other similar agreements will not be concluded in the future. The reduction or elimination of trade barriers would increase competition in the Russian steel industry, resulting in lower prices for steel products. Significant decreases in prices for domestic steel products in Russia would 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 producers, which could adversely affect the demand for its products***

Historically, the Russian Government considered the adoption of export tariffs on certain steel 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 such import duties in order to affect the pricing of steel products in the domestic market. However, no decision has been made to this effect and, therefore, the impact of any such export tariffs as may be adopted on the Group’s business, results of operations and prospects is uncertain.

***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 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 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 2009, 2008 and 2007. 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 raw materials 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 13.3 percent in 2008 to 8.8 percent in 2009 and to 4.4 percent in the first half of 2010 according to Russian Federal State Statistics Service (*Rosstat*), inflation may increase in the future. Certain of the Group's costs of its Russian operations, such as wage costs, maintenance costs, construction costs and utilities costs, are sensitive to rises in the general price level 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 and natural gas supply from companies that are currently the subject of a liberalisation programme, which could result in increased prices or supply interruptions***

In 2009, the Group's Russian operations purchased significant volumes of natural gas from subsidiaries of OAO Gazprom (*Gazprom*), a government controlled entity, and significant amounts of electricity from OAO Vologodskaya Sbytovaya Kompaniya, a privatised part of the former government controlled Russian electricity monopoly RAO UES. A restructuring plan was completed in July 2008 in which RAO UES merged into JSC Federal Grid Company of Unified Energy System (*FGC UES*). This measure was a further step in the restructuring plan for the Russian national power sector aimed at introducing competition, liberalising the wholesale electricity market and moving from regulated pricing to a market-based system in Liberalisation may result in higher prices for electricity or natural gas and potential interruptions in their supply. It is uncertain what effect this liberalisation programme will have on the electricity market.

Any interruption in the supply of energy or substantial increase 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 15 September 2010, controlled indirectly approximately 77.41 percent of the Company's shares and has an option to purchase another 4.96 percent (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 its Majority Shareholder’s and senior management’s experience and expertise***

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 any of its senior managers. Moreover, competition in Russia 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 February 2010, Olkon’s tailing dump facilities froze. The incident resulted in a minor production decrease from February to March, inclusive. The incident occurred due to unusually cold weather conditions. Furthermore, a substantial part of the Group’s sales by volume from its Russian steel operations to be 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, during which the Gulf of Finland is not frozen over. Unusually 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.

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. In addition, the Group may be unable to conduct its activities or operations or to enforce its rights with respect to some of its properties. The Group's properties in the Murmansk region and the Republic of Sakha-Yakutiya in Russia, which include the Olenegorsky and the Neryungi mine and the Gross deposit, respectively, are governed by perpetual land use rights without any formalised lease agreements, which could be challenged. While the Group is not aware of any challenges of its land rights in respect of those properties, a successful challenge to the Group's rights to such properties may result in the Group not being able to proceed with the development or continued operation of a mine or project, which in turn, may have a material adverse effect on the Group's business, results of operations and financial condition and the value of the Notes.

In addition, the Group's business outside of Russia also depends on the continuing validity of licences, the issuance to them of new licences and compliance with the terms of such licences, which may involve uncertainties and costs to the Group. 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.

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

Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities, the non-taxable status of some or all foreign companies of the Group in Russia may be challenged.

The Group believes that its interpretation of the relevant tax legislation is and will be sustainable. Moreover, the Group believes that it has accrued all applicable taxes; however, the interpretations of the relevant authorities could differ and if the authorities were successful in enforcing their interpretation, the effect could have a negative impact on the financial position of the Group.

***The Group bears the risk of interest rate fluctuations***

Interest rates on the Group's debt finance are either fixed or variable, at a fixed spread over LIBOR or Euribor for the duration of each contract. 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 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 use of 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 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.

**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 revenues are 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 and social, and 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.

Investors should note that emerging markets such as Russia are subject to rapid change and that the information set out in this 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 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 and Belarus have been also recently strained for a variety of reasons. Though none of these conflicts has directly affected the Group's business, such conflicts or tensions could 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. However, over the period from 2000 to 2008, President Vladimir Putin achieved and generally maintained political and governmental stability in the country which accelerated the reform process and made the political and economic situation in Russia more conducive to investment. In March 2008, Mr. Dmitry Medvedev was elected as the president of Russia. A significant degree of continuity has been maintained between the two administrations due, in large part, to the appointment by President Medvedev of Vladimir Putin as the Russian Prime Minister. It is possible, however, that President Medvedev may take a different approach to reforms and to the state's foreign and domestic policies in the future, and has recently stressed the need for further diversification of the Russian economy away from its longstanding focus on the extraction of raw materials. Moreover, while the Russian political system and the relationship between President Medvedev, the Russian Government and the Russian Parliament appear to be stable, future political instability could result from the decline of the overall economic situation, include any deterioration in the standard of living. Shifts in governmental policy and regulation in Russia may be less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms. Current and future changes in the federal government of Russia, major policy shifts or a lack of consensus between the President of Russia, the federal government, Russia's parliament and powerful economic groups, could lead to political instability, which 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, and sometimes in a manner that is contrary to law. For example, some analysts cite the Russian Government's effective re-nationalisation of Yukos in the 2000s as an example of the Russian Government's selective actions. 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, 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.

Arbitrary or selective state action, if directed at the Group, 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***

Since the dissolution of the Soviet Union, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- 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;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

From 2000 to the first half of 2008, Russia experienced a growth in its GDP, higher tax collections and increased stability of the rouble, all of which provided a certain degree of economic stability. In 2004, however, several Russian banks experienced a sharp reduction in liquidity and the licences of certain of them were withdrawn. Furthermore, the Russian economy was adversely affected by the recent global economic downturn that started in the second half of 2008. For example, in 2009, Russian GDP decreased by 7.9 percent. A sustained deterioration of the economic situation in the global markets may lead to worsening of the economic situation in Russia.

In addition 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, which may cause fluctuations in the prices of oil, natural gas and minerals on the world market, which reached record high levels in 2008. A significant or sustained decline in the price of oil, natural gas or minerals could significantly slow or disrupt 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.

### ***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. 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***

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April to July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998 when several privately owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately owned Russian banks collapsed or ceased or severely limited their operations. Russian banks owned or controlled by the Government or the CBR and foreign owned banks generally were not adversely affected by the turmoil.

The global economic downturn led to the financial troubles of certain Russian banks and to significant liquidity restraint for others. Likewise, profitability levels of most Russian banks have been adversely affected.

Recently, there has been a rapid increase in lending by Russian banks, which many believe has been accompanied by deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading to Russian banks increasing their exposure to the corporate sector. 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 also only a limited number of creditworthy Russian banks, most of which are located in Moscow. The bankruptcy or insolvency of any banks with which the Group does business could adversely affect the Group's business. 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, financial condition, results of operations, future prospects and the value of the Notes. 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 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 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. 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 unrest, 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. Labour and social unrest 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 property, or expropriation of or restrictions on foreign involvement in the economy of Russia; and increased violence. Any of these outcomes 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 continues to develop its legal framework in accordance with international standards and the requirements of a market economy. 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.

All of these weaknesses could affect the Group's ability to enforce its 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-a-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 of non-Russian customers. The Group expects the case to be resolved by the FAS by the end of 2010.

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 law and practice are not fully 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 taxes and levies imposed at federal, regional and local levels, including, but not limited to, corporate income tax, value added tax (*VAT*), excise taxes, corporate property tax, compulsory social insurance payments and other taxes and levies.

Laws related to these taxes, such as the Tax Code of the Russian Federation (the *Tax Code*), have been in force for a short period of time relative to tax laws in more developed market economies. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in continual changes in the interpretation of the existing laws by various authorities. Furthermore, the tax environment in Russia has been complicated by the fact that various authorities have often interpreted tax legislation inconsistently. Although the quality of Russian tax legislation has generally improved with the introduction of the Tax Code, there can be no assurance that the Tax Code will not be changed in the future, potentially creating instability and unpredictability in the tax system. It is possible that the Russian Government may 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.

Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Tax Code relating to the above-mentioned taxes are comparatively new. Therefore, the interpretation and application of these laws and regulations are often unclear or non-existent. Different interpretations of tax regulations often exist within government bodies at federal,

regional and local levels, increasing the number of existing uncertainties and leading to inconsistent enforcement of these regulations. 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 and the Russian tax authorities often interpret tax laws differently. During the past several years, the tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax charges issued by them as a result of tax audits of companies operating in various industries, including the mining industry. In some instances, the Russian tax authorities have applied new interpretations of tax laws 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 future.

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

In its decision of 26 July 2001, the Constitutional Court of Russia introduced the concept of “a taxpayer acting in bad faith” without clearly stipulating the criteria for its application. Additionally, this concept is not defined in Russian tax law or any other Russian laws. Nonetheless, in practice this concept has been used by the tax authorities to invalidate, for instance, the taxpayer’s reliance on the letter of tax law. Based on the available practice the tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53 (the ***Ruling***) which introduced a concept of the “unjustified tax benefit”, defined mainly by reference to specific examples (for example, tax benefits obtained in connection with a transaction that has no reasonable business rationale). Classification as an unjustified tax benefit could lead to the disallowance of the tax benefit. Based on available court practice, it is apparent that the tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of this Ruling was to combat abuse of tax law, based on court cases brought to court to date, it can be concluded that the tax authorities have started applying the “unjustified tax benefit” concept in a broader sense than may have been intended by the Supreme Arbitration Court. Importantly, the Group is aware of cases where this concept has been applied by the tax authorities in order to disallow benefits granted by double tax treaties. To date, however, in the majority of cases where this concept has been applied, the courts have ruled in favour of taxpayers, but there is no assurance that the courts will follow these precedents in the future.

Tax declarations together with related documentation are subject to review and investigation by a number of authorities which are empowered by Russian law to impose fines and penalties on taxpayers. Generally, tax declarations remain subject to inspection by the tax authorities for a period of three years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that the tax authorities have reviewed a particular tax period does not prevent any tax declarations relating to that period from being further reviewed by the tax authorities during the three-year limitation period. In particular, a tax authority higher than the authority that carried out the initial tax audit may re-audit the same period. Therefore, as previous audits do not preclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. On 14 July 2005, the Russian Constitutional Court issued a decision that effectively allowed the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the Tax Code if a court determines that the taxpayer has obstructed or hindered the course of a tax audit. The Tax Code also provides for the possible extension of the three-year statute of limitations for tax offenses if actions by the taxpayer created insurmountable obstacles for the tax audit. Since the terms “obstructed”, “hindered” or “insurmountable obstacles” are not specifically defined in Russian law, the tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced in the course of their tax audit with obstruction committed by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three-year term. Based on limited court practice relating to the statute of limitations available to date, the courts mainly have ruled in favour of taxpayers. It is, however, too early to generalise the court practice on this matter due to the fact that it is still quite limited.



Russian transfer pricing legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all “controlled” transactions (except for those conducted at state regulated prices and tariffs) if the transaction price differs from the market price by more than 20.0 percent. “Controlled” transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties characterised by significant price fluctuations (*i.e.*, if the price applied under these transactions differs from prices applied under similar transactions by more than 20.0 percent. within a short period of time). Special transfer pricing rules apply to transactions with securities and derivatives. Transfer pricing rules as currently in effect are vaguely drafted, generally leaving wide scope for their interpretation by the tax authorities and courts in practice. Moreover, in the event that the tax authorities make transfer pricing adjustments, transfer pricing rules do not provide for an offsetting adjustment for the related counterparty in the transaction.

There is a plan to introduce substantial amendments to the Russian transfer pricing legislation. A new draft law introducing a wholesale reform of the transfer pricing legislation was approved by the Russian Parliament in the first reading on 19 February 2010, with the second and third readings expected to take place during the 2010 autumn session of the State Duma. At this point it cannot be predicted with absolute certainty when these amendments will be enacted, if at all, and what effect they may have on taxpayers, including the Group. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, this could have a material adverse effect on the Group’s business, financial condition, results of operations and prospects.

In May 2009, the Russian President included in his budget message regarding the Government’s budget policy for 2010 to 2012 a proposal for legislative changes to the anti-avoidance mechanism with respect to double tax treaty benefits in cases where the ultimate beneficiaries of income do not reside in the relevant tax treaty jurisdictions. As a result, a law envisaging the introduction of the concept of an “actual recipient of income” to the Tax Code has been drafted. Although the draft law neither uses the term “beneficial owner” nor defines the term “actual recipient of income” (which is used in Russian official versions of all double taxation treaties), it is likely that the intent of the proposed amendments is to introduce a concept of beneficial ownership in domestic tax legislation, and to combat the abuse of double taxation treaties where the beneficiaries of income reside in jurisdictions that do not have double taxation treaties with Russia. The draft law, if enacted in its current form, would add uncertainty and instability in the application of double tax treaties in Russia. It is currently uncertain if and when the draft law may be introduced, if at all, how it will be interpreted and applied by the tax authorities and/or courts in practice and what effect it may have on taxpayers, including 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. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities and/or the courts to their interpretation and application, the Group could become subject to additional taxation in Russia.

The facts described above create tax risks in Russia that may be substantially more significant than those typically found in countries with more developed tax systems.

Historically, the main Russian entities of the Group have paid significant amounts of tax due to the scale of their operations. Consequently, the introduction of new taxes or the introduction of amendments to currently effective taxation rules may have a substantial impact on the overall tax liabilities of the respective entities of the Group. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Group’s tax planning and related business decisions, potentially exposing it and its Russian subsidiaries to significant additional taxes, fines and penalties and enforcement measures that could adversely affect the Group’s business, financial condition and results of operations.

## **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*”.

***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.

***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 30 June 2010, the Group had approximately US\$6.3 billion of total debt financing. 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 fulfil 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 Official List and traded on the 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.

***The Company's payments under any Loan and the Issuer's payments under the Notes may be subject to 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 permanent establishment in Russia are subject to Russian withholding tax at the rate of 20.0 percent, which could be reduced or eliminated pursuant to the terms of an applicable double tax treaty. The Company believes that interest payments made by it in favour of the Issuer on any Loan should not be subject to Russian withholding tax under the terms of 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*). However, there can be no assurance that such double tax treaty relief will be available in practice or will continue to be available throughout the term of any Loan.

In circumstances where payments under a Loan Agreement become payable to the Trustee pursuant to the security arrangements described herein, benefits of the Convention will cease and payments of interest under such Loan Agreement to the Trustee should become subject to Russian withholding tax at the rate of 20.0 percent or such other rate as may be effective at the time of payment. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty under such circumstances. In addition, while some Noteholders might be eligible for an exemption from or a reduction in the Russian withholding tax rate under applicable double tax treaties, there is no assurance that such exemption or reduction will be available for them in practice under such circumstances.

If interest payments under any Loan are subject to Russian withholding tax (as a result of which the Issuer will reduce payments made under the corresponding Series of the Notes by the amount of the tax withheld), the Company will be obliged under the terms of the relevant Loan Agreement to increase the amounts payable as may be necessary to ensure that the net payments received by the Issuer and/or the Noteholders will not be less than the amount they would have received in the absence of such withholding. It is currently unclear whether the provisions obliging the Company to gross up interest payments on the Loans will be enforceable under Russian law. There is a risk that gross-up for withholding tax will not take place and that interest payments made by the Company under the relevant Loan Agreement will be reduced by the amount of Russian income tax withheld by it at the rate of 20.0 percent, or such other rate as may be in force at the time of payment. See “*Taxation*”.

If the Company is obliged to pay additional amounts under any Loan Agreement, 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*”.

Payments in respect of the Notes will be made, except in certain limited circumstances, without deduction or withholding for or on account of Luxembourg taxes. However, pursuant to a European Directive regarding the taxation of savings income in the form of interest payments within the European Community (*EU Savings Directive*), interest on the Notes paid to individuals who are beneficial owners of interest and residents in European Union Member States as well as certain residual entities may be subject to withholding tax in Luxembourg. For further information on this legislation and the applicability of withholding tax in Luxembourg, see “*Taxation—Luxembourg*”. If any payments payable by the Issuer in respect of any Series of the Notes become subject to deduction or withholding for or on account of Luxembourg taxes (other than pursuant to the EU Savings Directive and related agreements, as set forth above), the Company will, subject to certain limitations, be obliged under the terms of the relevant Loan Agreement to increase interest payments (pay additional amounts) as may be necessary to ensure that the net payments received by the Noteholders will not be less than the amount they would have received in the absence of such withholding. For further information regarding the circumstances under which the

payment of additional amounts will be required and the limitations thereon, see “*Terms and Conditions of the Notes—8. Taxation*”.

Due to the limited recourse nature of the Notes, if the Company fails to pay any such gross-up amounts, as required by the Loan Agreement, the amounts payable by the Issuer under the relevant Series of the Notes will be correspondingly reduced. Any failure by the Company to increase such payments or to pay such additional amounts would constitute an Event of Default under the relevant Loan Agreement. In certain circumstances (including following enforcement of the security upon the occurrence of a Relevant Event as defined in the Loan Agreement), in the event that the Company is obliged to increase the amounts payable, it may (without premium or penalty) prepay the principal amount of the Loan together with accrued interest and/or additional amounts payable (if any) thereon, and all outstanding Notes of the corresponding Series would be redeemed by the Issuer (to the extent that the Issuer has actually received the relevant funds from the Company) at par together with accrued and unpaid interest and additional amount, if any, to the date of the redemption. See “*Terms and Conditions of the Notes—6. Redemption*”.

***Tax might be withheld on disposition of the Notes in Russia, reducing their value***

If a non-Russian Noteholder that is a legal entity or organisation that holds the Notes other than through its permanent establishment in Russia sells any Notes and receives sales proceeds from a source within Russia, there is a risk that the portion of the sales proceeds, if any, representing accrued interest may be subject to the 20.0 percent Russian withholding tax, which may be reduced or eliminated under an applicable tax treaty subject to compliance with the treaty clearance formalities.

Where proceeds from disposition of the Notes are received from a source within Russia by an individual Noteholder who is a non-Russian resident for tax purposes, a personal income tax at the rate of 30.0 percent will apply to the amount of gross sales proceeds realised upon the disposition of the Notes decreased by any available duly documented cost deductions (including the acquisition cost of the Notes). Although this tax rate may be reduced or eliminated under an applicable double tax treaty subject to compliance with the treaty clearance formalities, in practice, individuals would not be able to obtain advance treaty relief in relation to proceeds received from a source within Russia, whilst obtaining a refund of taxes withheld can be extremely difficult, if not impossible.

Furthermore, even though the Tax Code is typically interpreted such as only a Russian professional asset manager or broker, or another person (including a foreign company with a permanent establishment or any registered presence in Russia or an individual entrepreneur located in Russia) acting in a similar capacity is required to withhold the tax from payments associated with disposition of securities made to a non-Russian individual, there is no guarantee that other Russian companies or foreign companies with a registered presence in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax under these circumstances. The imposition or possibility of imposition of withholding tax could adversely affect the value of the Notes. See “*Taxation*”.

In addition, while some Noteholders might be eligible for an exemption from or a reduction in Russian withholding tax rate under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice under these circumstances.

***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 (*S&P*) and “BBB” by Fitch. The Company’s credit ratings and the Programme ratings will be set out in the final terms relating to the relevant issue of the Notes.

The foregoing credit ratings 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. To the extent relevant for US federal income tax purposes, the Issuer intends to treat the Notes as indebtedness for such 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 beneficial ownership of the relevant Loan or as equity in the Issuer, which is a passive foreign investment company. 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.

**Risk Factors Relating to Luxembourg law**

***Insolvency laws in Luxembourg could negatively affect the ability of Noteholders to enforce their rights***

Any insolvency proceedings with regard to the Issuer would most likely be based on and governed by the insolvency laws of Luxembourg, the jurisdiction under which the Issuer is organised. As a result, in the event of the Issuer's insolvency, a Noteholder's claim against the Issuer will most likely be subject to insolvency laws of Luxembourg. The insolvency laws of Luxembourg may not be as favourable to the interest of Noteholders as the laws in other jurisdictions. In the event that the Issuer experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced or how these proceedings would be resolved. In addition, there can be no assurance as to how the insolvency laws of Luxembourg will be applied in insolvency proceedings relating to several jurisdictions.

### **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.

## EXCHANGE RATE INFORMATION

The official currency of Russia, where a substantial amount of the Group's assets are located, is the Rouble. However, the 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 Financial Statements and other information presented in this Base Prospectus.

Year ended 31 December	RUR per US\$1.00			
	High	Low	Period average <sup>(1)</sup>	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 . . . . .				
Six months ended 30 June . . . . .	31.78	28.93	30.59	31.20
July . . . . .	31.37	30.19	30.68	30.19
August . . . . .	30.90	29.80	30.34	30.66
September . . . . .	31.08	30.40	30.84	30.40

(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 of 30 June 2010. Prospective investors should read this table in conjunction with “*Selected Consolidated Financial Information*”, “*Operating and Financial Review*” and the Financial Statements which are included in this Prospectus beginning on page F-1.

	As at 30 June 2010
	Actual <sup>(1)</sup>
<b>Cash and cash equivalents</b> . . . . .	<b>1,839,842</b>
<b>Short-term debt finance</b> . . . . .	<b>988,882</b>
<b>Long-term debt finance<sup>(3)</sup></b> . . . . .	<b>5,302,879</b>
<b>Equity</b>	
Share capital . . . . .	3,311,288
Treasury shares . . . . .	(26,303)
Additional capital . . . . .	1,165,530
Foreign exchange differences . . . . .	(382,453)
Retained earnings . . . . .	2,915,271
Other reserves . . . . .	50,720
<b>Equity attributable to shareholders of JSC Severstal</b> . . . . .	<b>7,034,053</b>
<b>Non-controlling interests<sup>(3)</sup></b> . . . . .	<b>220,461</b>
<b>Total equity</b> . . . . .	<b>7,254,514</b>
<b>Total capitalisation<sup>(2)</sup></b> . . . . .	<b>12,557,393</b>

Notes:

- (1) On 25 October 2010, the Issuer issued US\$1,000,000,000 6.7 percent Loan Participation Notes due 2017 as Series 1 under the Programme to fund a matching loan to the Company.
- (2) Total capitalisation is the sum of long-term debt finance and total equity.
- (3) From July 2010, the Group has consolidated Crew Gold. As a result, long-term debt finance increased by US\$103.9 million and non-controlling interests increased by US\$248.6 million from the amounts reported as at 30 June 2010.

Other than as described above, there has been no material change in the Group's total capitalisation since 30 June 2010.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth, in summary form, consolidated balance sheet, income statement and other information relating to the Group. Such information has been derived from the Financial Statements of the Group prepared in accordance with IFRS. The reports of ZAO KPMG appear elsewhere in this Prospectus. The financial information presented below should be read in conjunction with such Financial Statements, reports and “*Operating and Financial Review*”.

### CONSOLIDATED INCOME STATEMENT

	Year ended 31 December			Six months ended 30 June	
	2009	2008 <sup>(1)</sup>	2007	2010	2009 <sup>(2)</sup>
	(Amounts expressed in thousands of US dollars, except as otherwise stated)				
<b>Sales</b>					
Sales—external . . . . .	12,951,669	22,138,418	15,352,404	7,291,728	4,733,992
Sales—to related parties . . . . .	102,830	254,299	150,984	95,431	75,671
	<u>13,054,499</u>	<u>22,392,717</u>	<u>15,503,388</u>	<u>7,387,159</u>	<u>4,809,663</u>
Cost of sales . . . . .	(11,356,293)	(16,499,914)	(10,821,582)	(5,394,049)	(4,480,139)
<b>Gross profit . . . . .</b>	<b>1,698,206</b>	<b>5,892,803</b>	<b>4,681,806</b>	<b>1,993,110</b>	<b>329,524</b>
General and administrative expenses . . . . .	(735,561)	(1,026,790)	(766,890)	(338,460)	(316,788)
Distribution expenses . . . . .	(864,225)	(1,117,776)	(942,533)	(464,235)	(348,920)
Other taxes and contributions . . . . .	(171,601)	(178,886)	(154,070)	(81,654)	(68,555)
Share of associates’ profit/(loss) . . . . .	11,488	(3,400)	6,240	12,509	5,167
Net (loss)/gain from securities operations . . . . .	(15,304)	(96,812)	25,564	(60,136)	(6,098)
Loss on disposal of property, plant and equipment and intangible assets . . . . .	(32,001)	(43,278)	(35,525)	(30,059)	(7,415)
Net other operating (expenses)/income . . . . .	(36,329)	790,580	(7,266)	(5,331)	(12,845)
<b>(Loss)/profit from operations . . . . .</b>	<b>(145,327)</b>	<b>4,216,441</b>	<b>2,807,326</b>	<b>1,025,744</b>	<b>(425,930)</b>
Impairment of non-current assets . . . . .	(219,019)	(1,540,263)	(28,895)	(60,626)	(26,524)
Negative goodwill . . . . .	—	292,326	12,223	—	—
Net other non-operating (expenses)/income . . . . .	(34,441)	238,945	(58,676)	(19,404)	(21,681)
<b>(Loss)/profit before financing and taxation . . . . .</b>	<b>(398,787)</b>	<b>3,207,449</b>	<b>2,731,978</b>	<b>945,714</b>	<b>(474,135)</b>
Interest income . . . . .	103,822	155,232	166,639	62,725	43,781
Interest expense . . . . .	(601,244)	(508,369)	(325,580)	(323,875)	(258,908)
Foreign exchange difference . . . . .	(205,028)	(274,920)	3,206	(29,622)	(215,058)
<b>(Loss)/profit before income tax . . . . .</b>	<b>(1,101,237)</b>	<b>2,579,392</b>	<b>2,576,243</b>	<b>654,942</b>	<b>(904,320)</b>
Income tax (expense)/benefit . . . . .	(17,858)	(517,466)	(700,153)	(184,590)	101,675
<b>(Loss)/profit from continuing operations . . . . .</b>	<b>(1,119,095)</b>	<b>2,061,926</b>	<b>1,876,090</b>	<b>470,352</b>	<b>(802,645)</b>
Profit/(loss) from discontinued operations . . . . .	—	—	433	(1,036,929)	(187,403)
<b>(Loss)/profit for the year/period . . . . .</b>	<b>(1,119,095)</b>	<b>2,061,926</b>	<b>1,876,523</b>	<b>(566,577)</b>	<b>(990,048)</b>
Attributable to:					
shareholders of JSC Severstal . . . . .	(1,037,240)	2,028,972	1,849,531	(592,593)	(945,580)
non-controlling interests . . . . .	(81,855)	32,954	26,992	26,016	(44,468)
Weighted average number of shares outstanding during the period (millions of shares) . . . . .	1,005.2	1,007.2	1,007.7	1,005.2	1,005.2
Basic and diluted (loss)/profit per share (US dollars) . . . . .	(1.03)	2.01	1.84	(0.59)	(0.94)
Basic and diluted (loss)/profit per share— continuing operations (US dollars) . . . . .	(1.03)	2.01	1.84	0.44	(0.75)

(1) These amounts reflect adjustments made in connection with the completion of purchase price allocations.

(2) These amounts reflect adjustments made in connection with the completion of purchase price allocations and the presentation of the discontinued operation.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December			As at 30 June
	2009	2008 <sup>(1)</sup>	2007	2010
	(Amounts expressed in thousands of US dollars)			
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents . . . . .	2,853,376	2,652,888	1,622,542	1,839,842
Short-term bank deposits . . . . .	95,533	818,545	666,327	165,010
Short-term financial investments . . . . .	73,129	112,782	215,494	205,561
Trade accounts receivable . . . . .	1,457,651	1,941,876	1,769,038	1,462,759
Amounts receivable from related parties . . . . .	26,716	63,831	47,193	20,183
Inventories . . . . .	2,974,227	4,271,886	2,720,634	2,688,214
VAT recoverable . . . . .	288,032	361,542	284,122	240,557
Income tax recoverable . . . . .	106,019	172,947	81,963	88,469
Other current assets . . . . .	285,453	279,707	318,961	310,710
Assets held for sale . . . . .	24,415	8,872	465,341	1,885,332
<b>Total current assets . . . . .</b>	<b>8,184,551</b>	<b>10,684,876</b>	<b>8,191,615</b>	<b>8,906,637</b>
<b>Non-current assets:</b>				
Long-term financial investments . . . . .	128,616	70,342	112,959	155,112
Investment in associates and joint ventures . . . . .	143,857	110,907	202,987	252,947
Property, plant and equipment . . . . .	9,485,480	9,827,392	8,289,116	7,924,955
Intangible assets . . . . .	1,369,204	1,510,658	687,067	1,248,614
Restricted cash . . . . .	17,541	21,703	13,810	50,709
Deferred tax assets . . . . .	239,835	246,541	64,185	149,078
Other non-current assets . . . . .	74,802	41,507	39,084	82,882
<b>Total non-current assets . . . . .</b>	<b>11,459,335</b>	<b>11,829,050</b>	<b>9,409,208</b>	<b>9,864,297</b>
<b>Total assets . . . . .</b>	<b>19,643,886</b>	<b>22,513,926</b>	<b>17,600,823</b>	<b>18,770,934</b>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities:</b>				
Trade accounts payable . . . . .	1,378,300	1,528,453	1,211,373	1,105,357
Amounts payable to related parties . . . . .	16,656	71,960	91,547	17,623
Short-term debt finance . . . . .	1,478,301	2,038,693	1,129,216	988,882
Income taxes payable . . . . .	34,150	46,131	41,323	35,362
Other taxes and social security payable . . . . .	209,084	213,315	199,349	161,243
Dividends payable . . . . .	5,704	128,715	107,485	5,446
Other current liabilities . . . . .	693,844	811,178	620,369	570,545
Liabilities related to assets held for sale . . . . .	11,979	4	91,750	1,860,291
<b>Total current liabilities . . . . .</b>	<b>3,828,018</b>	<b>4,838,449</b>	<b>3,492,412</b>	<b>4,744,749</b>
<b>Non-current liabilities:</b>				
Long-term debt finance . . . . .	5,748,559	6,227,225	2,813,166	5,302,879
Deferred tax liabilities . . . . .	394,990	496,379	509,409	370,398
Retirement benefit liabilities . . . . .	787,714	779,296	387,398	653,503
Other non-current liabilities . . . . .	508,266	619,961	324,652	444,891
<b>Total non-current liabilities . . . . .</b>	<b>7,439,529</b>	<b>8,122,861</b>	<b>4,034,625</b>	<b>6,771,671</b>

(1) These amounts reflect adjustments made in connection with the completion of purchase price allocations.

*Selected Consolidated Financial Information*

	As at 31 December			As at 30 June
	2009	2008	2007	2010
(Amounts expressed in thousands of US dollars)				
<b>Equity:</b>				
Share capital . . . . .	3,311,288	3,311,288	3,311,288	3,311,288
Treasury shares . . . . .	(26,303)	(26,303)	—	(26,303)
Additional capital . . . . .	1,165,530	1,165,530	1,165,530	1,165,530
Foreign exchange differences . . . . .	(52,478)	84,987	1,145,499	(382,453)
Retained earnings . . . . .	3,436,270	4,488,396	3,951,116	2,915,271
Other reserves . . . . .	43,600	27,601	—	50,720
<b>Total equity attributable to shareholders of</b>				
JSC Severstal . . . . .	<b>7,877,907</b>	<b>9,051,499</b>	<b>9,573,433</b>	<b>7,034,053</b>
<b>Non-controlling interests . . . . .</b>	<b>498,432</b>	<b>501,117</b>	<b>500,353</b>	<b>220,461</b>
<b>Total equity . . . . .</b>	<b>8,376,339</b>	<b>9,552,616</b>	<b>10,073,786</b>	<b>7,254,514</b>
<b>Total equity and liabilities . . . . .</b>	<b>19,643,886</b>	<b>22,513,926</b>	<b>17,600,823</b>	<b>18,770,934</b>

**SUMMARY CASH FLOW DATA**

	Year ended 31 December			Six months ended 30 June	
	2009	2008 <sup>(1)</sup>	2007	2010	2009 <sup>(2)</sup>
(Amounts expressed in thousands of US dollars)					
Net cash from operating activities . . . . .	1,611,189	3,433,866	2,236,139	132,267	354,669
Cash from investing activities . . . . .	(254,023)	(4,810,751)	(2,099,708)	(1,012,156)	(25,597)
Cash from financing activities . . . . .	(1,158,454)	2,424,428	(339,770)	272,594	(727,749)

(1) These amounts reflect adjustments made in connection with the completion of purchase price allocations.

(2) These amounts reflect adjustments made in connection with the completion of purchase price allocations and the presentation of the discontinued operation.

## 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 2007, 2008 and 2009 and as at and for the six months ended 30 June 2009 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 Financial Statements included in this Prospectus beginning on page F-1. The 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 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 the World Steel Association, the Group was the world's ninth largest producer of crude steel in 2009, by volume of production. The Group is a full production cycle operation which includes iron ore, coal and gold mining enterprises, scrap collection, steel mills and rolled product plants as well as 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, including Ukraine, Kazakhstan, Burkina Faso and Guinea. With a focus on high value added products in attractive niche markets and a track record of acquiring and integrating assets in Russia and other countries, the Group's corporate strategy is to improve its position as a leading global steel company in terms of profitability, with a vertically integrated and low-cost business structure.

The Group comprises three business divisions: Russian Steel Division, Severstal International (primarily North America) and Severstal Resources (including the Group's gold business).

### THE GROUP'S FINANCIAL STATEMENTS AND SCOPE OF CONSOLIDATION

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

The 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 Financial Statements.

The list of the Group's significant subsidiaries, associates and joint ventures with effective ownership interests as at 31 December 2007, 2008 and 2009 is included in the Annual Financial Statements.

In 2009, the Group was divided into four reporting segments, per IFRS 8 "Operating Segments" for the purposes of the Financial Statements: the Russian Steel segment, the Severstal Resource segment (formerly the "Mining" segment), the Severstal North America segment and the Lucchini segment. The following discussion follows the reporting segment structure consistent with the Financial Statements.

#### Severstal Resources

In 2009, the Mining segment was renamed the Severstal Resource segment for financial reporting purposes. The Severstal Resource segment includes the following operations: iron ore production, coal production, gold production and ferroniobium production.

#### Russian Steel Division

Prior to 2009, the Russian Steel Division comprised the Russian Steel segment, the Metalware segment and the Izhora Pipe Mill segment. At present, all three segments are combined into the Russian Steel

Division for financial reporting purposes. The Group's 2009 Annual Financial Statements were restated to reflect this restructuring.

### **Severstal International**

At present, Severstal International comprises the Group's North American assets but in the years ended 31 December 2007, 2008 and 2009, Severstal International included the Lucchini segment, which is now discontinued.

#### ***Lucchini (discontinued)***

In October 2006, the Group acquired from the Majority Shareholder a controlling interest in Lucchini, which produces special and high-quality steel and quality and specialty long products for the European market. 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, the Group has decided to dispose of Lucchini, reflecting it as an asset held for sale and a discontinued operation in the Interim Financial Statements.

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 a 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 believes that the sale of this controlling stake will improve the Group's financial stability and provide additional flexibility for the negotiations of amendments to the terms of Lucchini's credit agreements.

In accordance with IFRS requirements, the Group still continues 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. The Group's management is still committed to the sale of Lucchini within the next twelve months to a third-party and considers such a sale as highly probable.

### **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:

#### **Macroeconomic trends**

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

The first signs of the global economic downturn appeared when the US housing market began to falter in 2007. Nevertheless, the GDP in all major economies had yet to be affected and were still growing. In 2008, GDP growth had significantly decelerated as the global economic downturn began to take effect.

In 2009, economic activity remained subdued and despite efforts by national banks and governmental policies, overall GDP growth for 2009 was negative in the Group's key economies.

The first half of 2010 showed signs of recovery and the main drivers of growth were manufacturing industries while construction lagged behind.

The Group believes that the GDP growth in Russia for the first half of 2010 has generally increased demand for its core products, positively affecting the Group's pricing, sales and profit from operations.

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

	For the year ended 31 December			
	2007	2008	2009	2010E <sup>(1)</sup>
<b>Russia</b>				
GDP growth <sup>(1)</sup>	8.5%	5.2%	(7.9)%	5.2%
Percent change in consumer price index <sup>(1)</sup>	9.1%	14.1%	11.7%	7.8%
<b>Italy</b>				
GDP growth <sup>(2)</sup>	1.5%	(1.3)%	(5.0)%	0.8%
Percent change in consumer price index <sup>(2)</sup>	2.0%	3.5%	0.8%	1.5%
<b>France</b>				
GDP growth <sup>(2)</sup>	2.4%	0.2%	(2.6)%	1.3%
Percent change in consumer price index <sup>(2)</sup>	1.6%	3.2%	0.1%	1.8%
<b>United States</b>				
GDP growth <sup>(3)</sup>	1.9%	0.0%	(2.6)%	2.7%
Percent change in consumer price index <sup>(4)</sup>	2.8%	3.8%	(0.4)%	1.7%
<b>Average nominal exchange rates</b>				
Roubles per US dollar <sup>(5)</sup>	25.57	24.85	31.71	30.06
Roubles per euro <sup>(5)</sup>	35.02	36.42	44.12	39.94

Source:

- (1) Russian Federal State Statistics, except forecast.
- (2) Eurostat, except forecast
- (3) Bureau of Economic Analysis, US Department of Commerce, except forecast
- (4) Bureau of Labor Statistics, US Department of Labor, except forecast
- (5) CBR, except forecast
- (6) Italy and France GDP growth forecast—Eurostat  
Russia GDP growth and percent change in consumer price index forecast—Troika Dialog (Russia Economic Monthly, September 2010).

All other data in forecast from UBS forecast (Global Economic Forecast Database 14 September 2010 Cates).  
Percent change in consumer price index (*CPI*) is based on average change of CPI for the whole year.

### Exchange rate movements

The majority of the Group's operations are, or were, based in Russia, Western Europe (primarily in Italy and France), the United States and Africa. 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. The functional currency of the majority of the Group's entities located in Western Europe is the euro.

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 balance sheet 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 as a part of net financing expense 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 be in the future, 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 discussion and analysis, 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. The prices for these raw materials decreased in 2009 when compared to 2008 due to the decrease in global steel production resulting from the global economic downturn. However, the prices for some raw materials have increased in 2010, and some have already exceeded 2008 levels whereas prices for other raw materials remain below 2008 levels. For example, prices for iron ore in the first half of 2010 were higher than in 2008, whereas prices for coking coal in the first half of 2009 were lower than in 2008.

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 produce 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 the Russian Steel Division and Severstal Resources by monopoly providers in Russia, while North America businesses are supplied by certain local utilities. From 2007 up to the date of this 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.

In addition to increases in electricity, raw materials, transportation and natural gas prices, increasing wage costs in Russia have added to the costs of the Group's Russian operations over the periods, other than the year ended 31 December 2009, covered in this discussion and analysis.

### **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.

Furthermore in 2009, the Group 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 continues to target at least 70.0 to 80.0 percent self sufficiency in iron ore and coking coal globally.

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, specifically in Liberia, Congo, Burkina Faso, Guinea and Gabon.

The Group is also exploring the further diversification of its mining operations in non-steel related commodities, in addition to its existing gold and silver mines.

#### *Gold business*

Since 2007, the Group has completed several acquisitions, which resulted in the creation of a leading gold mining company focused on emerging markets. The Group's approach to acquisitions has been to identify and acquire assets at attractive valuations; in particular in situations where the assets are being operated below their potential and/or the target is in financial distress. The Group acquired Celtic and controlling stakes in High River Gold and Crew Gold, as well as a number of other mines and licenses. Following these successful acquisitions, the Group is planning to continue leveraging the value of its gold mining assets through its three-pillar strategy: 1) operational optimisation and integration of the acquired operations; 2) increasing profitability and improving the cash cost position; and 3) organic expansion and developing additional accretive M&A opportunities. On 4 October 2010, the Company issued a press release noting some media speculation with regard to a possible IPO of its gold business. Whilst the Company does not comment on speculation, it repeated its previous statements that an IPO for the gold business is an option under consideration.

#### *Mining business*

Following the successful acquisitions of mining assets in 2008 and 2010, the Group aims to increase coking coal self-sufficiency in Russia and supply security of the North America steel assets.

### **RECENT DEVELOPMENTS**

#### **Crew Gold**

From July to September 2010, the Group acquired additional stakes in Crew Gold, increasing its ownership to 93.4 percent. Crew Gold is a mining company headquartered in London and listed on the Toronto Stock Exchange and the Oslo Stock Exchange. Crew Gold owns and operates a gold mining project in Guinea, West Africa.

#### **Sacre-Coeur Minerals, Ltd.**

In September 2010, the Group acquired, through NordGold, a 19.7 percent stake of SCM. 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.

#### **Intex Resources ASA**

In September 2010, the Group acquired a 21.7 percent stake in Intex Resources. Intex Resources is a public mining and exploration company listed on the Oslo Stock Exchange with its headquarters in Oslo, Norway. Intex Resources' main asset is the Mindoro Nickel Project, a substantial nickel laterite deposit in the Philippines. In addition, Intex Resources has two molybdenum assets in Norway, as well as Maniitsoq, a diamond province in Greenland.

#### **Iron Mineral Beneficiation Services (Proprietary) Limited**

In the third quarter of 2010, the Group completed the acquisition of a 25.6 percent stake in IMBS, 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. As a part of the transaction, the Group acquired a 51.0 percent stake in IIBG, a newly formed company that has an exclusive license to commercialise the technology worldwide (outside of South Africa and neighbouring countries).

### **Potential Mining “Greenfield Projects” and Acquisitions**

The Group also plans to expand its mining operations by actively participating in “greenfield” projects in Russia and neighbouring countries. The Group has been authorised to receive and is in the process of obtaining a license for further exploration and coal extraction at the Tsentralnyi field in the western part of the Ulug-Khemskiy basin in the Tyva Republic, Russia. This license has been granted by Rosnedra, the Federal Agency of Subsoil Use. See “*Business—Strategy—Expanding Mining Business Globally*”.

### **Operational outlook**

Since 30 June 2010, the Group has continued to perform generally in line with management’s expectations. During the global economic downturn, the Group acted to reduce costs and created other initiatives to manage the business. Consequently, the Group was able to withstand the impact of the decrease in global demand for steel in 2009. The Group also generated cash throughout 2009 and further strengthened its financing structure. As a result, management believes that the Group has emerged from this challenging period in a strong and stable position and is well positioned to exploit the global economic recovery as it gathers pace. The steel industry showed signs of stabilisation in the second half of 2009, having reached the bottom of the cycle in the first half of that year. The Group has seen tentative recovery in pricing and demand in some of its key markets, particularly in Russia and the United States, according to Steel Business Briefing and CRU, respectively.

The outlook for 2010 continues to improve as economic growth in emerging markets and a gradual recovery of demand in mature markets accelerates. The Group believes that strong demand for raw materials, expected for the remainder of 2010, will enable the Group to exploit its competitive advantage through its Severstal Resources division. In Russia, the Group expects further recovery in the oil and gas and construction sectors. The Russian “cash for clunkers” programme started successfully in March 2010 and the Group expects additional demand from automotive producers to meet increasing appetite for steel products. The Group believes that export markets will also continue to be an important source of sales for the Russian Steel Division.

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.

#### **Sales**

The Group generates sales primarily through the manufacture and sale of gold and 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.

#### **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 sales less cost of sales. Gross margin is gross profit divided by sales.

#### **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 associate's profits/losses**

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

**Net loss/gain from securities operations**

Net loss/gain from securities operations consists primarily of loss/gain on held-for-trading securities, loss/gain on held-to-maturity securities and originated loans and loss/gain on available-for-sale securities.

**Loss/gain on disposals of property, plant and equipment and intangible assets**

Loss/gain 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/gain is calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

**Net other operating expenses/income**

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

**Loss/profit from operations**

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

**Impairment of non-current assets**

The carrying amounts of the Group's non-current assets are reviewed annually date 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.

**Negative goodwill**

Where an investment in a subsidiary, an associate or a jointly controlled entity is made, any excess of the Group's share in the fair value acquired of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised on the income statement immediately as negative goodwill.

**Loss/profit before financing and taxation**

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

**Interest income**

Interest income consists primarily of interest earned on bank deposits and originated loans.

**Interest expense**

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 from related parties), interest expense on pension liability, expense on tax restructuring and expense on dismantlement provisions.

**Loss/profit before income tax**

Loss/profit before income tax is profit before financing and taxation adjusted by interest income, interest expense and foreign exchange difference.

**Net financing expense**

Net financing expense comprises interest income, interest expense, including amortisation of transaction costs, and foreign exchange gains or losses.

**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.

**Loss/profit from continuing operations**

Loss/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.

**Loss/profit for the period**

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



## RESULTS OF OPERATIONS

### For the six months ended 30 June 2009 and 2010

The following discussion is based on, and should be read in conjunction with, the Interim Financial Statements beginning on page F-1 of this Prospectus.

The six months ended 30 June 2009 financial results were restated to reflect the adjustments made in connection with the completion of purchase price allocations and the presentation of the Lucchini segment as discontinued operations.

The following table sets forth the Group's consolidated interim condensed income statements for the six months ended 30 June 2009 and 2010:

	Six months ended 30 June		Period on period change	Period on period percent change
	2009	2010		
	(US\$ millions)			
<b>Sales</b>				
Sales—external . . . . .	4,734.0	7,291.7	2,557.7	54.0%
Sales—to related parties . . . . .	75.7	95.5	19.8	26.2%
	4,809.7	7,387.2	2,577.5	53.6%
Cost of sales . . . . .	(4,480.2)	(5,394.1)	(913.9)	20.4%
<b>Gross profit . . . . .</b>	<b>329.5</b>	<b>1,993.1</b>	<b>1,663.6</b>	<b>504.9%</b>
General and administrative expenses . . . . .	(316.8)	(338.5)	(21.7)	6.8%
Distribution expenses . . . . .	(348.9)	(464.2)	(115.3)	33.0%
Other taxes and contributions . . . . .	(68.6)	(81.7)	(13.1)	19.1%
Share of associates' income . . . . .	5.2	12.5	7.3	140.4%
Loss from securities operations . . . . .	(6.1)	(60.1)	(54.0)	885.2%
Loss on disposal of property, plant and equipment and intangible assets . . . . .	(7.4)	(30.1)	(22.7)	306.8%
Net other operating expenses . . . . .	(12.8)	(5.3)	7.5	(58.6)%
<b>(Loss)/profit from operations . . . . .</b>	<b>(425.9)</b>	<b>1,025.7</b>	<b>1,451.6</b>	<b>(340.8)%</b>
Impairment of non-current assets . . . . .	(26.5)	(60.6)	(34.1)	128.7%
Net other non-operating expenses . . . . .	(21.7)	(19.4)	2.3	(10.6)%
<b>(Loss)/profit before financing and taxation . . . . .</b>	<b>(474.1)</b>	<b>945.7</b>	<b>1,419.8</b>	<b>(299.5)%</b>
Interest income . . . . .	43.8	62.7	18.9	43.2%
Interest expense . . . . .	(258.9)	(323.9)	(65.0)	25.1%
Foreign exchange difference . . . . .	(215.1)	(29.6)	185.5	(86.2)%
<b>(Loss)/profit before income tax . . . . .</b>	<b>(904.3)</b>	<b>654.9</b>	<b>1,559.2</b>	<b>(172.4)%</b>
Income tax benefit/(expense) . . . . .	101.7	(184.5)	(286.2)	(281.4)%
<b>(Loss)/profit from continuing operations . . . . .</b>	<b>(802.6)</b>	<b>470.4</b>	<b>1,273.0</b>	<b>(158.6)%</b>
Loss from discontinued operations . . . . .	(187.4)	(1,037.0)	(849.6)	453.4%
<b>Loss for the period . . . . .</b>	<b>(990.0)</b>	<b>(566.6)</b>	<b>423.4</b>	<b>(42.8)%</b>

### Sales

The Group's consolidated sales increased by US\$2,577.5 million, or 53.6 percent, from US\$4,809.7 million in the six months ended 30 June 2009 to US\$7,387.2 million in the six months ended 30 June 2010. The increase was primarily due to a US\$1,582.0 million increase in sales of the Russian Steel segment, a US\$732.6 million increase in sales of the North America segment, and a US\$684.0 million increase in sales of the Severstal Resource segment. These increases in each segment's sales were partially offset by a US\$421.1 million increase in intersegment sales. Changes in the prices of the Group's various products were generally consistent with the prevailing market trends for each such product.

Compared to the six months ended 30 June 2009, the Group's sales to related parties increased by US\$19.8 million, or 26.2 percent, from US\$75.7 million in the six months ended 30 June 2009 to

US\$95.5 million in the six months ended 30 June 2010. (See “*Related Party Transactions*”). The increase in sales to related parties is in line with the overall increase of the Group’s sales.

*Sales by product*

The following table sets forth the Group’s sales by product for the six months ended 30 June 2009 and 2010:

	Six months ended 30 June		Period on period change	Period on period percent change
	2009	2010		
	(US\$ millions)			
Hot-rolled strip and plate . . . . .	1,255.3	2,247.4	992.1	79.0%
Galvanised and other metallic coated sheet <sup>(1)</sup> . . . . .	840.1	1,133.8	293.7	35.0%
Cold-rolled sheet . . . . .	713.1	1,107.8	394.7	55.3%
Large diameter pipes . . . . .	342.2	466.9	124.7	36.4%
Metalware products . . . . .	393.2	456.2	63.0	16.0%
Shipping and handling costs billed to customers . . . . .	236.9	330.2	93.3	39.4%
Coal and coking coal concentrate . . . . .	97.3	301.8	204.5	210.2%
Gold . . . . .	209.7	298.4	88.7	42.3%
Long products . . . . .	155.6	193.8	38.2	24.6%
Semi-finished products . . . . .	96.5	185.3	88.8	92.0%
Other tubes and pipes, formed shapes . . . . .	106.9	158.3	51.4	48.1%
Colour-coated sheet . . . . .	125.6	144.2	18.6	14.8%
Pellets and iron ore . . . . .	75.8	122.5	46.7	61.6%
Scrap . . . . .	18.4	46.6	28.2	153.3%
Other . . . . .	143.1	194.0	50.9	35.6%
<b>Sales</b> . . . . .	<b>4,809.7</b>	<b>7,387.2</b>	<b>2,577.5</b>	<b>53.6%</b>

(1) Hereinafter referred to as “Galvanised sheet”.

*Sales by delivery destination*

The following table sets forth the Group’s sales by delivery destination for the six months ended 30 June 2009 and 2010:

	Six months ended 30 June		Period on period change	Period on period percent change
	2009	2010		
	(US\$ millions)			
Russia . . . . .	1,499.1	2,764.7	1,265.6	84.4%
North America . . . . .	1,940.2	2,748.7	808.5	41.7%
Europe . . . . .	645.2	1,121.7	476.5	73.9%
Central and South America . . . . .	41.5	268.1	226.6	546.0%
The Middle East . . . . .	78.6	189.9	111.3	141.6%
China and Central Asia . . . . .	426.7	169.1	(257.6)	(60.4)%
South-East Asia . . . . .	125.9	84.3	(41.6)	(33.0)%
Africa . . . . .	52.5	40.7	(11.8)	(22.5)%
<b>Sales</b> . . . . .	<b>4,809.7</b>	<b>7,387.2</b>	<b>2,577.5</b>	<b>53.6%</b>

*Sales by segment*

The following table sets forth the Group's sales by segment for the six months ended 30 June 2009 and 2010:

	Six months ended 30 June		Period on period change	Period on period percent change
	2009	2010		
	(US\$ millions)			
Severstal Resource segment . . . . .	779.7	1,463.7	684.0	87.7%
Russian Steel segment . . . . .	2,496.8	4,078.8	1,582.0	63.4%
Severstal North America segment . . . . .	1,883.7	2,616.3	732.6	38.9%
Intersegment transactions . . . . .	(350.5)	(771.6)	(421.1)	120.1%
<b>Sales . . . . .</b>	<b><u>4,809.7</u></b>	<b><u>7,387.2</u></b>	<b><u>2,577.5</u></b>	<b>53.6%</b>

*Severstal Resource segment*

The Severstal Resource segment's sales increased by US\$684.0 million, or 87.7 percent, from US\$779.7 million in the six months ended 30 June 2009 to US\$1,463.7 million in the six months ended 30 June 2010. Included in these amounts are intersegment sales, primarily to the Russian Steel segment, of US\$335.0 million in the six months ended 30 June 2009 and US\$672.9 million in the six months ended 30 June 2010. Excluding intersegment sales, sales of the Severstal Resource segment increased by US\$346.1 million, or 77.8 percent, from US\$444.7 million in the six months ended 30 June 2009 to US\$790.8 million in the six months ended 30 June 2010. The increase was primarily due to an increase in the average price per tonne, and increases in sales by volume as described below.

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

*Pellets and iron ore.* Sales of pellets and iron ore increased by US\$46.7 million, or 61.6 percent, from US\$75.8 million in the six months ended 30 June 2009 to US\$122.5 million in the six months ended 30 June 2010. The increase was primarily due to an increase in the average price per tonne, which was partially offset by a decrease in sales by volume. The decrease in sales by volume was primarily due to a decrease in sales by volume to Asia, which was partially offset by an increase in sales by volume to Western Europe. Both trends were due to prevailing market conditions.

*Coal and coking coal concentrate.* Sales of coal and coking coal concentrate increased by US\$204.5 million, or 210.2 percent, from US\$97.3 million in the six months ended 30 June 2009 to US\$301.8 million in the six months ended 30 June 2010. This increase was primarily due to an increase in sales by volume and an increase in the average price per tonne. The increase in sales by volume was primarily due to a general market recovery and product mix, such as an increase in sales of hard coking coal, which had a higher price than other coal products.

*Gold.* Sales of gold increased by US\$88.7 million, or 42.3 percent, from US\$209.7 million in the six months ended 30 June 2009 to US\$298.4 million in the six months ended 30 June 2010. This increase was primarily due to an increase in sales by volume, and an increase in the average price per ounce. The increase in sales by volumes was primarily due to sales in domestic Russian as a result of increased productivity of most of Severstal Resources gold mines.

*Russian Steel segment*

The Russian Steel segment's sales increased by US\$1,582.0 million, or 63.4 percent, from US\$2,496.8 million in the six months ended 30 June 2009 to US\$4,078.8 million in the six months ended 30 June 2010. Included in the above amount are intersegment sales of US\$15.5 million in the six months ended 30 June 2009 and US\$97.8 million in the six months ended 30 June 2010. This increase was primarily due to the market-driven increase in the average price per tonne and an increase in sales by volumes as described below.

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

*Hot-rolled strip and plate.* Sales of hot-rolled strip and plate increased by US\$625.6 million, or 87.1 percent, from US\$718.5 million in the six months ended 30 June 2009 to US\$1,344.1 million in the six months ended 30 June 2010. The increase was primarily due to an increase in sales by volume and an increase in the average price per tonne. The increase in sales by volume was primarily due to the market-driven recovery of demand and due to changes in product mix resulting in higher sales of hot-rolled strip and plate.

*Cold-rolled sheet.* Sales of cold-rolled sheet increased by US\$220.3 million, or 83.2 percent, from US\$264.9 million in the six months ended 30 June 2009 to US\$485.2 million in the six months ended 30 June 2010. This increase was primarily due to an increase in sales by volume and an increase in the average price per tonne. The increase in sales by volume was primarily due to the market-driven recovery of demand, mostly in the domestic Russian automotive industry, which recovered partially as a result policies implemented by the Russian Government.

*Galvanised sheet.* Sales of galvanised sheet increased by US\$75.2 million, or 55.4 percent, from US\$135.8 million in the six months ended 30 June 2009 to US\$211.0 million in the six months ended 30 June 2010. The increase was primarily due to an increase in the average price per tonne and an increase in sales by volume. The increase in sales by volume was primarily due to the market-driven recovery of demand, mostly in the domestic Russian construction industry.

*Semi-finished products.* Sales of semi-finished products increased by US\$88.7 million, or 92.2 percent, from US\$96.2 million in the six months ended 30 June 2009 to US\$184.9 million in the six months ended 30 June 2010. This increase was primarily due to an increase in the average price per tonne and an increase in sales by volume. The increase in sales by volume was primarily due to the market-driven recovery of demand for steel and semi-finished products during the second quarter of 2010.

*Large diameter pipes.* Sales of large diameter pipes increased by US\$124.7 million, or 36.4 percent, from US\$342.2 million in the six months ended 30 June 2009 to US\$466.9 million in the six months ended 30 June 2010. This increase was primarily due to an increase in sales by volume, which was partially offset by a decrease in the average price per tonne. The increase in sales by volume was primarily 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.

*Metalware products.* Sales of metalware products increased by US\$100.4 million, or 35.0 percent, from US\$286.8 million in the six months ended 30 June 2009 to US\$387.2 million in the six months ended 30 June 2010. The increase was primarily due to an increase in the average price per tonne and due to increase in sales by volume. The increase in sales by volume was primarily due to the market-driven recovery of demand, specifically in the domestic Russian construction and automotive markets in the first half of 2010.

#### *Severstal North America segment*

Severstal North America's sales increased by US\$732.6 million, or 38.9 percent, from US\$1,883.7 million in the six months ended 30 June 2009 to US\$2,616.3 million in the six months ended 30 June 2010. 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, converters and service centres and an increase in average price per tonne.

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

*Hot-rolled strip and plate.* Sales of hot-rolled strip and plate increased by US\$366.6 million, or 68.3 percent, from US\$536.7 million in the six months ended 30 June 2009 to US\$903.3 million in the six months ended 30 June 2010. The increase was primarily due to an increase in the average price per tonne and an increase in sales by volume. The increase in sales by volume was primarily due to the market-driven recovery of demand and due to changes in product mix from sales of hot-rolled pickled and oiled steel to sales of hot-rolled strip.

*Cold-rolled sheet.* Sales of cold-rolled sheet increased by US\$174.4 million, or 38.9 percent, from US\$448.2 million in the six months ended 30 June 2009 to US\$622.6 million in the six months ended 30 June 2010. The increase was primarily due to an increase in sales by volume due to increased consumption of steel by US automotive industry and an increase in the average price per tonne.

*Galvanised sheet.* Sales of galvanised sheet increased by US\$218.5 million, or 31.0 percent, from US\$704.3 million in the six months ended 30 June 2009 to US\$922.8 million in the six months ended 30 June 2010. The increase was primarily due to an increase in sales by volume due to the market-driven recovery of demand in the North American market and due to an increase in the average price per tonne.

#### *Sales by delivery destination*

Changes in the regional sales structure resulted in the increase of sales by volume to Russia, North America, Europe, Central and South America and the Middle East and the decrease in sales by volume to China and Central Asia, South-East Asia and Africa in the six months ended 30 June 2010 compared to the six months ended 30 June 2009, primarily due to the change in market-driven demand and respective reallocation of sales from one region to another.

#### *Cost of sales*

The Group's cost of sales increased by US\$913.9 million, or 20.4 percent, from US\$4,480.2 million in the six months ended 30 June 2009 to US\$5,394.1 million in the six months ended 30 June 2010. This increase was primarily due to a US\$810.6 million increase in cost of sales of the Russian Steel segment, a US\$279.2 million increase in the Severstal North America segment's cost of sales and a US\$184.8 million increase in the Severstal Resource segment's cost of sales, partially offset by US\$360.7 million in intersegment transactions.

#### *Cost of sales by segment*

The following table sets forth the Group's cost of sales by segment for the six months ended 30 June 2009 and 2010:

	Six months ended 30 June		Period on period change	Period on period percent change
	2009	2010		
	(US\$ millions)			
Severstal Resource segment . . . . .	(629.5)	(814.3)	(184.8)	29.4%
Russian Steel segment . . . . .	(1,819.9)	(2,630.5)	(810.6)	44.5%
Severstal North America segment . . . . .	(2,382.6)	(2,661.8)	(279.2)	11.7%
Intersegment transactions . . . . .	351.8	712.5	360.7	102.5%
<b>Cost of sales . . . . .</b>	<b>(4,480.2)</b>	<b>(5,394.1)</b>	<b>(913.9)</b>	<b>20.4%</b>

#### *Severstal Resource segment*

The Severstal Resource segment's cost of sales increased by US\$184.8 million, or 29.4 percent, from US\$629.5 million in the six months ended 30 June 2009 to US\$814.3 million in the six months ended 30 June 2010. This increase was primarily due to a US\$57.9 million increase in raw materials expense, a US\$50.0 million increase in fuel and energy expenses and a US\$37.8 million increase in labour costs generally consistent with wage inflation in Russia during the period.

*Raw materials expense.* The increase in raw materials expense was primarily due to the increase of production levels and the related requirements for additional raw materials at Karelsky Okatysh and the Group's gold companies.

*Fuel and energy expense.* The increase in fuel and energy expenses was primarily due to an increase in the volume of production and its related increase in energy consumption and market and regulation-driven increases in energy tariffs and fuel prices.



*Labour and related tax expense.* The increase in labour and related tax expense was primarily due to the increase in the average benefits of employees compared to the six months ended 30 June 2009.

*Russian Steel segment*

The Russian Steel segment's cost of sales increased by US\$810.6 million, or 44.5 percent, from US\$1,819.9 million in the six months ended 30 June 2009 to US\$2,630.5 million in the six months ended 30 June 2010. The increase was primarily due to a US\$877.2 million increase in raw materials expense, a US\$76.8 million increase in fuel and energy costs and a US\$64.0 million increase in labour costs. An increase in works-in-progress and finished goods decreased the cost of sales by US\$408.6 million. This increase was primarily due to the increase in production volumes by most of the companies of the Russian Steel segment as the result of the market recovery in the six months ended 30 June 2010 compared to the six months ended 30 June 2009.

*Raw materials expense.* The increase in raw materials expense was in line with an increase in sales by volume in the six months ended 30 June 2010 compared to the six months ended June 2009. An increase in prices for pellets, coking coal, iron ore, ferro-alloys, coke and scrap metal also contributed to the increase in the cost of sales.

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

*Labour and related tax expense.* The increase in labour costs was primarily due to the increase in the average salaries of employees which increased in line with inflation in Russia, partially offset by a 5.3 percent decrease in the average number of employees.

*Severstal North America segment*

Severstal North America's cost of sales increased by US\$279.2 million, or 11.7 percent, from US\$2,382.6 million in the six months ended 30 June 2009 to US\$2,661.8 million in the six months ended 30 June 2010. This increase was primarily due to increased sales by volume. Notwithstanding the increase in raw materials prices, Severstal North America managed to decrease the cost per tonne of steel sold through operational efficiency improvements (including temporary shutdowns of unprofitable production sites and balancing material usage between plants), achieving favourable price arrangements with suppliers and substantial reductions in workforce (including outsourcing, and centralisation of corporate functions).

***Profit from operations***

For the reasons described above, compared to the prior period, the Group's profit from operations increased by US\$1,451.6 million, from a loss of US\$425.9 million in the six months ended 30 June 2009 to a profit of US\$1,025.7 million in the six months ended 30 June 2010. The increase was due to a US\$1,663.6 million increase in gross profit, partially offset by a US\$212.0 million increase in net operating expenses.

The increase in net operating expenses was primarily due to a US\$115.3 million increase in distribution expenses, primarily reflecting the increase in railway tariffs and transportation expenses and an overall increase in sales by volume.

The following table sets forth the Group's net operating expenses for the six months ended 30 June 2009 and 2010:

	Six months ended 30 June		Period on period change	Period on period percent change
	2009	2010		
	(US\$ millions)			
General and administrative expenses . . . . .	(316.8)	(338.5)	(21.7)	6.8%
Distribution expenses . . . . .	(348.9)	(464.2)	(115.3)	33.0%
Other taxes and contributions . . . . .	(68.6)	(81.7)	(13.1)	19.1%
Share of associates' income . . . . .	5.2	12.5	7.3	140.4%
Loss from securities operations . . . . .	(6.1)	(60.1)	(54.0)	885.2%
Loss on disposal of property, plant and equipment and intangible assets . . . . .	(7.4)	(30.1)	(22.7)	306.8%
Net other operating expenses . . . . .	(12.8)	(5.3)	7.5	(58.6)%
<b>Net operating expenses . . . . .</b>	<b><u>(755.4)</u></b>	<b><u>(967.4)</u></b>	<b><u>(212.0)</u></b>	<b>28.1%</b>

#### *Severstal Resource segment*

The Severstal Resource segment's profit from operations increased by US\$461.3 million, from a US\$15.2 million loss in the six months ended 30 June 2009 to a US\$446.1 million profit, in the six months ended 30 June 2010. The increase in profit from operations was due to a US\$499.2 million increase in gross profit, primarily as a result of the factors described above, which was partially offset by a US\$33.1 million increase in distribution expenses as a result of increased railway tariff and transportation volume expenses and a US\$18.0 million increase in loss on disposal of property, plant and equipment and intangible assets primarily as a result of the direct write-off of a terminated mineral license.

#### *Russian Steel segment*

The Russian Steel segment's profit from operations increased by US\$981.6 million from a US\$202.8 million loss in the six months ended 30 June 2009 to a US\$778.8 million profit in the six months ended 30 June 2010. The increase in profit from operations was due to a US\$771.4 million increase in gross profit, primarily as a result of the factors described above, which was partly offset by a US\$195.4 million increase in net operating expenses.

The increase in the Russian Steel segment's net operating expenses was primarily due to a US\$32.6 million increase in general and administrative expenses, a US\$88.7 million increase in distribution expenses primarily driven by the increase in railway tariffs and transported volumes and a US\$62.2 million increase in losses from securities operations, including a US\$55.4 million provision for a doubtful deposit account.

The increase in general and administrative expenses was primarily due to an increase in the average salaries and performance bonuses paid to staff. Performance bonuses included bonuses paid to management and administrative employees of the Group's corporate centre, who are employees of the Company. In addition, the increase was due to an increase in consultant expenses related to the development of the Group's business system.

#### *Severstal North America segment*

Compared to the prior period, the Severstal North America segment's loss from operations decreased by US\$465.7 million, or 77.0 percent, in the six months ended 30 June 2010 compared to the six months ended 30 June 2009. The decrease was due to a US\$453.4 million decrease in gross loss and a US\$12.3 million decrease in net operating expenses. The decrease in gross loss was a result of the factors described above.

The decrease in net operating expenses was primarily due to a US\$8.8 million decrease in general and administrative expenses following a continued implementation of cost-cutting initiatives and a US\$5.8 million decrease in distribution costs.

**Profit/(loss) before financing and taxation**

Compared to the prior period, the Group's profit before financing and taxation increased by US\$1,419.8 million from a loss of US\$474.1 million in the six months ended 30 June 2009 to a profit of US\$945.7 million in the six months ended 30 June 2010. This increase was due to a US\$1,451.6 million increase in profit from operations, as described above, partially offset by a US\$31.8 million increase in net non-operating expenses.

The increase in net non-operating expenses of US\$31.8 million was primarily due to a US\$34.1 million increase in impairment of non-current assets and was partially offset by a US\$2.3 million decrease in net other non-operating expenses.

The following table sets forth the Group's net non-operating expenses for the six months ended 30 June 2009 and 2010:

	Six months ended 30 June		Period on period change	Period on period percent change
	2009	2010		
	(US\$ millions)			
Impairment of non-current assets . . . . .	(26.5)	(60.6)	(34.1)	128.7%
Net other non-operating expenses . . . . .	(21.7)	(19.4)	2.3	(10.6)%
<b>Net non-operating expenses . . . . .</b>	<b><u>(48.2)</u></b>	<b><u>(80.0)</u></b>	<b><u>(31.8)</u></b>	<b>66.0%</b>

**Impairment of non-current assets**

Impairment of non-current assets for the six months ended 30 June 2010 mainly consists of a US\$48.3 million impairment loss accrued in Severstal North America in respect of the sale of Northern Steel Group, a group of companies within Severstal North America, a US\$6.1 million and a US\$6.2 million impairment loss accrued in respect of specific items of property, plant and equipment and intangible assets in the Severstal Resource and Russian Steel segments, respectively.

**Loss for the period**

The increase in profit before financing and taxation was primarily due to the factors described above.

Compared to the prior period, the Group's loss for the period decreased by US\$423.4 million, or 42.8 percent, from a loss of US\$990.0 million in the six months ended 30 June 2009 to a loss of US\$566.6 million in the six months ended 30 June 2010. The decrease was primarily due to a US\$1,419.8 million increase in profit before financing and taxation and a US\$139.4 million decrease in net financing expense, the effects of which were partially offset by a US\$286.2 million increase in income tax expense and a US\$849.6 million increase in loss from discontinued operations represented by the Lucchini segment, which includes US\$1,010.3 million impairment loss recognised in the six months 2010 and decrease in net loss by US\$160.7 million.

**Net financing expense**

Net financing expense decreased by US\$139.4 million, from US\$430.2 million in the six months ended 30 June 2009 to US\$290.8 million in the six months ended 30 June 2010. The decrease was primarily due to a US\$18.9 million increase in interest income and a US\$185.5 million decrease in foreign exchange loss, the effects of which were partially offset by a US\$65.0 million increase in interest expense from US\$258.9 million to US\$323.9 million.

The increase in interest income was primarily due to higher interest rates on cash and short-term deposits during the six months ended 30 June 2010 compared to the six months ended 30 June 2009.

The increase in interest expense was primarily due to the increased portion of new long-term borrowings, including rouble-denominated bonds issued in September 2009 and February 2010 for a total amount of US\$992.0 million and bonds issued by Severstal Columbus in the amount of US\$525.0 million in February 2010.

Foreign exchange losses decreased by US\$185.5 million in the six months ended 30 June 2010 compared to the six months ended 30 June 2009 primarily due to the fact that the depreciation of the rouble against the US dollar during the six months ended 30 June 2010 was less than the depreciation the rouble against the US dollar during the six months ended 30 June 2009.

*Income tax expense*

Income tax expense increased by US\$286.2 million, from an income tax benefit of US\$101.7 million in the six months ended 30 June 2009 to an income tax expense of US\$184.5 million in the six months ended 30 June 2010. The increase was primarily due to the US\$1,559.2 million increase in profit before income tax.

**For the years ended 31 December 2008 and 2009**

The following discussion is based on, and should be read in conjunction with, the Group's Annual Financial Statements, included in this Prospectus beginning on page F-18.

Compared to the Group's 2008 Annual Financial Statements, the 2008 financial results in the Group's 2009 Annual Financial Statements were restated to reflect the adjustments made in connection with the completion of purchase price allocations and changes in the presentation of the reportable segments in 2009.

The following table sets forth the Group's consolidated income statement for the years ended 2008 and 2009:

	Year ended 31 December		Year on year change	Year on year percent change
	2008	2009		
	(US\$ millions)			
<b>Sales</b>				
Sales—external . . . . .	22,138.4	12,951.7	(9,186.7)	(41.5)%
Sales—to related parties . . . . .	254.3	102.8	(151.5)	(59.6)%
	22,392.7	13,054.5	(9,338.2)	(41.7)%
Cost of sales . . . . .	(16,499.9)	(11,356.3)	5,143.6	(31.2)%
<b>Gross profit . . . . .</b>	<b>5,892.8</b>	<b>1,698.2</b>	<b>(4,194.6)</b>	<b>(71.2)%</b>
General and administrative expenses . . . . .	(1,026.8)	(735.6)	291.2	(28.4)%
Distribution expenses . . . . .	(1,117.8)	(864.2)	253.6	(22.7)%
Other taxes and contributions . . . . .	(178.9)	(171.6)	7.3	(4.1)%
Share of associates' (loss)/profit . . . . .	(3.4)	11.5	14.9	(438.2)%
Net loss from securities operations . . . . .	(96.8)	(15.3)	81.5	(84.2)%
Loss on disposal of property, plant and equipment and intangible assets . . . . .	(43.3)	(32.0)	11.3	(26.1)%
Net other operating income/(expenses) . . . . .	790.6	(36.3)	(826.9)	(104.6)%
<b>Profit/(loss) from operations . . . . .</b>	<b>4,216.4</b>	<b>(145.3)</b>	<b>(4,361.7)</b>	<b>(103.4)%</b>
Impairment of non-current assets . . . . .	(1,540.3)	(219.0)	1,321.3	(85.8)%
Negative goodwill . . . . .	292.3	—	(292.3)	—
Net other non-operating income/(expenses) . . . . .	239.0	(34.5)	(273.5)	(114.4)%
<b>Profit/(loss) before financing and taxation . . . . .</b>	<b>3,207.4</b>	<b>(398.8)</b>	<b>(3,606.2)</b>	<b>(112.4)%</b>
Interest income . . . . .	155.2	103.8	(51.4)	(33.1)%
Interest expense . . . . .	(508.4)	(601.2)	(92.8)	18.3%
Foreign exchange difference . . . . .	(274.8)	(205.0)	69.8	(25.4)%
<b>Profit/(loss) before income tax . . . . .</b>	<b>2,579.4</b>	<b>(1,101.2)</b>	<b>(3,680.6)</b>	<b>(142.7)%</b>
Income tax expense . . . . .	(517.5)	(17.9)	499.6	(96.5)%
<b>Profit/(loss) from continuing operations . . . . .</b>	<b>2,061.9</b>	<b>(1,119.1)</b>	<b>(3,181.0)</b>	<b>(154.3)%</b>
<b>Profit/(loss) for the year . . . . .</b>	<b>2,061.9</b>	<b>(1,119.1)</b>	<b>(3,181.0)</b>	<b>(154.3)%</b>

## Sales

The Group's consolidated sales decreased by US\$9,338.2 million, or 41.7 percent, from US\$22,392.7 million in the year ended 31 December 2008 to US\$13,054.5 million in the year ended 31 December 2009. This decrease was primarily due to a US\$5,884.7 million decrease in sales of the Russian Steel segment, a US\$2,232.4 million decrease in sales of the Lucchini segment, a US\$1,296.3 million decrease in sales of the Severstal North America segment and a US\$581.9 million decrease in sales of the Severstal Resources segment. The decrease in sales was partially offset by a US\$657.1 million decrease in intersegment sales. Changes in the prices of the Group's various products were generally consistent with the prevailing market trends and the effect of the global economic downturn for each product.

The Group's sales to related parties decreased by US\$151.5 million, or 59.6 percent, from US\$254.3 million in the year ended 31 December 2008 to US\$102.8 million in the year ended 31 December 2009. The Group's sales to related parties comprised 1.1 percent and 0.8 percent of the Group's total sales in the year ended 31 December 2008 and in the year ended 31 December 2009, respectively.

## Sales by product

The following table sets forth the Group's sales by product for the years ended 31 December 2008 and 2009:

	Year ended 31 December		Year on year change	Year on year percent change
	2008	2009		
	(US\$ millions)			
Hot-rolled strip and plate . . . . .	5,952.6	3,003.8	(2,948.8)	(49.5)%
Galvanised and other metallic coated sheet . . . . .	2,350.3	1,920.1	(430.2)	(18.3)%
Cold-rolled sheet . . . . .	2,314.4	1,606.3	(708.1)	(30.6)%
Long products . . . . .	3,793.9	1,301.2	(2,492.7)	(65.7)%
Metalware products . . . . .	1,384.6	853.8	(530.8)	(38.3)%
Large diameter pipes . . . . .	819.7	777.3	(42.4)	(5.2)%
Shipping and handling costs billed to customers . . . . .	808.7	613.7	(195.0)	(24.1)%
Semi-finished products . . . . .	1,667.3	582.1	(1,085.2)	(65.1)%
Gold . . . . .	190.4	512.3	321.9	169.1%
Colour-coated sheet . . . . .	388.2	316.3	(71.9)	(18.5)%
Coal and coking coal concentrate . . . . .	257.5	272.2	14.7	5.7%
Other tubes and pipes, formed shapes . . . . .	485.5	255.1	(230.4)	(47.5)%
Pellets and iron ore . . . . .	453.1	217.2	(235.9)	(52.1)%
Scrap . . . . .	321.3	58.3	(263.0)	(81.9)%
Others . . . . .	1,205.2	764.8	(440.4)	(36.5)%
<b>Sales . . . . .</b>	<b>22,392.7</b>	<b>13,054.5</b>	<b>(9,338.2)</b>	<b>(41.7)%</b>



*Sales by delivery destination*

The following table sets forth the Group's consolidated sales by delivery destination for the years ended 31 December 2008 and 2009:

	Year ended 31 December		Year on year change	Year on year percent change
	2008	2009		
	(US\$ millions)			
North America . . . . .	5,410.1	4,254.2	(1,155.9)	(21.4)%
Russia . . . . .	8,878.9	3,956.0	(4,922.9)	(55.4)%
Europe . . . . .	6,336.4	2,834.1	(3,502.3)	(55.3)%
China and Central Asia . . . . .	399.0	698.6	299.6	75.1%
The Middle East . . . . .	556.4	554.5	(1.9)	(0.3)%
South-East Asia . . . . .	381.9	330.5	(51.4)	(13.5)%
Africa . . . . .	109.4	254.3	144.9	132.4%
Central and South America . . . . .	320.6	172.3	(148.3)	(46.3)%
<b>Sales . . . . .</b>	<b>22,392.7</b>	<b>13,054.5</b>	<b>(9,338.2)</b>	<b>(41.7)%</b>

*Sales by segment*

The following table sets forth the Group's sales by segment for the years ended 31 December 2008 and 2009:

	Year ended 31 December		Year on year change	Year on year percent change
	2008	2009		
	(US\$ millions)			
Severstal Resource segment . . . . .	2,452.7	1,870.8	(581.9)	(23.7)%
Russian Steel segment . . . . .	12,063.8	6,179.1	(5,884.7)	(48.8)%
Lucchini segment . . . . .	3,989.5	1,757.1	(2,232.4)	(56.0)%
Severstal North America segment . . . . .	5,319.4	4,023.1	(1,296.3)	(24.4)%
Intersegment transactions . . . . .	(1,432.7)	(775.6)	657.1	45.9%
<b>Sales . . . . .</b>	<b>22,392.7</b>	<b>13,054.5</b>	<b>(9,338.2)</b>	<b>(41.7)%</b>

*Severstal Resource segment*

The Severstal Resource segment's sales decreased by US\$581.9 million, or 23.7 percent, from US\$2,452.7 million in the year ended 31 December 2008 to US\$1,870.8 million in the year ended 31 December 2009. Included in these amounts are intersegment sales, primarily to the Russian Steel segment, of US\$1,379.5 million in the year ended 31 December 2008 and US\$723.9 million in the year ended 31 December 2009. Excluding intersegment sales, sales of the Severstal Resource segment increased by US\$73.7 million, or 6.9 percent, from US\$1,073.2 million in the year ended 31 December 2008 to US\$1,146.9 million in the year ended 31 December 2009. The increase was primarily due to increases in the average price per tonne and an increase in sales by volume as described below.

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

*Gold.* Sales of gold increased by US\$321.9 million, or 169.1 percent, from US\$190.4 million in the year ended 31 December 2008 to US\$512.3 million in the year ended 31 December 2009. The increase was primarily due to an increase in sales by volume, which was in turn, primarily due to the acquisition of High River Gold in December 2008 and an increase in the average price per ounce.

*Pellets and iron ore.* Sales of pellets and iron ore decreased by US\$235.9 million, or 52.1 percent, from US\$453.1 million in the year ended 31 December 2008 to US\$217.2 million in the year ended 31 December 2009. The decrease was primarily due to a decrease in the average price per tonne, partially offset by an increase in sales by volume due to changes in sales by regions primarily to Russia and Western Europe as

well as in some new markets such as Asia, Ukraine and the Middle East. These trends were due to prevailing market conditions.

*Coal and coking coal concentrate.* Sales of coal and coking coal concentrate increased by US\$14.7 million, or 5.7 percent, from US\$257.5 million in the year ended 31 December 2008 to US\$272.2 million in the year ended 31 December 2009. This increase was primarily due to an increase in sales by volume primarily resulting from the acquisition of PBS Coals and was partially offset by a decrease in the average price per tonne.

#### *Russian Steel segment*

The Russian Steel segment's sales decreased by US\$5,884.7 million, or 48.8 percent, from US\$12,063.8 million in the year ended 31 December 2008 to US\$6,179.1 million in the year ended 31 December 2009. Included in the above amounts are intersegment sales of US\$44.6 million in the year ended 31 December 2009 and US\$39.5 million in the year ended 31 December 2008. The decrease was primarily due to a decrease in both average price per tonne and sales by volume as a result of the global economic downturn and a corresponding decline in steel consumption in all industries.

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

*Hot-rolled strip and plate.* Sales of hot-rolled strip and plate decreased by US\$2,077.2 million, or 52.6 percent, from US\$3,949.0 million in the year ended 31 December 2008 to US\$1,871.8 million in the year ended 31 December 2009. The decrease was primarily due to a decrease in the average price per tonne and a decrease in sales by volume due to the above mentioned market-driven decline in demand. Due to the fact that the domestic Russian market declined more than the export market in the year ended 31 December 2009 compared to the year ended 31 December 2008, the decrease in domestic Russian sales by volume was partially offset by the increase in international volume. The positive impact, of the effect on sales by volume, however, was reduced due to prices in the export market being generally lower than prices in the domestic market.

*Cold-rolled sheet.* Sales of cold-rolled sheet decreased by US\$568.3 million, or 45.5 percent, from US\$1,249.1 million in the year ended 31 December 2008 to US\$680.8 million in the year ended 31 December 2009. The decrease was primarily due to a decrease in the average price per tonne and a decrease in sales by volume due to the above mentioned market-driven decline of demand.

*Galvanised sheet.* Sales of galvanised sheet decreased by US\$417.0 million, or 52.0 percent, from US\$801.3 million in the year ended 31 December 2008 to US\$384.3 million in the year ended 31 December 2009. The decrease was primarily due to a decrease in the average price per tonne and a decrease in sales by volume. The decrease in sales by volume was primarily due to the above mentioned market-driven decline of demand for galvanised sheet in the construction industry in the Russian market. From the end of 2008 through the first half of 2009, the majority of construction projects were stopped, which led to the decrease in demand and resulted in the stoppage by the Group of one of its galvanised lines for reconstruction works in the end of 2008 until the middle of 2009, which also affected the volume of production and sales by volume.

*Semi-finished products.* Sales of semi-finished products decreased by US\$352.6 million, or 55.8 percent, from US\$631.9 million in the year ended 31 December 2008 to US\$279.3 million in the year ended 31 December 2009. The decrease was primarily due to a decrease in the average price per tonne and a decrease in sales by volume due to the above mentioned market-driven decline in demand for steel in the Group's main export markets.

*Colour-coated sheet.* Sales of color-coated sheet decreased by US\$112.7 million, or 31.4 percent, from US\$359.1 million in the year ended 31 December 2008 to US\$246.4 million in the year ended 31 December 2009. The decrease was primarily due to a decrease in the average price per tonne and the slight decrease in sales by volume due to the above mentioned market-driven decline in demand. Color-coated sheet is one of the high-value added products for which demand remained relatively constant during the global economic downturn.

*Long products.* Sales of long products decreased by US\$917.3 million, or 72.3 percent, from US\$1,267.9 million in the year ended 31 December 2008 to US\$350.6 million in the year ended 31 December 2009. The decrease was primarily due to a decrease in the average price per tonne and a decrease in sales by volume due to the above mentioned market-driven decline of demand. The construction industry and steel service centres, the main customers of long products, experienced a considerable shortage in financing and thus decreased their consumption during the first half of 2009. The closing by the Group of the open-hearth production facility in November 2008, also negatively affected sales by volume.

*Metalware products.* Sales of metalware products decreased by US\$580.1 million, or 48.2 percent, from US\$1,204.3 million in the year ended 31 December 2008 to US\$624.2 million in the year ended 31 December 2009. The decrease was primarily due to a decrease in the average price per tonne and a decrease in sales by volume due to the above mentioned market-driven decline of demand for metalware products in the construction industry.

#### *Lucchini segment*

The Lucchini segment's sales decreased by US\$2,232.4 million, or 56.0 percent, from US\$3,989.5 million in the year ended 31 December 2008 to US\$1,757.1 million in the year ended 31 December 2009.

Set forth below is a discussion of the sales, excluding intersegment sales, of the Lucchini segment by product:

*Semi-finished products.* Sales of semi-finished products decreased by US\$458.7 million, or 61.9 percent, from US\$740.7 million in the year ended 31 December 2008 to US\$282.0 million in the year ended 31 December 2009. The decrease was primarily due to a decrease in the average price per tonne and a decrease in sales by volume due to the above mentioned market-driven decline of demand.

*Long products.* Sales of long products decreased by US\$1,610.5 million, or 57.4 percent, from US\$2,805.3 million in the year ended 31 December 2008 to US\$1,194.8 million in the year ended 31 December 2009. The decrease was primarily due to a decrease in the average price per tonne and a decrease in sales by volume due to the above mentioned market-driven decline of demand.

The depreciation of the euro, the functional currency of the Lucchini segment's entities, against the US dollar, the Group's reporting currency, by 6.1 percent in the year ended 31 December 2009, compared to the year ended 31 December 2008, resulted in a US\$241.4 million decrease of sales.

#### *Severstal North America segment*

Severstal North America's sales decreased by US\$1,296.3 million, or 24.4 percent, from US\$5,319.4 million in the year ended 31 December 2008 to US\$4,023.1 million in the year ended 31 December 2009. The decrease in revenue was primarily due to a decrease in the average price per tonne, primarily due to a decrease in the consumption of steel by major US customers resulting from the downturn in the North American market, slightly offset by an increase in sales by volume.

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

*Hot-rolled strip and plate.* Sales of hot-rolled strip and plate decreased by US\$871.6 million, or 43.5 percent, from US\$2,003.6 million in the year ended 31 December 2008 to US\$1,132.0 million in the year ended 31 December 2009. This decrease was primarily due to a decrease in the average price per tonne and a decrease in sales by volume caused by the above mentioned market-driven decline of demand.

*Cold-rolled sheet.* Sales of cold-rolled sheet decreased by US\$139.8 million, or 13.1 percent, from US\$1,065.3 million in the year ended 31 December in 2008 to US\$925.5 million in the year ended 31 December 2009. This decrease was primarily due to a decrease in the average price per tonne which was partially offset by an increase in sales by volume. The increase in sales by volumes was primarily due to management's decision to shift plant production from hot-rolled sheet to higher value-added cold-rolled sheet products, which partially mitigated the effect of deteriorating market condition in North America.

*Semi-finished products.* Sales of semi-finished products decreased by US\$274.0 million, or 93.0 percent from US\$294.7 million in the year ended 31 December 2008 to US\$20.7 million in the year ended 31 December 2009. This decrease was primarily due to a decrease in the average price per tonne and a decrease in sales by volume due to above mentioned market-driven decline of demand. During the first three quarters of 2008, the steel market presented opportunities to sell semi-finished products to integrated steel mills, which had the spare capacity to convert these semi-finished products into finished products. As the market declined at the end of 2008 and in the beginning of 2009, major consumers of these products (integrated steel mills) withdrew from the semi-finished products market and relied on their own steelmaking capacity to meet customer demand.

*Sales by delivery destination*

Changes in the regional sales structure resulted in a decrease in sales to Russia, North America, Europe, the Middle East, South-East Asia, Central and South America and an increase in sales to China and Central Asia and Africa in the year ended 31 December 2009 compared to the year ended 31 December 2008 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 decreased by US\$5,143.6 million, or 31.2 percent, from US\$16,499.9 million in the year ended 31 December 2008 to US\$11,356.3 million in the year ended 31 December 2009.

*Cost of sales by segment*

The following table sets forth the Group's cost of sales by segment for the years ended 31 December 2008 and 2009:

	Year ended 31 December		Year on year change	Year on year percent change
	2008	2009		
	(US\$ millions)			
Severstal Resource segment . . . . .	(1,376.4)	(1,405.6)	(29.2)	2.1%
Russian Steel segment . . . . .	(7,388.0)	(4,081.4)	3,306.6	(44.8)%
Lucchini segment . . . . .	(3,372.4)	(1,948.1)	1,424.3	(42.2)%
Severstal North America segment . . . . .	(5,841.6)	(4,697.5)	1,144.1	(19.6)%
Intersegment transactions . . . . .	1,478.5	776.3	(702.2)	(47.5)%
<b>Cost of Sales . . . . .</b>	<b>(16,499.9)</b>	<b>(11,356.3)</b>	<b>5,143.6</b>	<b>(31.2)%</b>

*Severstal Resource segment*

The Severstal Resource segment's cost of sales increased by US\$29.2 million, or 2.1 percent, from US\$1,376.4 million in the year ended 31 December 2008 to US\$1,405.6 million in the year ended 31 December 2009. The increase was primarily due to a US\$43.0 million increase in depreciation and amortisation charges and was partially offset by a decrease in fuel and energy expenses of US\$25.7 million.

*Depreciation and amortisation.* The increase in depreciation and amortisation expense was mainly due to the effect of acquisition of PBS Coals and High River Gold.

*Fuel and energy expenses.* The decrease in fuel material and energy was primarily due to a decrease in volume production and market-driven decreases in mazut and gasoline prices.

*Russian Steel segment*

The Russian Steel segment's cost of sales decreased by US\$3,306.6 million, or 44.8 percent, from US\$7,388.0 million in the year ended 31 December 2008 to US\$4,081.4 million in the year ended 31 December 2009. The decrease was primarily due to a decrease in sales by volume.

*Raw materials expense.* The decrease in raw materials expense by US\$2,675.4 million was due to the decrease in sales by volume and prices for primary raw materials.

*Fuel and energy expense.* The decrease in fuel and energy expense by US\$163.7 million was due to the decrease in sales by volume, but was partially offset by the increase in energy tariffs and fuel prices.

*Labour and related tax expenses.* The decrease in labour costs of US\$252.0 million was primarily due to a decrease in the average number of employees for the period.

#### *Lucchini segment*

The Lucchini segment's cost of sales decreased by US\$1,424.3 million, or 42.2 percent, from US\$3,372.4 million in the year ended 31 December 2008 to US\$1,948.1 million in the year ended 31 December 2009.

The decrease in the cost of sales followed a decrease in sales primarily due to the global economic downturn. The cost reduction programme which was implemented in 2009 was another reason for the decrease in the cost of sales. In response to the decline in volumes and revenues in the year ended 31 December 2009, Lucchini's management introduced additional cost efficiency measures. These included renegotiations of certain supply and service agreements, permanent workforce reduction and significant temporary layoffs as well as plants being temporarily shut down to allow production to coincide with the decrease in market demand and by a desire to reduce inventories.

The depreciation of the euro, the functional currency of the Lucchini segment's entities, against the US dollar, the Group's reporting currency, by 5.9 percent in the year ended 31 December 2009, compared to the year ended 31 December 2008, resulted in a US\$198.6 million decrease of cost of sales.

#### *Severstal North America segment*

Severstal North America's cost of sales decreased by US\$1,144.1 million, from US\$5,841.6 million in the year ended 31 December 2008 to US\$4,697.5 million in the year ended 31 December 2009. This decrease was primarily due to cost-cutting initiatives.

#### *Profit/(loss) from operations*

The Group's profit from operations decreased by US\$4,361.7 million from a profit of US\$4,216.4 million in the year ended 31 December 2008 to a loss of US\$145.3 million in the year ended 31 December 2009. The decrease was due to a US\$4,194.6 million decrease in gross profit, primarily due to the factors discussed above and due to a US\$167.1 million increase in net operating expenses, primarily driven by a US\$826.9 million increase in net other operating expenses.

The following table sets forth the Group's net operating expenses for the years ended 31 December 2008 and 2009:

	Year ended 31 December		Year on year change	Year on year percent change
	2008	2009		
	(US\$ millions)			
General and administrative expenses . . . . .	(1,026.8)	(735.6)	291.2	(28.4)%
Distribution expenses . . . . .	(1,117.8)	(864.2)	253.6	(22.7)%
Other taxes and contributions . . . . .	(178.9)	(171.6)	7.3	(4.1)%
Share of associates' (loss)/profit . . . . .	(3.4)	11.5	14.9	(438.2)%
Loss from securities operations . . . . .	(96.8)	(15.3)	81.5	(84.2)%
Loss on disposal of property, plant and equipment . . . . .	(43.3)	(32.0)	11.3	(26.1)%
Net other operating income/(expenses) . . . . .	790.6	(36.3)	(826.9)	(104.6)%
<b>Net operating expenses . . . . .</b>	<b>(1,676.4)</b>	<b>(1,843.5)</b>	<b>(167.1)</b>	<b>10.0%</b>

#### *Severstal Resource segment*

The Severstal Resource segment's profit from operations decreased by US\$514.6 million, or 85.0 percent, from US\$605.7 million in the year ended 31 December 2008 to US\$91.1 million in the year ended 31 December 2009. The decrease in profit from operations was due to a US\$611.1 million decrease in gross



profit, primarily as a result of the factors described above, partially offset by a US\$96.5 million decrease in net operating expenses.

The decrease in the Severstal Resource segment's operating expenses was primarily due to a US\$39.0 million decrease in distribution expenses and a US\$66.3 million decrease in general and administrative expenses. The decrease in distribution expenses was primarily due to reduction of railway tariff expenses, which in turn were due to a decrease in volumes transported for sale for the reasons described above. General and administrative expenses decreased, primarily due to the decrease of a bad debt provision expense by US\$44.9 million due to management's negotiations with customers aimed at decreasing doubtful debts.

#### *Russian Steel segment*

The Russian Steel segment's profit from operations decreased by US\$2,142.4 million, or 67.4 percent, from US\$3,178.1 million in the year ended 31 December 2008 to US\$1,035.7 million in the year ended 31 December 2009. The decrease in profit from operations was due to a US\$2,578.0 million decrease in gross profit, primarily as a result of the factors described above, partially offset by a US\$435.7 million decrease in net operating expenses.

The decrease in the Russian Steel segment's operating expenses was primarily due to a US\$165.3 million decrease in general and administrative expenses, a US\$159.9 million decrease in distribution expenses and a US\$85.8 million decrease in loss from securities operations. The decrease in general and administrative expenses was primarily due to the decrease in labour and related tax expense of US\$51.7 million, decrease in services of US\$36.7 million, reduction in provision for doubtful accounts of US\$8.2 million. The decrease in distribution expenses was primarily due to the decrease in railway tariffs. The decrease in loss from securities operations was due to significant decrease in market quotations for trading securities in the year ended 31 December 2008 compared to the year ended 31 December 2009.

#### *Lucchini segment*

The Lucchini segment's profit from operations decreased by US\$630.2 million from a profit of US\$268.3 million in the year ended 31 December 2008 to a loss of US\$361.9 million in the year ended 31 December 2009. The decrease was primarily due to a US\$807.9 million decrease in gross profit, as discussed above, which was partially offset by a US\$177.7 million decrease in net operating expenses.

The Lucchini segment's net operating expenses decreased by US\$177.7 million, or 50.9 percent, from US\$348.8 million in the year ended 31 December 2008 to US\$171.1 million in the year ended 31 December 2009. The decrease was primarily due to a US\$49.3 million decrease in distribution expenses, a US\$75.4 million decrease in net other operating expenses and a US\$48.3 million decrease in general and administrative expenses. All of these decreases are primarily a result of the decrease in sales, which was primarily due to the global economic downturn and the implementation of a cost reduction programme.

#### *Severstal North America segment*

Severstal North America's profit from operations decreased by US\$1,045.6 million, from a profit of US\$145.3 million in the year ended 31 December 2008 to a loss of US\$900.3 million in the year ended 31 December 2009. The decrease was primarily due to a US\$152.3 million increase in gross loss, which was, in turn, primarily due to the factors described above and a US\$893.3 million increase in net operating expenses.

The increase in net operating expenses was primarily due to a US\$919.3 million increase in net other operating expenses in the year ended 31 December 2009. This increase was primarily due to the fact that there were non-recurring income items which occurred in the year ended 31 December 2008 and which did not occur in the year ended 31 December 2009. The following non-recurring items, all of which increased other operating income and offset net other operating expenses, occurred in the year ended 31 December 2008: US\$177.0 million lump sum payment from Dearborn Industrial Generation to Dearborn for early termination of a long-term electricity supply contract; US\$267.0 million award from A.T. Massey Coal Co. in connection with a breach of a contract for coal supply with Severstal Wheeling; and US\$430.0 million of insurance proceeds recognised in the year ended 31 December 2008 due to the blast furnace

“B” explosion. The Group had no non-recurring income items in the year ended 31 December 2009 which offset net other expenses for the same period.

***Profit/(loss) before financing and taxation***

Compared to the prior period, the Group’s profit before financing and taxation decreased by US\$3,606.2 million, or 112.4 percent, in the year ended 31 December 2009. The decrease was due to a US\$4,361.7 million decrease in profit from operations, partially offset by a US\$755.5 million decrease in net non-operating expenses.

The decrease in profit from operations was due to the factors discussed above. The decrease in net non-operating expenses was primarily due to a US\$1,321.3 million decrease in impairment of non-current assets, partially offset by a US\$292.3 million decrease in negative goodwill and a US\$273.5 million decrease in other net non-operating income.

The following table sets forth the Group’s net non-operating expenses for the years ended 31 December 2008 and 2009:

	Year ended 31 December		Year on year change	Year on year percent change
	2008	2009		
	(US\$ millions)			
Impairment of non-current assets . . . . .	(1,540.3)	(219.0)	1,321.3	(85.8)%
Negative goodwill . . . . .	292.3	—	(292.3)	(100.0)%
Net other non-operating income/(expenses) . . . . .	239.0	(34.5)	(273.5)	(114.4)%
<b>Net non-operating expenses . . . . .</b>	<b>(1,009.0)</b>	<b>(253.5)</b>	<b>755.5</b>	<b>(74.9)%</b>

***Impairment of property, plant and equipment***

Compared to the prior period, the Group’s impairment of non-current assets decreased by US\$1,321.3 million, or 85.8 percent, in the year ended 31 December 2009. This decrease was due to the effect of significant impairments recorded in the year ended 31 December 2008 as a result of the impairment tests performed in respect of the Group’s cash generating units due to the global economic downturn and the existence of impairment indicators.

***Negative goodwill***

The negative goodwill in the year ended 31 December 2008 was primarily attributable to the acquisition of Sparrows Point and High River Gold.

***Profit/(loss) for the year***

The Group’s profit for the year decreased by US\$3,181.0 million from a profit of US\$2,061.9 million in the year ended 31 December 2008 to a loss of US\$1,119.1 million in the year ended 31 December 2009. The decrease was due to a US\$3,606.2 million decrease in profit before financing and taxation and a US\$74.4 million increase in net financing expenses, which was partially offset by a US\$499.6 million decrease in income tax expense. The decrease in profit before financing and taxation is primarily due to the factors described above.

***Net financing expense***

Net financing expense increased by US\$74.4 million, or 11.8 percent, from US\$628.0 million in the year ended 31 December 2008 to US\$702.4 million in the year ended 31 December 2009. This increase was due to a US\$92.8 million increase in interest expense from US\$508.4 million in the year ended 31 December 2008 to US\$601.2 million in the year ended 31 December 2009, a US\$51.4 million decrease in interest income and a US\$69.8 million decrease in foreign exchange loss.

The increase in interest expense was primarily due to new long-term borrowings such as the rouble-denominated bonds issued in the amount of US\$494.0 million in September 2009, maturing in September 2012.

The decrease in interest income by US\$51.4 million was primarily due to the lower average cash and deposit balances in the year ended 31 December 2009 compared to the year ended 31 December 2008.

The decrease in foreign exchange losses by US\$69.8 million in the year ended 31 December 2009 compared to the year ended 31 December 2008 was primarily due to the depreciation of the rouble against the US dollar in the year ended 31 December 2009 compared to the depreciation of the rouble against the US dollar in 2008.

*Income tax expense*

Income tax expense decreased by US\$499.6 million in the year ended 31 December 2009, primarily due to the decrease in profit before tax resulting at a loss before tax at the amount of US\$1,101.2 million and due to the decrease in Russian statutory tax rate from 24.0 percent to 20.0 percent in the year ended 31 December 2009 compared to the year ended 31 December 2008.

**For the years ended 31 December 2007 and 2008**

The following discussion is based on, and should be read in conjunction with, the Annual Financial Statements included in this Prospectus beginning on page F-19.

Compared to the Group's 2008 Annual Financial Statements, the 2007 financial results in the Group's Financial Statements were restated to reflect the adjustments made in connection with the completion of purchase price allocations, changes in the presentation of the reportable segments following a restructuring in 2009 and changes in the classification of the retirement benefit income and expense between cost of sales and general and administrative expense that more appropriately reflect their nature.

The following table sets forth the Group's consolidated income statement for the years ended 31 December 2007 and 2008:

	Year ended 31 December		Year on year change	Year on year percent change
	2007	2008		
	(US\$ millions)			
<b>Sales</b>				
Sales—external . . . . .	15,352.4	22,138.4	6,786.0	44.2%
Sales—to related parties . . . . .	151.0	254.3	103.3	68.4%
	15,503.4	22,392.7	6,889.3	44.4%
Cost of sales . . . . .	(10,821.6)	(16,499.9)	(5,678.3)	52.5%
<b>Gross profit . . . . .</b>	<b>4,681.8</b>	<b>5,892.8</b>	<b>1,211.0</b>	<b>25.9%</b>
General and administrative expenses . . . . .	(766.9)	(1,026.8)	(259.9)	33.9%
Distribution expenses . . . . .	(942.5)	(1,117.8)	(175.3)	18.6%
Other taxes and contributions . . . . .	(154.1)	(178.9)	(24.8)	16.1%
Share of associates' profit/(loss) . . . . .	6.2	(3.4)	(9.6)	(154.8)%
Net gain/(loss) from securities operations . . . . .	25.6	(96.8)	(122.4)	(478.1)%
Loss on disposal of property, plant and equipment . . . . .	(35.5)	(43.3)	(7.8)	22.0%
Net other operating (expenses)/income . . . . .	(7.3)	790.6	797.9	—
<b>Profit from operations . . . . .</b>	<b>2,807.3</b>	<b>4,216.4</b>	<b>1,409.1</b>	<b>50.2%</b>
Impairment of non-current assets . . . . .	(28.9)	(1,540.3)	(1,511.4)	—
Negative goodwill . . . . .	12.2	292.3	280.1	—
Net other non-operating (expenses)/income . . . . .	(58.6)	239.0	297.6	(507.8)%
<b>Profit before financing and taxation . . . . .</b>	<b>2,732.0</b>	<b>3,207.4</b>	<b>475.4</b>	<b>17.4%</b>
Interest income . . . . .	166.6	155.2	(11.4)	(6.8)%
Interest expense . . . . .	(325.6)	(508.4)	(182.8)	56.1%
Foreign exchange difference . . . . .	3.2	(274.8)	(278.0)	—
<b>Profit before income tax . . . . .</b>	<b>2,576.2</b>	<b>2,579.4</b>	<b>3.2</b>	<b>0.1%</b>
Income tax expense . . . . .	(700.1)	(517.5)	182.6	(26.1)%
<b>Profit from continuing operations . . . . .</b>	<b>1,876.1</b>	<b>2,061.9</b>	<b>185.8</b>	<b>9.9%</b>
Profit from discontinued operations . . . . .	0.4	—	(0.4)	(100.0)%
<b>Profit for the year . . . . .</b>	<b>1,876.5</b>	<b>2,061.9</b>	<b>185.4</b>	<b>9.9%</b>

### Sales

The Group's consolidated sales increased by US\$6,889.3 million, or 44.4 percent, from US\$15,503.4 million in the year ended 31 December 2007 to US\$22,392.7 million in the year ended 31 December 2008. This increase was primarily due to a US\$2,719.2 million increase in sales of the Russian Steel segment, a US\$3,514.0 million increase in sales of the Severstal North America segment, a US\$603.6 million increase in sales of the Severstal Resource segment and a US\$233.0 million increase in sales of the Lucchini segment. Changes in the prices of the Group's various products were generally consistent with the prevailing market trends for each product.

The Group's sales to related parties increased by US\$103.3 million, from US\$151.0 million in the year ended 31 December 2007 to US\$254.3 million in the year ended 31 December 2008. The Group's sales to related parties comprised 1.0 percent and 1.1 percent of the Group's total sales in the year ended 31 December 2007 and in the year ended 31 December 2008, respectively.

*Sales by product*

The following table sets forth the Group's sales by product for the years ended 31 December 2007 and 2008:

	Year ended 31 December		Year on year change	Year on year percent change
	2007	2008		
	(US\$ millions)			
Hot-rolled strip and plate . . . . .	3,797.6	5,952.6	2,155.0	56.7%
Galvanised and other metallic coated sheet . . . . .	1,323.4	2,350.3	1,026.9	77.6%
Cold-rolled sheet . . . . .	1,285.2	2,314.4	1,029.2	80.1%
Long products . . . . .	3,150.1	3,793.9	643.8	20.4%
Metalware products . . . . .	1,010.0	1,384.6	374.6	37.1%
Large diameter pipes . . . . .	530.7	819.7	289.0	54.5%
Shipping and handling costs billed to customers . . . . .	662.4	808.7	146.3	22.1%
Semi-finished products . . . . .	1,101.8	1,667.3	565.5	51.3%
Gold . . . . .	—	190.4	190.4	—
Colour-coated sheet . . . . .	289.7	388.2	98.5	34.0%
Coal and coking coal concentrate . . . . .	264.8	257.5	(7.3)	(2.8)%
Other tubes and pipes, formed shapes . . . . .	411.7	485.5	73.8	17.9%
Pellets and iron ore . . . . .	304.8	453.1	148.3	48.7%
Scrap . . . . .	290.8	321.3	30.5	10.5%
Others . . . . .	1,080.4	1,205.2	124.8	11.6%
<b>Sales</b> . . . . .	<b>15,503.4</b>	<b>22,392.7</b>	<b>6,889.3</b>	<b>44.4%</b>

*Sales by delivery destination*

The following table sets forth the Group's consolidated sales by delivery destination for the years ended 31 December 2007 and 2008:

	Year ended 31 December		Year on year change	Year on year percent change
	2007	2008		
	(US\$ millions)			
North America . . . . .	2,002.9	5,410.1	3,407.2	170.1%
Russia . . . . .	6,879.4	8,878.9	1,999.5	29.1%
Europe . . . . .	5,317.9	6,336.4	1,018.5	19.2%
China and Central Asia . . . . .	353.9	399.0	45.1	12.7%
The Middle East . . . . .	450.4	556.4	106.0	23.5%
South-East Asia . . . . .	291.1	381.9	90.8	31.2%
Africa . . . . .	56.6	109.4	52.8	93.3%
Central and South America . . . . .	151.2	320.6	169.4	112.0%
<b>Sales</b> . . . . .	<b>15,503.4</b>	<b>22,392.7</b>	<b>6,889.3</b>	<b>44.4%</b>



*Sales by segment*

The following table sets forth the Group's sales by segment for the years ended 31 December 2007 and 2008:

	Year ended 31 December		Year on year change	Year on year percent change
	2007	2008		
	(US\$ millions)			
Severstal Resource segment . . . . .	1,849.1	2,452.7	603.6	32.6%
Russian Steel segment . . . . .	9,344.6	12,063.8	2,719.2	29.1%
Lucchini segment . . . . .	3,756.5	3,989.5	233.0	6.2%
Severstal North America segment . . . . .	1,805.4	5,319.4	3,514.0	194.6%
Intersegment transactions . . . . .	(1,252.2)	(1,432.7)	(180.5)	14.4%
<b>Sales . . . . .</b>	<b>15,503.4</b>	<b>22,392.7</b>	<b>6,889.3</b>	<b>44.4%</b>

*Severstal Resource segment*

The Severstal Resource segment's sales increased by US\$603.6 million, or 32.6 percent, from US\$1,849.1 million in the year ended 31 December 2007 to US\$2,452.7 million in the year ended 31 December 2008. Included in these amounts are intersegment sales, primarily to the Russian Steel segment, of US\$1,099.1 million in the year ended 31 December 2007 and US\$1,379.5 million in the year ended 31 December 2008. Excluding intersegment sales, sales of the Severstal Resource segment increased by US\$323.2 million, or 43.1 percent, from US\$ 750.0 million in the year ended 31 December 2007 to US\$1,073.2 million in the year ended 31 December 2008. The increase was primarily due to an increase in the average price per tonne and an increase in sales by volume as described below.

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

*Pellets and iron ore.* Sales of pellets and iron ore increased by US\$148.3 million, or 48.7 percent, from US\$304.8 million in the year ended 31 December 2007 to US\$453.1 million in the year ended 31 December 2008. The increase was primarily due to an increase in the average price per tonne and an increase in sales by volume due a growth in demand for both pellets and iron ore in the first nine months of 2008.

*Gold sales.* Sales of gold was US\$190.4 million in the year ended 31 December 2008 as a result of the acquisition of gold assets at the end of 2007, for which there are no gold sales figures.

*Coal and coking coal concentrate.* Sales of coal and coking coal concentrate decreased by US\$7.3 million, or 2.8 percent, from US\$264.8 million in the year ended 31 December 2007 to US\$257.5 million in the year ended 31 December 2008.

*Russian Steel segment*

Sales increased by US\$2,719.2 million, or 29.1 percent, from US\$9,344.6 million in the year ended 31 December 2007 to US\$12,063.8 million in the year ended 31 December 2008. Included in the above amounts are intersegment sales of US\$21.5 million in the year ended 31 December 2007 and US\$39.5 million in the year ended 31 December 2008. This increase was primarily due to an increase in the average price per tonne, which was partially offset by a decrease in sales by volume due to the reduction of production caused by periodic maintenance that resulted in a 130-day closure of blast furnace 5 at Cherepovets Steel Mill and a decrease in demand in the last quarter of 2008 due to the onset of the global economic downturn in Russia.

During the first three quarters of 2008, the Russian domestic market showed very favourable dynamics, illustrated by high demand for steel products. This situation, however, was reversed in the fourth quarter of 2008 as demand started to diminish due to the growing economic uncertainty, which caused prices and demand to decline. This decline in the last quarter of 2008, however, only slightly influenced the results for the year.

Set forth below is a discussion of the sales, excluding intersegment sales, of the Russian Steel division by product:

*Hot-rolled strip and plate.* Sales of hot-rolled strip and plate increased by US\$956.6 million, or 32.0 percent, from US\$2,992.4 million in the year ended 31 December 2007 to US\$3,949.0 million in the year ended 31 December 2008. The increase was primarily due to an increase in the average price per tonne, partially offset by a slight decrease in sales by volume due to the above-mentioned market-driven decline in demand.

*Cold-rolled sheet.* Sales of cold-rolled sheet increased by US\$294.6 million, or 30.9 percent, from US\$954.5 million in the year ended 31 December 2007 to US\$1,249.1 million in the year ended 31 December 2008. This increase was primarily due to an increase in the average price per tonne, partially offset by a slight decrease in sales by volume due to the above-mentioned market-driven decline in demand.

*Galvanised sheet.* Sales of galvanised sheet increased by US\$99.9 million, or 14.2 percent, from US\$701.4 million in the year ended 31 December 2007 to US\$801.3 million in the year ended 31 December 2008. The increase was primarily due to an increase in the average price per tonne, partially offset by a decrease in sales by volume due to the above-mentioned market-driven decline in demand.

*Semi-finished products.* Sales of semi-finished products increased by US\$253.2 million, or 66.9 percent, from US\$378.7 million in the year ended 31 December 2007 to US\$631.9 million in the year ended 31 December 2008. The increase was primarily due to an increase in the average price per tonne and an increase in sales by volume.

#### *Lucchini segment*

The Lucchini segment's sales increased by US\$233.0 million, or 6.2 percent, from US\$3,756.5 million in the year ended 31 December 2007 to US\$3,989.5 million in the year ended 31 December 2008. The increase was primarily due to the appreciation of the euro, the functional currency of the Lucchini segment's entities, against the US dollar, the Group's reporting currency, which increased from 0.7311 euro per US dollar in the year ended 31 December 2007 to 0.6733 in the year ended 31 December 2008. The appreciation of the euro increased the dollar revenue by US\$322.9 million or 8.6 percent compared to the prior year. Euro-denominated sales decreased by 2.2 percent in the year ended 31 December 2008 due to the above-mentioned market-driven decline in demand and consequential reduction in sales by volumes in the fourth quarter of 2008, partially offset by the favourable market conditions in the first three quarters of 2008.

Set forth below is a discussion of the sales, excluding intersegment sales, of the Lucchini segment by product:

*Semi-finished products.* Sales of semi-finished products increased by US\$17.6 million, or 2.4 percent, from US\$723.1 million in the year ended 31 December 2007 to US\$740.7 million in the year ended 31 December 2008. The increase was primarily due to an increase in the average price per tonne, which was partially offset by a slight decrease in sales by volume, due to the above mentioned market-driven decline of demand.

*Long products.* Sales of long products increased by US\$288.1 million, or 11.4 percent, from US\$2,517.2 million in the year ended 31 December 2007 to US\$2,805.3 million in the year ended 31 December 2008. The increase was primarily due to an increase in the average price per tonne, partially offset by a decrease in sales by volume. The decrease in sales by volume was primarily due to the above-mentioned market-driven decline of demand and the disposal of Lucchini Sidermeccanica S.p.A. in June 2007.

#### *Severstal North America segment*

Severstal North America's sales increased by US\$3,514.0 million, or 194.6 percent, from US\$1,805.4 million in the year ended 31 December 2007 to US\$5,319.4 million in the year ended 31 December 2008. This increase was primarily due to an increase in sales of the following products: an increase of US\$1,198.7 million in sales of hot-rolled strip and plate, an increase of US\$734.8 million in

sales of cold-rolled sheet, an increase of US\$926.9 million in sales of galvanised sheet, an increase of US\$294.7 million increase in sales of semi-finished products, an increase of US\$128.2 million in sales of metalware products, an increase of US\$29.1 million in sales of color-coated sheet and an increase of US\$150.9 million in sales of other products. The increase in sales by volume relates to the acquisition of Sparrows Point, Severstal Warren and Severstal Wheeling and favourable market conditions in the first three quarters of 2008. An increase in the average price per tonne also increased sales.

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

*Hot-rolled strip and plate.* Sales of hot-rolled strip and plate increased by US\$1,198.7 million, or 148.9 percent, from US\$804.9 million in the year ended 31 December 2007 to US\$2,003.6 million in the year ended 31 December 2008. This increase was primarily due to an increase in the average price per tonne and an increase in sales by volume primarily due to the acquisition of Sparrows Point, Severstal Wheeling and Severstal Warren.

*Cold-rolled sheet.* Sales of cold-rolled sheet increased by US\$734.8 million, or 222.3 percent, from US\$330.5 million in the year ended 31 December 2007 to US\$1,065.3 million in the year ended 31 December 2008. This increase was primarily due to an increase in sales by volume primarily relates to the acquisitions of Severstal Columbus and Sparrows Point and an increase in the average price per tonne.

*Galvanised sheet.* Sales of galvanised sheet increased by US\$926.9 million, or 149.0 percent, from US\$622.0 million in the year ended 31 December 2007 to US\$1,548.9 million in the year ended 31 December 2008. The increase was primarily due to an increase in the average price per tonne and an increase in sales by volume primarily due to the acquisitions of Severstal Columbus and Sparrows Point.

*Semi-finished products.* Sales of semi-finished products increased by US\$294.7 million due to the acquisition of Sparrows Point, which sold slabs to integrated steel mills for conversion into finished products.

*Metalware products.* Sales of metalware products increased by US\$128.2 million primarily due to the acquisition of Severstal Wheeling.

*Colour-coated sheet.* Sales of colour-coated sheet increased by US\$29.1 million primarily due to the acquisition of Sparrows Point.

*Others products.* Sales of other products increased by US\$150.9 million primarily due to the acquisitions of Sparrows Point, Severstal Wheeling and Severstal Warren.

#### *Sales by delivery destination*

The Group's sales increased in all regions in the year ended 31 December 2008 compared the year ended 31 December 2007 primarily due to favourable market conditions in the first three quarters of the year ended 31 December 2008, partially offset by a decline in demand in the fourth quarter.

In particular, the increase in the Group's sales to Central, South and North America was primarily due to the acquisitions of Sparrows Point, Severstal Warren, Severstal Columbus and Severstal Wheeling in the year ended 31 December 2008.

#### *Cost of sales*

The Group's cost of sales increased by US\$5,678.3 million, or 52.5 percent, from US\$10,821.6 million in the year ended 31 December 2007 to US\$16,499.9 million in the year ended 31 December 2008.

*Cost of sales by segment*

The following table sets forth the Group's cost of sales by segment for the years ended 31 December 2007 and 2008:

	Year ended 31 December		Year on year change	Year on year percent change
	2007	2008		
	(US\$ millions)			
Severstal Resource segment . . . . .	(1,182.1)	(1,376.4)	(194.3)	16.4%
Russian Steel segment . . . . .	(5,781.5)	(7,388.0)	(1,606.5)	27.8%
Severstal North America segment . . . . .	(1,848.3)	(5,841.6)	(3,993.3)	216.1%
Lucchini segment . . . . .	(3,194.4)	(3,372.4)	(178)	5.6%
Intersegment transactions . . . . .	1,184.7	1,478.5	293.8	24.8%
<b>Cost of sales . . . . .</b>	<b>(10,821.6)</b>	<b>(16,499.9)</b>	<b>(5,678.3)</b>	<b>52.5%</b>

*Severstal Resource segment*

The Severstal Resource segment's cost of sales increased by US\$194.3 million, or 16.4 percent, from US\$1,182.1 million in the year ended 31 December 2007 to US\$1,376.4 million in the year ended 31 December 2008. The increase was primarily due to an increase in raw materials, spare parts and fuel and energy expenses, an increase in labour costs and related taxes and an increase in depreciation and amortisation expense.

*Raw materials, spare parts and fuel and energy expenses.* The increase in raw materials, spare parts, fuel and energy expenses by US\$140.4 million was due to the increase in the sales by volume and in an increase in prices for the primary raw materials used by Severstal Resources.

*Labour and related taxes expense.* The increase in labour and related taxes expense by US\$81.8 million was primarily due to an increase in the number of employees as a result of acquisition PBS Coals and High River Gold and an increase in the average salaries of employees generally in line with inflation in Russia.

*Depreciation expense.* The increase in depreciation expense by US\$27.3 million was primarily due to the additions to fixed assets as a result of the acquisition of gold assets in late 2007.

*Russian Steel segment*

The Russian Steel segment's cost of sales increased by US\$1,606.5 million, or 27.8 percent, from US\$5,781.5 million in the year ended 31 December 2007 to US\$7,388.0 million in the year ended 31 December 2008. The increase was due to an increase in prices for raw materials and fuel and energy expenses, an increase in depreciation and amortisation expense, an increase in labour costs and related taxes, and an increase due to the appreciation of the rouble, the functional currency of the Russian Steel segment, against the US dollar, the Group's reporting currency. This increase was partially offset by the positive effect of manufacturing efficiency improvements, which decreased the consumption of raw materials per unit of production.

*Raw materials and fuel and energy expenses.* The increase in prices for raw materials and fuel and energy expenses was primarily due to the increase in market prices for scrap metal, ferro-alloys, iron ore, pellets, coal and fuel and energy.

*Depreciation expense.* The increase in depreciation expense was primarily due to an increase in additions of fixed assets.

*Labour costs and related taxes expense.* The increase in labour and related taxes expense was primarily due to the increase in the average salaries of employees, generally in line with inflation in Russia.

### *Lucchini segment*

The Lucchini segment's cost of sales increased by US\$178.0 million, or 5.6 percent, from US\$3,194.4 million in the year ended 31 December 2007 to US\$3,372.4 million in the year ended 31 December 2008.

Costs of sales in the year ended 31 December 2008 compared to the year ended 31 December 2007 increased notwithstanding the reduction in production, primarily due to a significant increase in raw material costs. For example, the price of scrap increased in the year ended 31 December 2008 as compared to the price per tonne in the year ended 31 December 2007.

The increase in cost of sales was in line with the revenue increase and was primarily due to the depreciation of the US dollar against the euro from 0.7305 in the year ended 31 December 2007 to 0.6753 in the year ended 31 December 2008 that increased dollar costs by US\$260.9 million, or 8.2 percent, compared to the prior period.

### *Severstal North America segment*

Severstal North America's cost of sales increased by US\$3,993.3 million, from US\$1,848.3 million in the year ended 31 December 2007 to US\$5,841.6 million in the year ended 31 December 2008. This increase was primarily due to the acquisition of Sparrows Point, Severstal Warren and Severstal Wheeling and also to Severstal Columbus attaining full capacity.

### *Profit from operations*

The Group's profit from operations increased by US\$1,409.1 million, or 50.2 percent, from US\$2,807.3 million in the year ended 31 December 2007 to US\$4,216.4 million in the year ended 31 December 2008. This increase was due to a US\$1,211.0 million increase in gross profit, primarily due to the factors discussed above and by a US\$198.1 million decrease in operating expenses.

The decrease in net operating expenses was primarily due to a US\$797.9 million increase in other operating income, partially offset by a US\$259.9 million increase in general and administrative expenses, a US\$175.3 million increase in distribution expenses and a US\$122.4 million decrease in net income from securities operations.

The following table sets forth the Group's operating expenses for the years ended 31 December 2007 and 2008:

	Year ended 31 December		Year on year change	Year on year percent change
	2007	2008		
	(US\$ millions)			
General and administrative expenses . . . . .	(766.9)	(1,026.8)	(259.9)	33.9%
Distribution expenses . . . . .	(942.5)	(1,117.8)	(175.3)	18.6%
Other taxes and contributions . . . . .	(154.1)	(178.9)	(24.8)	16.1%
Share of associates' profit/ (loss) . . . . .	6.2	(3.4)	(9.6)	(154.8)%
Net income/(loss) from securities operations . . . . .	25.6	(96.8)	(122.4)	(478.1)%
Loss on disposal of property, plant and equipment . . . . .	(35.5)	(43.3)	(7.8)	22.0%
Net other operating (expenses)/income . . . . .	(7.3)	790.6	797.9	—
<b>Net operating expenses . . . . .</b>	<b>(1,874.5)</b>	<b>(1,676.4)</b>	<b>198.1</b>	<b>10.6%</b>

### *Severstal Resource segment*

The Severstal Resource segment's profit from operations increased by US\$323.7 million, from US\$282.0 million in the year ended 31 December 2007 to US\$605.7 million in the year ended 31 December 2008. This increase was primarily due to a US\$409.3 million increase in gross profit, due to the factors discussed above, partially offset by a US\$85.6 million increase in net operating expenses.

The increase in the Severstal Resource segment's net operating expenses was primarily due to a US\$37.1 million increase in general and administrative expenses, a US\$17.2 million increase in distribution



expenses, a US\$24.1 million increase in net other operating expense and a US\$14.3 million increase in other taxes and contributions.

The increase in distribution expenses was primarily due to the increase in forwarding expenses. The increase in other taxes and contributions was primarily due to the increase in extraction tax payable on extracted gold and iron ore. The increase in general and administrative expenses was primarily due to the increase in pension expenses and other administrative services.

#### *Russian Steel segment*

The Russian Steel segment's profit from operations increased by US\$690.6 million, or 27.8 percent, from US\$2,487.5 million in the year ended 31 December 2007 to US\$3,178.1 million in the year ended 31 December 2008. The increase was primarily due to a US\$1,112.6 million increase in gross profit, due to the factors discussed above, partially offset by a US\$422.1 million increase in net operating expenses.

The increase in the Russian Steel segment's net operating expenses was primarily due to a US\$132.6 million increase in general and administrative expenses, a US\$136.4 million increase in distribution expenses and a US\$103.4 million increase in loss from securities operations.

The increase in general and administrative expenses was primarily due to an increase in labour costs and related taxes, which was in line with inflation in Russia and due to the overall increase in prices for goods and services during the year ended 31 December 2008 compared to the year ended 31 December 2007.

The increase in distribution expenses was primarily due to increase in railway tariffs and tanks and carriage rental costs due to overall increase in sales by volume.

The increase in loss from securities operations was primarily due to the decrease in market quotations of held for trading securities in the year ended 31 December 2008.

#### *Lucchini segment*

The Lucchini segment's profit from operations increased by US\$51.9 million, or 24.0 percent, from US\$216.4 million in the year ended 31 December 2007 to US\$268.3 million in the year ended 31 December 2008. The increase was primarily due to a US\$54.9 million increase in gross profit, due to the factors discussed above, partially offset by a US\$3.0 million increase in net operating expenses.

#### *Severstal North America segment*

Severstal North America improved its operational results by US\$256.7 million from an operating loss of US\$111.4 million in the year ended 31 December 2007 to an operating profit of US\$145.3 million in the year ended 31 December 2008. This improvement was primarily due to a decrease in net operating expenses of US\$736.0 million, which was partially offset by a decrease in gross profit of US\$479.3 million due to the factors described above.

The decrease in net operating expenses was primarily due to an increase in net other operating income due to the following one-off gains in the year ended 31 December 2008: US\$177.0 million of a lump sum payment from DIG to Dearborn for early termination of a long-term electricity supply contract, US\$267.0 million award from A.T. Massey Coal Co. in connection with a breach of a contract for coal supply with Severstal Wheeling and US\$430.0 million of insurance proceeds recognised in 2008 due to the explosion at blast furnace "B" all of which increased operating income in the year ended 31 December 2008. There were no significant non-recurring income items in the year ended 31 December 2007.

#### *Profit before financing and taxation*

Compared to the year ended 31 December 2007, the Group's profit before financing and taxation increased by US\$475.4 million in the year ended 31 December 2008.

The increase was due to a US\$1,409.1 million increase in profit from operations, due to the factors discussed above, partially offset by a US\$933.7 million increase in net non-operating expenses.

The increase in net non-operating expenses was primarily attributable to a US\$1,511.4 million increase in impairment of non-current assets as a result of the impairment test performed in respect to the Group's

cash generating units, partially offset by a US\$280.1 million increase in negative goodwill and a US\$297.6 million increase in net other non-operating income.

The following table sets forth the Group's net non-operating income/(expenses) for the years ended 31 December 2007 and 2008:

	Year ended 31 December		Year on year change	Year on year percent change
	2007	2008		
	(US\$ millions)			
Impairment of non-current assets . . . . .	(28.9)	(1,540.3)	(1,511.4)	5,229.8%
Negative goodwill . . . . .	12.2	292.3	280.1	2,295.9%
Net other non-operating (expenses)/income . . . . .	(58.6)	239.0	297.6	(507.0)%
<b>Net non-operating expenses . . . . .</b>	<b>(75.3)</b>	<b>(1,009.0)</b>	<b>(933.7)</b>	<b>1,238.3%</b>

*Impairment of property, plant and equipment*

Compared to the prior period, the Group's impairment of non-current assets increased by US\$1,511.4 million in 2008. The increase was due to the impairment accrued in the year ended 31 December 2008 as a result of the impairment tests performed in respect of the Group's cash generating units due to the global economic downturn and the existence of impairment indicators.

*Negative goodwill*

The negative goodwill in the year ended 31 December 2008 was primarily attributable to the acquisitions of Sparrows Point and High River Gold.

*Net other non-operating (expenses)/income*

The decrease in net other non-operating expenses by US\$297.6 million from net other non-operating expenses of US\$58.6 million in the year ended 31 December 2007 to net other non-operating income of US\$239.0 million in the year ended 31 December 2008 was primarily due to a US\$282.9 million increase in gain from subsidiary disposal attributable to the disposal of the Group's Kuzbass assets.

*Profit for the year*

The Group's profit for the year increased by US\$185.4 million, from US\$1,876.5 million in the year ended 31 December 2007 to US\$2,061.9 million in the year ended 31 December 2008. The increase was due to a US\$475.4 million increase in profit before financing and taxation, for the reasons described above, a US\$182.6 million decrease in income tax expense, partially offset by a US\$472.2 million increase in net financing expense.

*Net financing expense*

Net financing expense increased by US\$472.2 million, from US\$155.8 million in the year ended 31 December 2007 to US\$628.0 million in the year ended 31 December 2008. The increase was due to the increase in interest expense of US\$182.8 million, the increase in foreign exchange loss of US\$278.0 million and the decrease in interest income by US\$11.4 million.

Foreign exchange losses increased by US\$278.0 million in the year ended 31 December 2008 compared to the year ended 31 December 2007, primarily due to the 19.7 percent depreciation of the rouble against the US dollar.

Interest income decreased by US\$11.4 million primarily due to higher average financial investment balances in the year ended 31 December 2007 compared to the year ended 31 December 2008.

The increase in interest expense was primarily due to the increase in debt financing from US\$3,942.4 million in the year ended 31 December 2007 to US\$8,265.9 million in the year ended 31 December 2008. The growth in debt financing was primarily due to raising debt for the purpose of the acquisitions made in 2008, including Sparrows Point, Severstal Warren, Severstal Wheeling, PBS Coals, and High River Gold.

*Income tax expense*

Income tax expense decreased by US\$182.6 million or 26.1 percent, from US\$700.1 million in the year ended 31 December 2007 to US\$517.5 million in the year ended 31 December 2008. The decrease was primarily due to a decrease in effective tax rate from 27.2 percent to 20.1 percent. Decrease in the effective tax rate was mainly attributable to the decrease in the Russian statutory tax rate from 24.0 percent to 20.0 percent that affected 2008 deferred tax expenses calculations and due to the increase in losses of certain Severstal North America entities.

**LIQUIDITY AND CAPITAL RESOURCES**

As at 30 June 2010, the Group had total cash and cash equivalents of US\$1,839.8 million and short-term bank deposits of US\$165.0 million. As at 31 December for 2009, 2008 and 2007, the Group had total cash and cash equivalents of US\$2,853.4 million, US\$2,652.9 million and US\$1,622.5 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—Russian Steel Division—Capital Expenditures; Business—Severstal International—Capital Expenditures; Business—Severstal Resources—Capital Expenditures*".

**Cash flows****For the six months ended 30 June 2009 and 2010**

The following table sets forth the Group's consolidated cash flow for the six months ended 30 June 2009 and 2010:

	Six months ended 30 June		Period on period change	Period on period percentage change
	2009	2010		
	(US\$ millions)			
<b>Net cash from operating activities</b>				
(Loss)/Profit before financing and taxation . . . . .	(474.1)	945.7	1,419.8	299.5%
Adjustments to reconcile profit to cash generated from operations . . . . .	237.8	514.4	276.6	116.3%
Changes in operating assets and liabilities . . . . .	781.0	(877.9)	(1,658.9)	(212.4)%
Interest paid . . . . .	(256.3)	(230.4)	25.9	(10.1)%
Income tax paid . . . . .	(9.4)	(167.4)	(158.0)	—
<b>Net cash from operating activities—continuing operations .</b>	<b>279.0</b>	<b>184.4</b>	<b>(94.6)</b>	<b>(33.9)%</b>
Net cash from/(used in) operating activities—discontinued operations . . . . .	75.7	(52.1)	(127.8)	(168.8)%
<b>Net cash from operating activities . . . . .</b>	<b>354.7</b>	<b>132.3</b>	<b>(222.4)</b>	<b>(62.7)%</b>
<b>Cash from investing activities</b>				
Capital expenditures <sup>(1)</sup> . . . . .	(400.8)	(502.7)	(101.9)	25.4%
Net cash outflow on acquisitions of subsidiaries . . . . .	—	(4.0)	(4.0)	100%
Net cash inflow from disposal of subsidiaries . . . . .	—	118.6	118.6	100%
Acquisitions of non-controlling interests . . . . .	(15.1)	(220.6)	(205.5)	—
Additions to financial investments and associates, net of proceeds on disposal . . . . .	11.7	(277.4)	(289.1)	—
Net decrease/(increase) in short-term bank deposits . . . . .	376.3	(125.3)	(501.6)	(133.3)%
Other . . . . .	64.0	56.2	(7.8)	(12.2)%
<b>Cash from/(used in) investing activities—continuing operations . . . . .</b>	<b>36.1</b>	<b>(955.2)</b>	<b>(991.3)</b>	<b>—</b>
Cash used in investing activities-discontinued operations . .	(61.7)	(57.0)	4.7	(7.6)%
<b>Cash used in investing activities . . . . .</b>	<b>(25.6)</b>	<b>(1,012.2)</b>	<b>(986.6)</b>	<b>—</b>
<b>Cash from financing activities</b>				
Proceeds from debt finance . . . . .	1,956.8	2,507.9	551.1	28.2%
Repayment of debt finance . . . . .	(2,448.9)	(2,183.4)	265.5	(10.8)%
Repayment under lease obligations . . . . .	(8.9)	(2.9)	6.0	(67.4)%
Dividends paid . . . . .	(115.6)	—	115.6	(100.0)%
<b>Cash (used in)/from financing activities—continuing operations . . . . .</b>	<b>(616.6)</b>	<b>321.6</b>	<b>938.2</b>	<b>(152.2)%</b>
Cash used in financing activities—discontinued operations .	(111.1)	(49.0)	62.1	(55.9)%
<b>Cash (used in)/from financing activities . . . . .</b>	<b>(727.7)</b>	<b>272.6</b>	<b>1,000.3</b>	<b>(137.5)%</b>
Effect of exchange rates on cash and cash equivalents . . .	(8.0)	(143.6)	(135.6)	—
<b>Net decrease in cash and cash equivalents . . . . .</b>	<b>(406.6)</b>	<b>(750.9)</b>	<b>(344.3)</b>	<b>84.7%</b>
Less cash and cash equivalents of discontinued operations and assets held for sale at the end of the period . . . . .	—	(262.6)	(262.6)	100%

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

Net cash from operating activities decreased by US\$222.4 million, or 62.7 percent, from US\$354.7 million in the six months ended 30 June 2009 to US\$132.3 million in the six months ended 30 June 2010.

The decrease was primarily due to an increase in cash outflow of US\$1,658.9 million related to changes in operating assets and liabilities. This increase was a result of an increase in inventory balances as a result of the increased production volumes, as well as an increase in trade accounts receivable and amounts receivable from related parties due to increased sales of steel products in the first six months of 2010 as compared to the same period in the prior year.

This increase in cash outflow related to changes in operating assets and liabilities was partially offset by an increase in profit before financing and taxation of US\$1,419.8 million. The increase in profit before financing and taxation was a result of the economic recovery on the global steel market, which led to an overall increase in sales by volume, changes in provisions for inventories, receivables and other provisions of US\$169.6 million, an increase in loss on remeasurement and disposal of financial investments of US\$54.0 million and an increase in loss on disposal of property, plant and equipment and intangible assets of US\$22.6 million, which was added back to profit before financing and taxation for cash flow purposes.

The decrease in provisions for inventories, receivables and other provisions from a release of US\$185.2 million in the six months ended 30 June 2009 to a release of US\$15.5 million in the six months ended 30 June 2010 was mainly attributable to the significant release of inventories in respect of which provisions were previously accrued in the six months ended 30 June 2009.

The increase in loss on remeasurement and disposal of financial investments was attributable to a US\$55.4 million provision for a doubtful deposit account accrued in the six months ended 30 June 2010. Based on events after 30 June 2010, the Company believes that it will make up to a 100 percent provision with respect to the outstanding doubtful deposit account balance by increasing the existing provision by up to approximately US\$70.0 million.

Increase in loss on disposal of property, plant and equipment and intangible assets was primarily attributable to the direct write-off of terminated mineral license. (See “—Results of Operations—for the six months ended 30 June 2009 and 2010—profit from operations”).

Net cash from operating activities was also affected by a US\$158.0 million increase in income tax paid due to an increase in taxable profit for the six months ended 30 June 2010 compared to the six months ended 30 June 2009, and a US\$25.9 million decrease in interest paid. The decrease in interest paid was caused by changes in the Group’s credit portfolio from payments on a monthly basis to payments on a semi-annual basis.

Net cash used in investing activities increased by US\$986.6 million from US\$25.6 million for the six months ended 30 June 2009 to US\$1,012.2 million for the six months ended 30 June 2010. The increase was attributable to an increase in short-term bank deposits, an increase in financial investments and investments to associates, an increase in capital expenditures and an increase in cash outflow used for the acquisition of non-controlling interests

The change in short-term bank deposits of US\$501.6 million from a decrease of US\$376.3 million in the six months ended 30 June 2009 to an increase of US\$125.3 million in the six months ended 30 June 2010 was due to the Group’s optimisation of its liquidity position. The increase in financial investments and investment in associates, net of proceeds on disposals by US\$289.1 million was primarily attributable to the acquisition of interests in Crew Gold, Core Mining and an increase in financial investments in the Group’s associated companies.

The increase in capital expenditures by US\$101.9 million was in line with the Group’s budgeted capital expenditures of \$1.4 billion for 2010 compared to US\$1.0 billion for 2009.

Cash outflow of US\$220.6 million spent on the acquisition of non-controlling interests in the six months ended 30 June 2010 was attributable to the acquisition of additional stakes in Lucchini and High River Gold.

The increase in cash outflow from investing activities was partially offset by a US\$118.6 million cash inflow from the disposal of Northern Steel Group.

Net cash received from financing activities increased by US\$1,000.3 million or 137.5 percent, from a cash outflow of US\$727.7 million for the six months ended 30 June 2009 to a cash inflow of US\$272.6 million for the six months ended 30 June 2010. This increase was primarily attributable to the increase in proceeds



from debt financing, net of debt repayments of US\$816.6 million, and to the impact of a decrease in dividends paid in the amount of US\$115.6 million.

The increase in proceeds from debt financing was primarily due to new long-term borrowings, including the rouble-denominated bonds issued by the Company in the amount of US\$498.0 million in February 2010 and bonds issued by Severstal Columbus in the amount of US\$525.0 million in February 2010.

The decrease in dividends paid from US\$115.6 million for the six months ended 30 June 2009 to nil for the six months ended 30 June 2010 reflected the fact that no dividends were declared and paid for the six months ended 30 June 2010.

The effect of exchange rates resulted in an additional decrease in cash and cash equivalents for the six months ended 30 June 2010 due to the depreciation of the rouble against the US dollar during this period as compared to the same period in the prior year.

**For the years ended 31 December 2008 and 2009**

The following table sets forth the Group's consolidated cash flow for the years ended 31 December 2008 and 2009:

	Year ended December 31		Year on year change	Year on year percent change
	2008	2009		
	(US\$ millions)			
<b>Net cash from operating activities</b>				
Profit/(loss) before financing and taxation	3,207.4	(398.8)	(3,606.2)	(112.4)%
Adjustments to reconcile profit to cash generated from operations	2,701.9	892.1	(1,809.8)	(67.0)%
Changes in operating assets and liabilities	(1,018.1)	1,722.0	2,740.1	(269.1)%
Interest paid	(362.8)	(551.8)	(189.0)	52.1%
Income tax paid	(1,094.5)	(52.3)	1,042.2	(95.2)%
<b>Net cash from operating activities</b>	<b>3,433.9</b>	<b>1,611.2</b>	<b>(1,822.7)</b>	<b>(53.1)%</b>
<b>Net cash used in investing activities</b>				
Capital expenditures <sup>(1)</sup>	(2,114.5)	(1,015.3)	1,099.2	(52.0)%
Net cash outflow on acquisitions of subsidiaries	(3,068.7)	—	3,068.7	(100)%
Net cash inflow from disposal of subsidiaries	671.7	5.0	(666.7)	(99.3)%
Acquisitions of non-controlling interests	(219.6)	(23.4)	196.2	(89.3)%
Additions to financial investments and associates, net of proceeds on disposal	(17.9)	(43.3)	(25.4)	141.9%
Net (increase)/decrease in short-term bank deposits	(259.9)	668.1	928.0	(357.1)%
Other	198.1	154.9	(43.2)	(21.8)%
<b>Cash used in investing activities</b>	<b>(4,810.8)</b>	<b>(254.0)</b>	<b>4,556.8</b>	<b>(94.7)%</b>
<b>Net cash used in financing activities</b>				
Proceeds from debt finance	7,542.0	4,354.8	(3,187.2)	(42.3)%
Repurchase of issued shares	(26.3)	—	26.3	(100.0)%
Repayment of debt finance	(3,685.8)	(5,420.8)	(1,735.0)	47.1%
Repayment under lease obligations	(25.0)	(30.7)	(5.7)	22.8%
Dividends paid	(1,346.5)	(116.1)	1,230.4	(91.4)%
Contributions of non-controlling interests	—	54.3	54.3	100%
Dividends to the Majority shareholder paid by acquired entity under common control	(34.0)	—	34.0	(100.0)%
<b>Cash from/(used in) financing activities</b>	<b>2,424.4</b>	<b>(1,158.5)</b>	<b>(3,582.9)</b>	<b>(147.8)%</b>
Effect of exchange rates on cash and cash equivalents	(17.2)	1.8	19.0	(110.5)%
<b>Net increase in cash and cash equivalents</b>	<b>1,030.3</b>	<b>200.5</b>	<b>(829.8)</b>	<b>(80.5)%</b>

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

Net cash from operating activities decreased by US\$1,822.7 million, or 53.1 percent, from US\$3,433.9 million in the year ended 31 December 2008 to a US\$1,611.2 million in the year ended 31 December 2009.

The decrease was primarily due to the decrease in profit before financing and taxation of US\$3,606.2 million due to the overall decrease in revenue as a result of the decrease in demand for steel products as a result of the global economic downturn, the decrease in impairment charges of US\$1,321.2 million and the decrease in the provision for inventories, receivables and other provisions of US\$857.4 million which were added back to profit for cash flow purposes.

The decrease in impairment charges of US\$1,321.2 million was due to the effect of significant impairments recorded in the year ended 31 December 2008 as a result of the impairment tests performed in respect of the Group's cash generating units due to the global economic downturn and the existence of impairment indicators.

The decrease in provisions for inventories, receivables and other provisions was primarily attributable to the significant release of inventories during the year ended 31 December 2009 in respect of which a provision was previously accrued at the end of the year ended 31 December 2008.

These factors were partially offset by the increase in cash inflow related to changes in operating assets and liabilities of US\$2,740.1 million due to a significant decrease in inventories, trade accounts receivable and amounts receivable from related parties and in VAT recoverable. These changes were primarily driven by a Group initiative to mitigate the impact of deteriorating global economic conditions by optimising the Group's working capital by renegotiating existing contracts with consumers and suppliers, decreasing inventory stock levels and an overall increase of working capital efficiency.

Net cash from operating activities was also affected by a US\$1,042.2 million decrease in income tax paid due to the decrease in taxable profit for the year ended 31 December 2009 compared to the year ended 31 December 2008.

The decrease in cash inflow from operating activities was also affected by the increase in interest paid of US\$189.0 million, which was attributable to significant debt financing raised during the second half of 2008, primarily for the acquisition of the North American assets.

Net cash used in investing activities decreased by US\$4,556.8 million, or 94.7 percent, from a net cash outflow of US\$4,810.8 million in the year ended 31 December 2008 to a net cash outflow of US\$254.0 million in the year ended 31 December 2009.

The decrease was primarily attributable to a decrease in capital expenditures of US\$1,099.2 million (as part of the Group's policy to reduce capital expenditures to US\$1.0 billion in 2009), and a decrease in net cash outflow for the acquisition of subsidiaries by US\$3,068.7 million, from a US\$3,068.7 million in the year ended 31 December 2008 to nil in the year ended 31 December 2009. This was driven by the suspension of the Group's M&A programme as a result of the global economic downturn.

The decrease in cash outflow on investing activities was also attributable to changes in short-term bank deposits of US\$928.0 million, from an increase of US\$259.9 million in the year ended 31 December 2008 to a decrease of US\$668.1 million in the year ended 31 December 2009. It was also due to the decrease in cash used for acquisitions of non-controlling interests in Celtic, OAO Dneprometiz (*Dneprometiz*), Severstal Columbus, Karelsky Okatysh and Severstal-Metiz.

The decrease in short-term bank deposits was mainly due to cash received from payments of deposits upon maturity and due to a decrease in the Group's available cash as a result of the decrease in revenue caused by the global economic downturn.

The decrease in cash used for acquisitions of non-controlling interests was due to the fact that in the year ended 31 December 2008 the Group acquired an additional stake in Celtic, Dneprometiz, Severstal Columbus, Karelsky Okatysh and Severstal-Metiz. In the year ended 31 December 2009, the Group's operations with non-controlling interests were limited to the acquisitions of additional stakes in Severstal Columbus and High River Gold.

The decrease in net cash used in investing activities was partially offset by the decrease in net cash inflow on disposals of subsidiaries of US\$666.7 million. The decrease was also due to a US\$25.4 million increase

in cash outflow related to additions to financial investments and associates net proceeds from disposal. The decrease in net cash inflow on disposal of subsidiaries relates to the disposal of the following subsidiaries in the year ended 31 December 2008: OOO Georesurs, OAO Mine Berezovskaya, OAO Mine Pervomaiskaya, ZAO Zhernovskaya-3, Relco Spzoo, Coimpex Spzoo and OAO Metallurgremont. The Group made no significant disposals of subsidiaries in the year ended 31 December 2009.

The increase in cash outflow on additions to financial investments and associates was mainly attributable to additional investments in the Group's associated companies OOO Stadco and Todlem S.L.

Net cash from financing activities decreased by US\$3,582.9 million, or 147.8 percent, from a net cash inflow of US\$2,424.4 million in the year ended 31 December 2008 to a net cash outflow of US\$1,158.5 million in the year ended 31 December 2009 driven by a decrease in proceeds from debt finance of US\$3,187.2 million and an increase in repayment of debt finance of US\$1,735.0 million. The decrease in proceeds from debt finance and increase in repayment of debt finance was primarily due to the continuing optimisation of the Group's credit portfolio and liquidity position, which is in line with the Group's de-leveraging and debt re-balancing strategy.

Net cash outflow from financing activities was partially offset by a decrease in dividends paid of US\$1,230.4 million reflecting the fact that dividends declared and paid for the year ended 31 December 2009 were significantly lower than dividends declared and paid for the year ended 31 December 2008.

Net cash outflow from financing activities was also offset by cash inflow from the contribution of a non-controlling interest of US\$54.3 million from the dilution of the Group's ownership in High River Gold.

Net cash outflow from financing activities was also affected by the change in dividends paid to the Majority Shareholder paid in connection with acquisition of ZAO Trade House Severstal-Invest (*TD Severstal-Invest*) from US\$34.0 million in the year ended 31 December 2008 to nil in the year ended 31 December 2009, and changes in the cash outflow related to the repurchase of issued shares from US\$26.3 million in the year ended 31 December 2008 to nil in the year ended 31 December 2009.

**For the years ended 31 December 2007 and 2008**

The following table sets forth the Group's consolidated cash flow for the years ended 31 December 2007 and 2008.

	Year ended 31 December		Year on year change	Year on year percent change
	2007	2008		
	(US\$ millions)			
<b>Net cash from operating activities</b>				
Profit before financing and taxation . . . . .	2,732.0	3,207.4	475.4	17.4%
Adjustments to reconcile profit to cash generated from operations . . . . .	888.8	2,701.9	1,813.1	204.0%
Changes in operating assets and liabilities . . . . .	(336.2)	(1,018.1)	(681.9)	202.8%
Interest paid . . . . .	(244.3)	(362.8)	(118.5)	48.5%
Income tax paid . . . . .	(804.2)	(1,094.5)	(290.3)	36.1%
<b>Net cash from operating activities . . . . .</b>	<b>2,236.1</b>	<b>3,433.9</b>	<b>1,197.8</b>	<b>53.6%</b>
<b>Net cash used in investing activities</b>				
Capital expenditures <sup>(1)</sup> . . . . .	(2,024.5)	(2,114.5)	(90.0)	4.4%
Net cash outflow on acquisitions of subsidiaries . . . . .	(643.3)	(3,068.7)	(2,425.4)	377.0%
Net cash inflow on disposals of subsidiaries . . . . .	236.0	671.7	435.7	184.6%
Acquisitions of non-controlling interests . . . . .	(316.9)	(219.6)	97.3	(30.7)%
Additions to financial investments and associates, net of proceeds on disposal . . . . .	(116.5)	(17.9)	98.6	(84.6)%
Net decrease/(increase) in short-term bank deposits . . . . .	580.7	(259.9)	(840.6)	(144.8)%
Other . . . . .	184.8	198.1	13.3	7.2%
<b>Cash used in investing activities . . . . .</b>	<b>(2,099.7)</b>	<b>(4,810.8)</b>	<b>(2,711.1)</b>	<b>129.1%</b>
<b>Net cash used in financing activities</b>				
Proceeds from debt finance . . . . .	3,677.6	7,542.0	3,864.4	105.1%
Repurchase of issued shares . . . . .	—	(26.3)	(26.3)	100%
Repayment of debt finance . . . . .	(3,277.3)	(3,685.8)	(408.5)	12.5%
Repayments under lease obligations . . . . .	(3.9)	(25.0)	(21.1)	541.0%
Dividends paid . . . . .	(736.2)	(1,346.5)	(610.3)	82.9%
Dividend to the Majority shareholder paid by the acquired entity under common control . . . . .	—	(34.0)	(34.0)	100%
<b>Cash (used in)/from financing activities . . . . .</b>	<b>(339.8)</b>	<b>2,424.4</b>	<b>2,764.2</b>	<b>(813.5)%</b>
Effect of exchange rates on cash and cash equivalents . . . . .	82.5	(17.2)	(99.7)	(120.8)%
<b>Net increase in cash and cash equivalents . . . . .</b>	<b>(120.9)</b>	<b>1,030.3</b>	<b>1,151.2</b>	<b>(952.2)%</b>

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

Net cash from operating activities increased by US\$1,197.8 million, or 53.6 percent, from US\$2,236.1 million in the year ended 31 December 2007 to US\$3,433.9 million in the year ended 31 December 2008. The increase was primarily attributable to the increase in profit before financing and taxation of US\$475.4 million and an increase in impairment charges of US\$1,511.4 million, an increase in the provision for inventories, receivables and other provisions of US\$483.9 million and the effect of negative goodwill of US\$280.1 million in the year ended 31 December 2008, which were added back to profit for cash flow purposes.

The increase in impairment charges was due to the effect of the significant impairment recorded in the year ended 31 December 2008 as a result of the impairment tests performed in respect of the Group's cash generating units due to the global economic downturn and the existence of impairment indicators.

The increase in the provision for inventories, receivables and other provisions was mainly attributable to the increase in inventory and accounts receivable provision due to a significant decrease in inventory

turnover, a decrease in sales prices for finished goods and financial difficulties of debtors resulting in breaches of contractual terms, all arising as a result of the global economic downturn in 2008.

The effect of negative goodwill in the year ended 31 December 2008 was mainly attributable to the acquisition of Sparrows Point and represents the difference between the purchase price and fair market value of the acquired assets.

Net cash from operating activities decreased due to the increase in cash outflow from changes in operating assets and liabilities of US\$681.9 million, which were mainly attributable to the significant increase in inventories, an increase in amounts receivable from related parties and a decrease in trade accounts payable balances. These factors were partially offset by a decrease in trade accounts receivable and a decrease in assets held for sale.

The increase in inventory was driven by a decrease in inventory turnover as a result of the significant deterioration in the global economy during the last quarter of 2008.

The decrease in trade accounts payable was partially offset by the decrease in trade accounts receivable, which was in line with normal settlement payments made and received by the Group from its counterparties.

Net cash from operating activities was also affected by a US\$408.8 million increase in interest paid and income tax paid. The increase in income tax paid was in line with the increase in taxable profit for the year ended 31 December 2008 as compared to the year ended 31 December 2007 and the increase in interest paid was in line with the increased financing in the year ended 31 December 2008 compared to the year ended 31 December 2007.

Net cash used in investing activities increased by US\$2,711.1 million or 129.1 percent, from US\$2,099.7 million in the year ended 31 December 2007 to US\$4,810.8 million in the year ended 31 December 2008.

The increase was primarily attributable to the net cash outflows made for the acquisitions of Sparrows Point, Severstal Warren, Severstal Wheeling, OAO StalMag, Redaelli Tecna SpA (*Redaelli*), TOO Semgeo (*Semgeo*) LLP, PBS Coals, High River Gold and African Iron Ore Group Ltd during the year ended 31 December 2008

The increase in cash outflow from investing activities was also driven by changes in short-term bank deposits of US\$840.6 million, from a decrease of US\$580.7 million in the year ended 31 December 2007 to an increase of US\$259.9 million in the year ended 31 December 2008, resulting from the increase in the Group's available cash received from debt financing for the purpose of the acquisition of subsidiaries discussed above, which was placed in various deposit accounts to generate interest income and improve the Group's liquidity position.

Net cash outflow from investing activities was partially offset by the increase in net cash inflow of US\$435.7 million from the disposal of OOO Georesurs, OAO Mine Berezovskaya, OAO Mine Pervomaiskaya, ZAO Zhernovskaya-3, Relco Spzoo, Coimpex Spzoo and OAO Metallurgremont during the year ended 31 December 2008, and the decrease in cash outflow on the acquisition of financial investments and associates of US\$98.6 million due to the decrease in financial investment balances attributable to a repayment of loans and notes.

The increase in net cash used in investing activities was also partially offset by the effect of the decrease in cash outflow from acquisitions of non-controlling interests of US\$97.3 million from US\$316.9 million in the year ended 31 December 2007 to US\$219.6 million in the year ended 31 December 2008. Significant cash outflow in the year ended 31 December 2007 was attributable to the acquisition of a non-controlling interest in Lucchini, Vorkutaugol, Karelsky Okatysh and Severgal. Cash outflow the year ended 31 December 2008 was mainly attributable to acquisitions of additional stakes in Celtic, Dneprometiz, Severstal Columbus, Karelsky Okatysh and Severstal-Metiz.

Net cash inflow from financing activities increased by US\$2,764.2 million from a net cash outflow of US\$339.8 million in the year ended 31 December 2007 to a net cash inflow of US\$2,424.4 million in the year ended 31 December 2008. The increase in the cash inflow from financing activities was primarily attributable to the cash proceeds from debt financing mainly raised for the purpose of the acquisitions made in 2008, including Sparrows Point, Severstal Warren, Severstal Wheeling, PBS Coals, High River



Gold and certain other subsidiaries. The increase in cash proceeds from debt financing was partially offset by an increase in the repayment of debt financing of US\$408.5 million, which was primarily driven by the repayment, upon maturity, of credit facilities taken out in 2006 and 2007, and an increase in dividends paid of US\$610.3 million.

Net cash inflow from financing activities was also offset by cash outflow on the repurchase of 2.5 million of the Company's shares for a total consideration of US\$26.3 million, dividends paid to the Majority Shareholder in connection with the acquisition of TD Severstal-Invest and an increase in lease repayments attributable to the increase of lease agreements that were mainly related to the acquired subsidiaries during the year ended 31 December 2008.

The effect of exchange rates resulted in an additional decrease in cash and cash equivalents in the year ended 31 December 2008 due to the depreciation of the rouble against the US dollar in the year ended 31 December 2008 as compared to the year ended 31 December 2007.

## INDEBTEDNESS

The following table sets out the Group's indebtedness as at 30 June 2010 and 31 December 2009:

	30 June 2010	31 December 2009
	(US\$ millions)	
Eurobonds 2013 <sup>(1)</sup>	1,250.0	1,250.0
Eurobonds 2014 <sup>(1)</sup>	375.0	375.0
Rouble bonds <sup>(1)</sup>	961.7	496.0
Severstal Columbus bonds <sup>(1)</sup>	525.0	—
Other issued notes and bonds <sup>(1)</sup>	24.7	31.8
Bank financing <sup>(1)</sup>	3,082.2	4,960.5
Factoring of receivables <sup>(1)</sup>	0.0	71.6
Other financing <sup>(1)</sup>	39.9	53.5
Accrued interest	123.2	102.3
Unamortised balance of transaction costs	(89.9)	(113.8)
<b>Total debt financing</b>	<b>6,291.8</b>	<b>7,226.9<sup>(2)</sup></b>

(1) Excludes accrued interest.

(2) As reflected in the statement of financial position of the Interim Financial Statements.

### Major Indebtedness

In February 2010, the Group issued an aggregate principal amount of US\$498.0 million rouble-denominated bonds maturing in 2013. These bonds bear an interest rate of 9.75 percent per annum, which is payable semi-annually in arrear in February and August each year, beginning in August 2010. The proceeds from the bonds issuance were used for the optimisation of the Group's credit portfolio and the refinancing of short-term loan facilities.

In February 2010, the Group's subsidiary Severstal Columbus issued in aggregate principal amount of US\$525.0 million US dollar-denominated bonds maturing in 2018. These bonds bear an interest rate of 10.25 percent per annum, which is payable semi-annually in arrear in February and August each year, beginning in August 2010. The proceeds from the bond issuance were used to refinance outstanding debt obligations originally incurred to finance construction at Severstal Columbus.

In September 2009, the Group issued in aggregate principal amount of US\$494.0 million rouble-denominated bonds with a two-year put option maturing in September 2012. These bonds bear an interest rate of 14.0 percent per annum, which is payable semi-annually in arrear in March and September of each year, beginning in March 2010. The proceeds from the bond issuance were used for the optimisation of the Group's credit portfolio and the refinancing of short-term loan facilities.

In September 2008, the Group entered into a PXF syndicated facility with mandated lead arrangers for a maximum principal amount of US\$2,500.0 million maturing in 2013, with the outstanding amount being

amortised from 2010 until the expiration date and bearing interest at LIBOR three months plus 2.35 percent. As at 30 June 2010, there was US\$1,040.0 million outstanding.

In July 2008, the Issuer issued US dollar-denominated loan participation notes in an aggregate principal amount of US\$1,250.0 million for the sole purpose of financing a loan facility between the Company and the Issuer. The loan is due in July 2013 and bears interest at an annual rate of 9.75 percent payable semi-annually in arrear in January and in July of each year.

The Group entered into a syndicated facility with the European Bank for Reconstruction and Development (**EBRD**) in December 2007 (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 bears interest at EURIBOR six month plus 2.0-2.2 percent. As at 30 June 2010, there was €518.2 million outstanding.

In April 2004, Citigroup Germany 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 Company 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 arrear in April and in October of each year. In 2008, Citigroup Germany assigned its role as issuer and lender under the notes to the Issuer.

Total debt was contractually repayable as at the following dates:

	30 June 2010	31 December 2009
	(US\$ millions)	
Less than one year . . . . .	988.9	1,478.3
Between one and five years . . . . .	4,667.4	5,602.9
After more than five years . . . . .	635.5	145.7
<b>Total debt financing . . . . .</b>	<b>6,291.8</b>	<b>7,226.9<sup>(1)</sup></b>

(1) As reflected in statements of financial position of the Interim Financial Statements.

### **Commitments and contingencies**

As at 30 June 2010, the Group had capital commitments of US\$1,467.0 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 30 June 2010, the Group had US\$72.7 million of guarantees issued compared to US\$43.5 million as at 31 December 2009.

### **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 Russian Steel, Severstal North America and Lucchini 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 30 June 2010 approximates the respective carrying amounts, except for the following borrowings:

	As at 30 June 2010		
	Market value	Book value	Difference
	(US\$ millions)		
Rouble bonds 2013 <sup>(1)</sup> . . . . .	502.2	480.9	21.3
Rouble bonds 2012 <sup>(1)</sup> . . . . .	522.6	480.8	41.8
Eurobonds 2013 <sup>(1)</sup> . . . . .	1,340.6	1,250.0	90.6
Eurobonds 2014 <sup>(1)</sup> . . . . .	393.8	375.0	18.8
	<u>2,759.2</u>	<u>2,586.7</u>	<u>172.5</u>

(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 Moscow Interbank Currency Exchange quotations.

### **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 2007, 2008 and 2009, see note 31 to the Annual Financial Statements beginning on page F-86 of this Prospectus.

### **Interest rate risk**

Interest rates on the Group's debt financing are either fixed or variable, at a fixed spread over LIBOR or Euribor for the duration of each contract. Changes in interest rates impact primary loans and borrowings by changing either their fair value, as with fixed rate debt, or their future cash flows, as with 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 additional debt financing, the Group uses its judgment to decide whether a fixed or variable rate would be more favourable over the expected term.

The following table sets forth the amount of variable rate instruments as at 30 June 2010:

	(US\$ millions)
<b>Variable rate instruments</b>	
Financial assets . . . . .	19.6
Financial liabilities . . . . .	(2,712.1)
	<u>(2,692.5)</u>

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 30 June 2010 would have increased (decreased) equity and annualised profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Net profit or loss	
	100 bp increase	100 bp decrease
	(US\$ millions)	
Variable rate instruments		
Financial assets . . . . .	0.2	(0.2)
Financial liabilities . . . . .	(21.7)	21.7
Cash flow sensitivity (net) . . . . .	(21.5)	21.5

## SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

### Significant accounting policies

The Group believes that its most significant accounting policies to be those described below.

#### *Basis of consolidation*

##### *Subsidiaries*

Subsidiaries are those enterprises controlled, directly or indirectly, by the 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 unrealised gains arising from intra-group transactions, are eliminated in preparing these 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, liabilities and contingent liabilities and the cost of acquisition. 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 negative goodwill 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 these 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 these 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 the cost of investment is recognised directly in equity.

#### ***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 arising on the acquisition of a subsidiary, associate or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or jointly controlled entity recognised at the date of acquisition. 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.

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.

Negative goodwill represents the excess of the Group's share in the fair value of acquired identifiable assets, liabilities and contingent liabilities over the cost of an acquisition. 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 the search for specific mineral resources are recognised as exploration and evaluation assets. The following expenditures comprise the cost of exploration and evaluation assets:

- acquisition of rights to explore;
- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and
- compiling pre-feasibility and feasibility studies.

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 them 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 a 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 gross margin.

#### ***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 caption “Cost of sales” 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 sale 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 on 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***

AFS 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 benefit 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; and
- 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 calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually by management using the projected unit credit method. In accordance with this method, the Group's net obligation is calculated separately for each defined benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value and the fair value of any plan assets is deducted. The discount rate used is the yield at the reporting date on high-quality corporate bonds for a respective country that have maturity dates approximating the terms of the Group's obligations. Any actuarial gain or loss arising from the calculation of the retirement benefit obligation is fully recognised in the current year's income statement.

Other long-term employee benefits include various compensations, non-monetary benefits and 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 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 unwinding of the decommissioning liability is included in the consolidated income statement as 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 subsequently 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.

### ***Net income from securities operations***

Net income from securities operations comprises dividend income (except for dividends from equity associates), 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 these consolidated financial statements.

### ***Discontinued operations***

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. 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 the intersegment elimination and are measured on the same basis as those in the consolidated financial statements, except for non-monetary investments in subsidiaries reported within long-term financial investments, which are translated into the presentation currency at the historic exchange rate.

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 and estimates***

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, expected rate of return on plan assets, etc.).

*Litigation*

The Group exercises judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigation 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 such 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.



## 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 a 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 has had to face 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 over the first half of 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.

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 2009, China was the largest single producer of steel in the world, producing approximately 567.8 million tonnes of crude steel, as well as the largest consumer of steel, consuming more than 542.4 million tonnes of finished steel. According to worldsteel China's steel production in 2009 increased 13.5 percent from 2008, accounting for 46.3 percent of global steel production. This represents an increase in the rate of growth from the 1.1 percent achieved in 2008, but represents a reduction in growth from the 17.1 percent in 2007 and 18.9 percent in 2006. The value of the global steel market was estimated to be US\$580 billion at the end of 2009, according to data from SBB and worldsteel. According to worldsteel, world crude steel output was 1,226.5 million tonnes in 2009, representing a decrease of 7.7 percent compared to output in 2008. The four largest steel producers in the world in 2009 were China (producing 567.8 million tonnes), Japan (producing 87.5 million tonnes), India (producing 62.8 million tonnes) and

Russia (producing 60.0 million tonnes). The following table sets forth estimated crude steel production data by country or region from 2006 to 2009:

<b>World Crude Steel Production</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
		(million tonnes)		
European Union (consisting of 27 countries) . . . . .	207.0	209.7	198.0	139.1
Other Europe . . . . .	28.2	30.6	31.8	28.8
CIS . . . . .	119.9	124.2	114.3	97.4
US . . . . .	98.6	98.1	91.4	58.2
North America (excluding the US) . . . . .	33.2	34.5	33.1	24.2
South America . . . . .	45.3	48.2	47.4	37.8
Middle East/Africa . . . . .	34.2	35.3	33.7	31.4
China . . . . .	422.7	494.9	500.3	567.8
Japan . . . . .	116.2	120.2	118.7	87.5
Asia (excluding China and Japan) . . . . .	137.0	147.4	152.0	121.0
India . . . . .	49.5	53.1	57.8	62.8
Brazil . . . . .	30.9	33.8	33.7	26.5
Oceania . . . . .	8.7	8.8	8.4	6.0
<b>World total . . . . .</b>	<b>1,251.2</b>	<b>1,351.3</b>	<b>1,329.0</b>	<b>1,226.5</b>
<i>Annual change (percent) . . . . .</i>	<i>9.1</i>	<i>8.0</i>	<i>(1.7)</i>	<i>(7.7)</i>

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 crude steel consumption data by country or region from 2006 to 2009.

<b>World Finished Steel Consumption</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
European Union (consisting of 27 countries) . . . . .	118.6	198.2	182.6	118.4
Other Europe . . . . .	21.7	23.0	20.8	13.4
CIS . . . . .	48.9	56.6	50.0	35.8
US . . . . .	119.6	108.0	97.5	57.4
NAFTA (excluding the US) . . . . .	35.3	32.5	31.6	23.5
South America . . . . .	36.8	41.6	44.3	33.6
Middle East/Africa . . . . .	58.3	66.2	68.3	67.1
China . . . . .	377.7	422.5	434.7	542.4
Japan . . . . .	79.0	81.2	78.0	53.2
Asia (excluding China and Japan) . . . . .	130.9	138.1	140.8	112.1
India . . . . .	45.6	49.5	52.6	55.9
Oceania . . . . .	7.9	8.4	8.5	6.1
<b>World total . . . . .</b>	<b>1,143.2</b>	<b>1,220.8</b>	<b>1,201.9</b>	<b>1,121.2</b>
<i>Annual change (percent) . . . . .</i>	<i>9.6</i>	<i>6.8</i>	<i>(1.5)</i>	<i>(6.7)</i>

Source: worldsteel

According to worldsteel, world finished steel consumption was 1,121.2 million tonnes in 2009, representing a decrease of 6.7 percent compared to output in 2008. All major steel consuming countries demonstrated significant declines in steel consumption, except for China and India, which achieved a 24.8 and 6.3 percent steel consumption growth rates in 2009 compared to 2008, respectively. 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 2009. In 2007, Indian steelmaker Tata Steel purchased a 100.0 percent stake in the Corus group. During the period from 2007 to 2010 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 and the Group acquired control over Severstal Wheeling, Severstal Warren and Sparrows Point mills. There is also an ongoing consolidation of the Chinese steel industry, led by Baosteel, Hebei Steel, Wuhan Steel and Shandong Steel Groups.

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. In 2009, the five largest producers—ArcelorMittal (77.5 million tonnes); Baosteel (31.3 million tonnes); POSCO (31.1 million tonnes); Nippon Steel (26.5 million tonnes); and JFE (25.8 million tonnes)—accounted for approximately 15.7 percent of total worldwide steel production, with ArcelorMittal, the largest, accounting for 6.3 percent. The 20 largest steel producers accounted for approximately 33.9 percent of total global steel production in 2009.

### **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 2009
	(thousand of tonnes)
Estimated worldwide production . . . . .	1,1226.5
<i>Including:</i>	
—ArcelorMittal . . . . .	77.5
—POSCO . . . . .	31.1
—Nippon Steel Corporation . . . . .	26.5
—JFE Steel Corporation . . . . .	25.8

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 Ruble 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, and the production of steel in 2009 decreased by approximately 12.4 percent, in response to the global economic downturn.

**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 amounted only to 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 2009, Russia ranked as the world's fourth largest producer of steel, producing 60.0 million tonnes of steel, or approximately 4.9 percent of global production. 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 Ruble 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 24.7 million tonnes, according to worldsteel.

**Export market.** Asia, the Middle East and the EU are the primary export destinations for Russian steel producers. In 2009, Russian producers exported 26.6 million tonnes of semi-finished and finished steel products, according to the Federal Customs Service.

### 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.

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 use 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 routes.

*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. India is another large producer which has rapidly increased its role in the global iron ore market, with an 80.0 percent increase in iron ore output from 2005 to 2009.



The dominance of the major producers in the market has led to significant changes recently. 2008 was a very strong year in terms of pricing, with iron ore spot prices rising well above the established contract prices. However, as a result of previously established price contracts, global iron ore producers were inhibited from realising higher profits as a result. In response to this, the major producers have established a new quarterly pricing mechanism based on the spot price over 3 previous months.

The following table sets forth iron ore production by country or region from 2005 to 2009:

<b>Iron ore production</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
China . . . . .	426.2	588.2	682.5	824.0	880.2
Brazil . . . . .	292.4	318.6	336.5	346.0	299.8
Australia . . . . .	257.5	275.1	299.1	349.8	393.9
CIS . . . . .	180.2	194.2	202.1	190.4	176.4
India . . . . .	142.7	180.9	206.9	223.0	257.4
US . . . . .	54.3	53.0	52.4	53.6	26.5
South Africa . . . . .	39.5	41.3	41.6	49.0	55.4
European Union (consisting of 27 countries) . . . . .	26.0	26.2	27.6	26.5	19.5
Other Europe . . . . .	7.4	7.8	6.7	7.5	7.5
South America (excluding Brazil) . . . . .	36.7	38.5	37.3	38.3	31.4
North America (excluding US) . . . . .	43.1	44.0	42.4	45.2	44.2
<b>World Total . . . . .</b>	<b>1,548.1</b>	<b>1,814.7</b>	<b>1,992.8</b>	<b>2,223.5</b>	<b>2,267.6</b>
<i>Annual Change (percent) . . . . .</i>	<i>14.1</i>	<i>17.2</i>	<i>9.8</i>	<i>11.6</i>	<i>2.0</i>

Source: AME

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. China has experienced the highest growth in steel consumption, with an increase in demand of more than 56.1 percent from 347.5 million tonnes in 2005 to 542.4 million tonnes in 2009.

The major exporting countries of iron ore globally include Australia, Brazil and India, and the major importers are major steel producing countries: China, Japan, South Korea, and Germany.

**Russian market.** According to worldsteel, total iron ore production in Russia in 2009 was approximately 91.3 million tonnes. Total iron ore exports were approximately 20.3 million tonnes, and total imports were approximately 3.3 million tonnes. 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 iron ore production is highly concentrated, and the four largest producers accounted for approximately 58.8 percent of total iron ore production in Russia between 2008 and 2009. 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 Korshunovskiy GOK, during 2004, Evraz acquired control over KGOK, NLMK acquired control over Stoyleny GOK, and Ural Steel acquired control over Mikhailovskiy GOK. 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 2009, Russia exported 97.1 million tonnes of coal, of which approximately 12.9 percent was steam coal and the balance was coking coal, according to AME. Approximately 68.0 percent of Russia's coking coal production capacity was owned by or affiliated with Russian steel producers in 2009, according to Metal Expert.

Coal production in Russia is concentrated in the Kuznetsk Basin and the Kansk-Achinskii Basin, which are east of the Ural Mountains, and together 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 50.0 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.

*Producers.* The following table presents the largest Russian coking coal producers in 2009:

<u>Company</u>	<u>Production</u> (million tonnes)	<u>Share in total production</u> (percent)
Raspadskaya . . . . .	7.8	17
Evrast . . . . .	7.4	17
Sibuglemet . . . . .	6.5	14
Mechel . . . . .	6.1	14
<b>Severstal . . . . .</b>	<b>4.1</b>	<b>9</b>
Belon . . . . .	3.2	7
PMH . . . . .	2.5	6
SDS-Holdinh . . . . .	2.0	4
Kuzbassrazrezugol . . . . .	1.2	3
Others . . . . .	3.9	1
Totals . . . . .	44.7	8

Source: RASMIN

**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 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 and the Putu Range iron ore project have been developed under the guidelines of National Instrument 43-101, which is standard of public disclosure of information relating to mineral properties in Canada and essentially similar to Australasian JORC standard. Reports for the PBS Coals and Putu Range project have been prepared by John T. Boyd Company and SRK Consulting, respectively. 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.

## BUSINESS

### 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 ninth largest producer of crude steel in 2009, by volume of production. The Group is a full production cycle operation which includes iron ore, coal and gold mining enterprises, scrap collection, steel mills and rolled product plants as well as 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, including Ukraine, Kazakhstan, Burkina Faso and Guinea. With a focus on high value added products in attractive niche markets and a track record of acquiring and integrating assets in Russia and other countries, the Group's corporate strategy is to improve its position as a leading global steel company in terms of profitability, with a vertically integrated and low-cost business structure.

The Group comprises three business divisions: Russian Steel Division, Severstal International (primarily North America) and Severstal Resources (including Severstal's gold business).

**Russian Steel Division.** In 2009, the Russian Steel Division produced approximately 16.0 percent of total Russian crude steel production, accounting for 47.0 percent of the Group's total revenues. According to calculations by the Group's management based on data provided by Chermets, the Russian Steel Division was the fourth largest producer of crude steel products in Russia by volume of production in 2009. The Russian Steel Division 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, as well as at a number of its workshops, among which are high-grade automotive galvanising facilities at Severskiy and Rolling Mill 5000, as well as at SMZ-Kolpino. These facilities jointly constitute the full production cycle, from the creation of crude steel to production of high value-added products such as large diameter pipes for the oil and gas industry or coated flat products for the automotive industry. The Russian Steel Division produced 9.5 million tonnes of crude steel in 2009 and had total steelmaking capacity of 11.1 million tonnes of crude steel per year as at 31 December 2009.
- Pipes production is carried out at the Izhora Pipe Mill, a large diameter pipe mill. With a total pipemaking capacity of 480 thousand tonnes as at 31 December 2009, the Izhora Pipe Mill produced 267.9 thousand tonnes in 2009.
- Metalware production consists of Severstal-Metiz's wire drawing and metalware manufacturing businesses in Russia, Ukraine and Italy, with total sales of 683.0 thousand tonnes in 2009. According to the Association of Metalware Producers of Russia and the Association of Metalware Producers of Ukraine, the Group's metalware production represented approximately 38.2 percent of domestic Russian metalware production and approximately 38.3 percent of Ukrainian metalware production, respectively, in 2009.
- 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 both in the Russian Federation 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 currently composed primarily of Severstal North America, along with a minority stake in Lucchini (see "*—Severstal International—Discontinued Operations—Lucchini*").

- Severstal North America is comprised of Dearborn, Severstal Columbus, Sparrows Point, Severstal Warren, Severstal Wheeling, MSC and holding companies—Severstal US Holdings LLC and Severstal US Holdings II LLC (formerly known as Severstal Wheeling Holding Company). According to the Group's estimates these companies comprised the third largest steelmaking company in the United States in 2009. Severstal North America produces high quality flat-rolled products and has 12.0 million tonnes of annual crude steel making capacity, 11.9 million tonnes of hot-rolled sheet, 4.9 million tonnes of cold-rolled sheet, 2.9 million tonnes of galvanised sheet and 0.7 million tonnes of



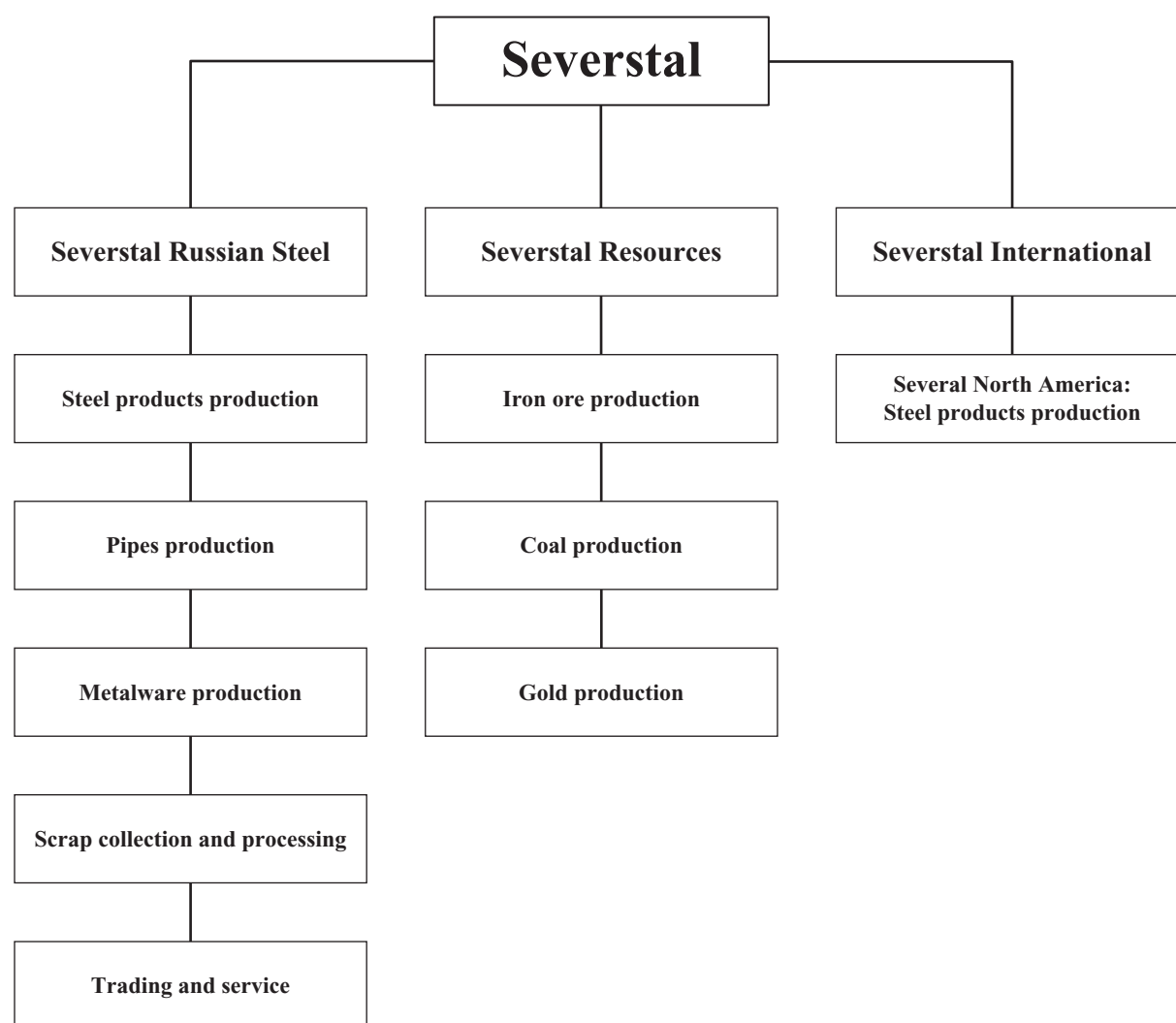
tin plate capacity. In 2009, Severstal North America produced 5.5 million tonnes of slabs and shipped 5.3 million tonnes of steel products.

**Severstal Resources.** Severstal Resources comprises the following: iron ore production, coal production and gold production, as well as a smaller ferroniobium mining operation.

- The Group's iron ore business is comprised of two iron ore extracting complexes: Karelsky Okatysh, which produces iron ore pellets, and Olkon, which produces iron ore concentrate, as well as two iron ore projects in Africa: 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 the Group's equity investment in Core Mining, which controls exploration licenses for the Avima iron ore deposit in the Republic of Congo and the Kango iron ore deposit in the Republic of Gabon.
- The Group's coal business comprises Vorkutaugol and PBS Coals. Vorkutaugol comprises five longwall mines, an open pit mine and three washing plants. It extracts both coking and steam coal, and is located in the European north of Russia. PBS Coals operates open mines and deep room and pillar mines in the United States. It extracts coking and steam coal, and produces coking coal concentrate.
- The Group's gold business comprises the Group's gold mining assets recently consolidated under NordGold, Severstal's gold mining subsidiary. NordGold includes eight producing mines, two development projects, five advanced exploration projects and a broad portfolio of early exploration projects and licensees located across West Africa in Guinea and Burkina Faso, Kazakhstan and Russia. On 4 October 2010, the Company issued a press release noting some media speculation with regard to a possible IPO of its gold business. Whilst the Company does not comment on speculation, it repeated its previous statements that an IPO for the gold business is an option under consideration.

Severstal Resources was one of the largest producers of hard coking coal and iron ore pellets in Russia in 2009, according to Rasmin and Rudprom, respectively. With the capacity to supply almost all of the current iron ore and a substantial majority of the hard coking coal needs of the Russian Steel Division, 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 a total iron ore output of 40 million tonnes of iron ore and ROM output of 13.5 million tonnes of coal in 2009. Severstal Resources estimates that, as at 31 December 2009, it had iron ore reserves and resources of approximately 628.2 million tonnes and 2,670.6 million tonnes, respectively, and coal reserves and resources of approximately 318.0 million tonnes and 222.8 million tonnes, respectively.

### 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, increasing its interest to 100.0 percent in March of 2010 before selling 50.8 percent of its interest in June of this year to the Group's Majority Shareholder. See “—*Severstal International—Discontinued Operations—Lucchini*”.

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.

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 2009 the Group consolidated all of its gold mining assets under NordGold. In 2010, the Group acquired 93.4 percent in Crew Gold. In addition, the Group is considering relatively small-scale acquisitions in raw materials space in the United States to complement its existing asset portfolio. The Company is the ultimate parent company of the Group.

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.

##### **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.

Severstal Resources was one of the largest producers of hard coking coal and iron ore pellets in Russia in 2009, according to Rasmin and Rudprom, respectively. Currently, Severstal Resources has the capacity and product mix to provide almost all of the iron ore and the substantial majority of hard coking coal requirements of the Russian Steel Division’s steel operations. In 2009, the Russian Steel Division’s steel operations procured approximately 80.0 percent and 70.0 percent of its iron ore and coking coal requirements from Severstal Resources, respectively. 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 deposits of iron ore and coal are significant, with estimated mine lives extending several decades. The Group considers mining to be one of its core businesses.

The Group’s North American business units source the majority of their 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 long term contracts with Cliffs Natural Resources for the supply of iron ore to Severstal Warren and Dearborn until the years 2014 and 2022, respectively. Severstal North America also sources a portion of its coal needs through its sister company PBS Coals, located in Somerset, Pennsylvania, and intends to increase this portion as PBS Coals expands its production capacity. Additionally, the North American business units also have long-term contracts in place for coking coal as well as one of the largest coking plants in North America to support blast furnace operations. The balance of its requirements 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. 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 transportation, given the proximity of its production facilities to producers of raw materials in that region, 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 production and negotiating 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 capital expenditures in upgrading its facilities to increase productivity and improve energy efficiency, as well as optimising the size of its labour force. For example, in 2009 the Group's largest steel production facility, located in Cherepovets, was estimated to be approximately 59.0 percent self-sufficient in terms of its own generation and consumption of electricity, and the Group plans to further increase the plant's level of energy self-sufficiency. In addition, the Group pursued effective cost management policies in 2009, resulting in a reduction in general and administrative costs by 28.4 percent compared to 2008. 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, including Ukraine, Kazakhstan, Burkina Faso and Guinea. 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 Kazakhstan and Africa. The Group's largest steel production facility, located in Cherepovets in northwest Russia, provides it with the ability to access the Russian, CIS and Eastern European steel markets. Furthermore, the Group believes that, as a result of its presence in Europe and the United States, it also benefits from greater access to the technologically advanced European and 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, as well as its facilities in the United States and Africa, aimed at expanding production and achieving operational efficiencies. In 2008 and 2009, the Group's capital expenditure at its three business divisions amounted to approximately US\$3.1 billion. As at 30 June 2010, the Group had capital expenditures of US\$523.8 million, excluding Lucchini. 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 an additional US\$6.4 billion excluding maintenance capital expenditures, from 2010 to 2014 as part of its continuing capital expenditure programme, with current investment priorities focused on facilitating the brownfield 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, particularly the construction sector, aided by the Balakovo project and new galvanising and organic coating lines. The capital expenditure programme includes investments in the Severstal North America Dearborn facility, where the completion of a new PLTCM line is expected to result in a reduction in costs and improvements in energy efficiency, while also upgrading product quality and yields. Investments in Severstal Columbus are expected to double its production capacity by 2012, reduce costs and increase 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 to 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, for example, the introduction of PCI technology into blast furnace "C" at the Dearborn facility in connection with the rebuild of that blast furnace in 2007. In addition, aggregate annual capital expenditure on maintenance for the Group is expected to be approximately US\$450 million in 2010, and is expected to gradually increase to approximately US\$650 million in 2014 (provided that the Group undertakes the expansion projects contemplated by the current business plan). 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. 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 of the Cherepovets Steel Mill in recent years and cost reduction achievements across the divisions.

### **Strong Corporate Governance**

The Group seeks to adhere to international corporate governance standards. In addition to half of its board of directors, including the chairman, being independent, according to UK standards of independence, 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 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\$500.0 million and any transaction with a value of more than 10.0 percent of the book value of the Company's assets. All transactions with its affiliates are appropriately approved by the Board of Directors within their authority.

### **STRATEGY**

The Group's corporate strategy is to build upon and improve its position as a leading global steel company in terms of profitability, with a vertically-integrated, low-cost business structure. To successfully implement this strategy, the Group intends to do the following:

#### **Increase Production of High-Demand Steel Products in Russia**

The Group views the Russian market for steel products as providing significant growth potential. Accordingly, the Group plans to continue to invest in its production facilities in Russia in order to increase production capacity, particularly of long products, pipes, sections and other products used in the construction and infrastructure industries, where the Group expects demand to grow in the long term. In line with this strategy, starting from June 2010, the Group has started operating TPZ-Sheksna in test mode. TPZ-Sheksna is located close to the Group's main Russian steelmaking facilities in Cherepovets and is capable of producing 250 thousand tonnes per year of electric-welded pipes and other profiles. These facilities focus on supplying the growing automotive industry in that region. The Group is also constructing the Balakovo mini-mill in central Russia, with an expected capacity of one million tonnes per year upon completion in 2013. The Balakovo mini-mill is expected to produce long products for the construction and infrastructure industries. The plant's location is well-located logistically to benefit from local scrap supplies and to serve the growing steel markets of the Volga region. The Group is planning to construct a new galvanising line and two new colour-coating lines in 2012 and 2013, intended to provide primarily construction-related products.

The Group plans to continue to focus on providing a high standard of customer service, including the customisation of products, supply of premium quality products and just-in-time deliveries through its own distribution network, with a view of differentiating itself from other producers in Russia. To this end, the Group plans to leverage its North American logistical, sales and marketing experience.

#### **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 coal production as well as its other mining operations. The Group plans to significantly expand 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. The Group is planning to expand its coking



coal and iron ore production through brownfield projects in Russia (such as Karelsky Okatysh and Vorkutaugol) and its coking coal production in the United States. The Group is also pursuing two major greenfield projects: the exploration and development license for the Tsentralnyi field in the Republic of Tyva, Russia, and the Putu Range project in Liberia. The Group also plans to expand its non-steel-related mining businesses and other high-margin commodities. The Group is developing a number of gold mining operations in Russia and in West Africa. The Group intends to continue stringent cost control and productivity improvements at its Russian mining facilities. See “—*Severstal Resources*”.

### **Modernise, Restructure and Bring to Sustainable Profitability Operations in the United States**

Following the expansion of the Severstal International division, with the acquisition of Sparrows Point, Severstal Wheeling and Severstal Warren in 2008, and the sale of its Northern Steel Group assets in May 2010, 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 by the beginning of 2012, 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, Dearborn is expected to benefit from its long-term contract with Cliffs Natural Resources. In addition, investments in the pickling line and tandem cold mill in Dearborn is expected to further improve its cost position and enable it to produce advanced automotive steels. The Group’s management believes that this will make Dearborn one of the principal suppliers of high-quality flat products in North America. Each of Sparrows Point, Severstal Wheeling and Severstal Warren are expected to focus on continuous cost optimisation and restructuring to achieve sustainable profitability levels.

### **Pursue Low-Cost Steel Production**

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). The Group believes that this 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 Group’s capital expenditure programme includes various projects to improve operational efficiencies and to reduce raw material consumption, such as a reduction in the silicon content in hot metal, increasing the tundish ladle lifetime, excluding desulphurisation in the strip production process, optimising the BOF charge (varying hot metal and scrap consumption, using low-price scrap), optimising the consumption of ferro-alloys and decreasing the cost of repairs at the Cherepovets Steel Mill. The Group aims to expand its mining operations to target at least 70.0 to 80.0 percent self-sufficiency in coking coal and iron ore globally. The Group also plans to continue to focus on optimising the size of its labour force, particularly in Russia, while seeking to maintain its relationships with labour unions.

### **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 to include steel operations in North America and Europe and a number of different businesses, including companies engaged in the mining of iron ore, coal, gold 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, the Russian Steel Division, 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 OAO Kuzbassugol, a coal-mining company that includes the Pervomayskaya Mine and the Berezovskaya Mine (*Kuzbassugol*).
- 2004** The Group acquires substantially all the assets of Rouge Steel, forming the business formerly called Severstal North America and now called 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 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.
- The Group completes the construction of a of colour-coated steel production facility on the Cherepovets site.
- 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** SeverCorr 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 sold Lucchini Sidermeccanica to members of the founding Lucchini family.
- The Group commences development of the first of two mini-mills 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 African Iron Ore Group Ltd (later renamed Severstal Liberia Iron Ore Ltd.).
- The Group acquires WCI (later renamed Severstal Warren) based in Ohio.
- The Group acquires PBS Coals, a coking coal producer located in Pennsylvania.
- The Group acquires Esmark Incorporated (later renamed Severstal Wheeling) located in West Virginia.
- The Group acquires Sparrows Point based in Maryland.
- The Group acquires a 100.0 percent stakes in 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.
- Severstal North America acquires 100.0 percent of MSC.
- The Group acquires 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 a 26.6 percent stake in Crew Gold, which operates the LEFA gold mine in Guinea.
- The Group acquires 20.8 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 “—*Severstal International—Discontinued Operations—Lucchini*”.
- The Group acquires of new shares in Core Mining, an iron ore deposit in Congo.
- The Group starts operating TPZ-Sheksna in test mode.
- The Group increases its interest in High River Gold to 70.4 percent.
- Through a series of transactions, the Group brings its total interest in Crew Gold to 93.4 percent.

## Employees

The following table sets forth the average number of the Group's employees (full-time equivalents) by business division in 2008 and 2009:

<b>Business division</b>	<b>2008</b>	<b>2009</b>
Russian Steel Division . . . . .	61,189	50,848
North America <sup>(1)</sup> . . . . .	6,453	5,827
Severstal Resources <sup>(2)</sup> . . . . .	31,430	27,735
<b>Total</b> . . . . .	<b>91,682</b>	<b>84,410</b>

Notes:

(1) Excludes employees at Severstal Columbus and at Sparrows Point, which was acquired in 2008.

(2) Includes employees at Kuzbassugol, which was disposed of in 2008.

### **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.

### **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 internal controls 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**

#### **Crew Gold**

From July to September 2010, the Group acquired additional stakes in Crew Gold, increasing its ownership to 93.4 percent. Crew Gold is a mining company headquartered in London, and listed on the Toronto Stock Exchange and the Oslo Stock Exchange. Crew Gold owns and operates a gold mining project in Guinea, West Africa.

#### **Sacre-Coeur Minerals, Ltd.**

In September 2010, the Group acquired, through NordGold, a 19.7 percent stake of SCM. 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.

#### **Intex Resources ASA**

In September 2010, the Group acquired a 21.7 percent stake in Intex Resources. Intex Resources is a public mining and exploration company listed on the Oslo Stock Exchange with its headquarters in Oslo, Norway. Intex Resources' main asset is the Mindoro Nickel Project, a substantial nickel laterite deposit in the Philippines. In addition, Intex Resources has two molybdenum assets in Norway, as well as Maniitsoq, a diamond province in Greenland.

#### **Iron Mineral Beneficiation Services (Proprietary) Limited**

In the third quarter of 2010, the Group completed the acquisition of a 25.6 percent stake in IMBS, 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. As a part of the transaction, the Group acquired a 51.0 percent stake in

IIBG, a newly formed company that has an exclusive license to commercialise the technology worldwide (outside of South Africa and neighbouring countries).

### **Potential Mining “Greenfield Projects” and Acquisitions**

The Group also plans to expand its mining operations by actively participating in “greenfield” projects in Russia and neighbouring countries. The Group has been authorised to receive and is in the process of obtaining a license for further exploration and coal extraction at the Tsentralnyi field in the western part of the Ulug-Khemskey basin in the Tyva Republic, Russia. This license has been granted by Rosnedra, the Federal Agency of Subsoil Use. See “—Strategy—Expanding Mining Business Globally.”

### **RUSSIAN STEEL DIVISION**

In 2009, the Russian Steel Division produced approximately 16.0 percent of total Russian crude steel production, accounting for 47.0 percent of the Group’s total revenues. According to calculations by the Group’s management based on data provided by Chermet, the Russian Steel Division was the fourth largest producer of crude steel products in Russia by volume of production in 2009. The Russian Steel Division comprises: (i) steel product production which consists primarily of steel production facilities 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 at SMZ-Kolpino, with total steelmaking capacity of 11.1 million tonnes of crude steel per year as at 31 December 2009; (ii) metalware production with its wire drawing and metalware manufacturing business at several production facilities in Russia and abroad, with a total estimated metalware production capacity of more than 1.5 million tonnes per year as at 31 December 2009 and with over 55 thousand different product types; (iii) pipes production at the Izhora Pipe Mill, a large-diameter pipe mill with total pipemaking capacity of 480 thousand tonnes as at 31 December 2009; (iv) scrap collection and processing consisting of Russian Steel Division’s scrap collection and processing companies; and (v) trading and services companies with various supporting functions for trading, maintenance and transportation.

The Russian Steel Division’s primary steel production facilities are the Cherepovets Steel Mill, located in Cherepovets, in northwest Russia, approximately 600 kilometres from Moscow and approximately 450 kilometres from St. Petersburg. The Russian Steel Division 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 the Russian Steel Division strategic proximity to river ports and railways, providing logistically favourable access to raw material sources and customers.

## Facilities

The following table sets forth the Russian Steel Division's major current production capacity and equipment by unit as at 30 June 2010.

### *Steel Production Facilities, Russian Steel Division—Capacity*

	As at 30 June 2010	
	Equipment	Capacity (million tonnes per year)
<b>Russian Steel Division</b>		
<b>Cherepovets Steel Mill</b>		
Coking plant . . . . .	7 batteries	3.9
Sintering plant . . . . .	8 machines	8.7
Blast furnace facilities . . . . .	5 furnaces	8.8
Basic oxygen furnaces . . . . .	3 furnaces	9.3
EAFs . . . . .	2 furnaces	2.1
Continuous casters . . . . .	7 casters	12.1
Hot-rolling mills . . . . .	3 mills	9.5
<i>Of which finished products</i> . . . . .		5.8
Cold-rolling mills . . . . .	2 mills	2.8
<i>Of which finished products</i> . . . . .		1.5
Continuous pickling lines . . . . .	3 lines	3.2
Hot-dip galvanising lines . . . . .	2 lines	0.6
Section rolling mills . . . . .	3 mills	2.6
Cold roll-forming lines . . . . .	1 line	0.2
Pipe rolling mills . . . . .	7 mills	0.3
Automotive grade galvanising line (Severgal) . . . . .	1 line	0.4
<b>SMZ-Kolpino</b>		
Welded I-beam area . . . . .	1 line	0.01
Rolled products plasma cutting . . . . .	4 machines	0.015
Flat-rolled products processing area (shot blasting, prime coating) . . . . .	1 line	0.04
<b>TPZ-Sheksna</b>		
Slitting line . . . . .	1 line	0.25
Electric pipe-welding line . . . . .	1 line	0.25
<b>Izhora Pipe Mill</b>		
Pipe mill . . . . .	1 line	0.6
<b>Metalware</b>		
Metalware . . . . .	N/A	1.5

**Cherepovets Steel Mill.** The Cherepovets Steel Mill produces almost all of the Russian Steel Division's crude steel. The facilities' total production capacity is 11.1 million tonnes of crude steel per year, as at 31 December 2009.

The Russian Steel Division's steel production facilities at the Cherepovets Steel Mill are fully integrated, occupying approximately 30 square kilometres, with coking, sintering, blast furnaces, steel making, casting and hot- and cold-rolling facilities.

The hot phase at the Cherepovets Steel Mill consists of a coking facility; a sintering facility; five blast furnaces; three oxygen converters; two vacuum degassers; two EAFs; seven continuous casting lines; a continuous billet mill; two hot strip mills and a heavy plate mill (Rolling Mill 5000). The cold phase at the Cherepovets Steel Mill consists of three continuous pickling lines, two cold rolling mills and annealing facilities, two tempering mills, two lines for dynamo steel, two galvanising lines, two cold profile tending lines, one colour coating line, six pipe rolling mills and an automotive grade galvanising line in the Severgal workshop.

*Coking facility.* The coal charge coking process involves heating a charge up to approximately 1000°C to 1100°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 3 coking plants (Coking Plant 1, Coking Plant with coking batteries 5 and 6 and Coking Plant 2). Coking Plant 1 consists of two coking batteries, No. 3 and No. 4, with a capacity of 460 thousand and 420 thousand tonnes of coke per year, respectively. Each battery has 61 ovens with capacity of 21.6m<sup>3</sup> each and 77 ovens with capacity of 29.8m<sup>3</sup> each. Coking batteries No. 5 and No. 6 have paired flues systems, each with a capacity of 660 thousand tonnes. Coking Plant 2 consists of coking batteries No. 8 and No.10, equipped with paired flues systems, and with a capacity of 590 thousand tonnes each. In addition, every battery has 65 ovens with capacity of 32.3m<sup>3</sup> each.

*Sintering facility.* 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 basicity (CaO/SiO<sub>2</sub>) of flux sinter is set according to the needs of the blast furnace process.

*Blast furnace facilities.* There are five blast furnaces at the Cherepovets Steel Mill, with an estimated current combined capacity of 8.8 million tonnes per year. Blast Furnace 5 was fully refurbished in October 2006 and has a capacity of 4.2 million tonnes per year. Blast Furnace 4, which recommenced operation in December 2005 after refurbishment and recommissioning, has an installed capacity of 2.3 million tonnes per year. Blast Furnaces 1 and 2, the oldest furnaces, have an installed capacity of 1.1 and 1.2 million tonnes, respectively, per year. Blast Furnace 3 is currently undergoing reconstruction to increase its capacity and efficiency, and is not expected to be completed before 2015.

*BOFs and EAFs.* Crude steel is produced 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 2.1 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. Three of the casters have a capacity of 1.75 million tonnes per year, and the fourth has a capacity of 2.2 million tonnes per year. One of the 2-strand curve-type casters can produce slab sections with a vertical section of 250 to 315 mm by 1020 to 2000 mm, and has a capacity of 2.5 million tonnes per year.

The EAF shop has one 2-strand vertical slab caster, capable of casting slabs with sections of 150 to 200 mm by 100 to 1580 mm, with a production capacity of 1.0 million tonnes per year, and one 6-strand radial billet caster, casting billets into square sections from 100 mm<sup>2</sup> to 150 mm<sup>2</sup>, with a production capacity of 1.1 million tonnes per year.

*Hot-rolling mills.* The Cherepovets Steel Mill's hot-rolling mills consist of three hot-rolling shops, with a combined capacity of 9.5 million tonnes per year, taking into account the shop's production layout.

Hot-rolling Shop 1 is equipped with two combined semi-continuous mills. Mill 2800, which has a capacity of 566 thousand tonnes per year, produces thick plates with a thickness of 6.35 to 50 mm, which serve as feedstock for Mill 1700, which has a capacity of 1.4 million tonnes per year. Mill 1700 produces sheet with a thickness of 0.8 to 8 mm and is equipped with four coilers, with a capacity of 2.0 million tonnes per year.

Hot-rolling Shop 2 is equipped with Mill 2000, a continuous wide-sheet mill with a capacity of 6.0 million tonnes per year and includes four reheating furnaces and length and width-cutting machines. Mill 2000 is operated on a fully-automated basis and produces sheet with a thickness of 1.2 to 16 mm.

Hot-rolling Shop 3 is equipped with Rolling Mill 5000, a heavy plate mill located in Kolpino. Rolling Mill 5000 produces wide quarto plate for shipbuilding, and strips for pipe manufacturing, including feedstock for the Izhora Pipe Mill. Rolling Mill 5000 has a capacity of 850 thousand tonnes per year.



**Cold-rolling mills.** The Cherepovets Steel Mill has two cold-rolling mills, with a combined capacity of 2.8 million tonnes per year, including 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, a set of 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 3.2 million tonnes per year, and two hot-dip galvanising lines with zinc and aluminized coating, with a combined capacity of 600 thousand tonnes per year.

**Section rolling mills.** The Cherepovets Steel Mill has three section rolling mills: a medium-section Mill 350, with a capacity of 1.0 million tonnes per year; a small-section Mill 250, with a capacity of 504 thousand tonnes per year; thermo-strengthening equipment; and a wire rod Mill 150, with a capacity of 850 thousand tonnes per year.

**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).** Incorporated as a shop within the Cherepovets Steel Mill, 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, and Volkswagen in Kaluga.

**Izhora Pipe Mill.** The Izhora Pipe Mill in Kolpino produces electric longitudinal welded pipes with a designed diameter of 610 mm, and that 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 a production capacity of 480.0 thousand tonnes of pipe per year.

**SMZ-Kolpino.** SMZ-Kolpino applies the priming coat of paint on sheets for shipbuilding, provides half-finished products for machinery and manufactures 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 rolled metal products preservation line (produced by the PME-Group, Finland), which uses 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 conducts sheet metal plasma cutting, including for manufacturing welded structures.

**TPZ-Sheksna.** The Group has invested more than US\$100 million into this project, and the plant started operating in test mode in June 2010. Once completed, TPZ-Sheksna will produce electric-welded pipes for construction 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 strips and an electric pipe-welded line. The plant will be 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.

**Metalware.** The Group's Metalware production business comprises Severstal-Metiz and its subsidiaries: Dneprometiz (Ukraine) and Redaelli (Italy). In 2009, total metalware sales reached 683 thousand tonnes.

The Group believes that Severstal-Metiz is a leading metalware manufacturer in Russia. According to the Association of Metalware Producers of Russia and the Association of Metalware Producers of Ukraine,

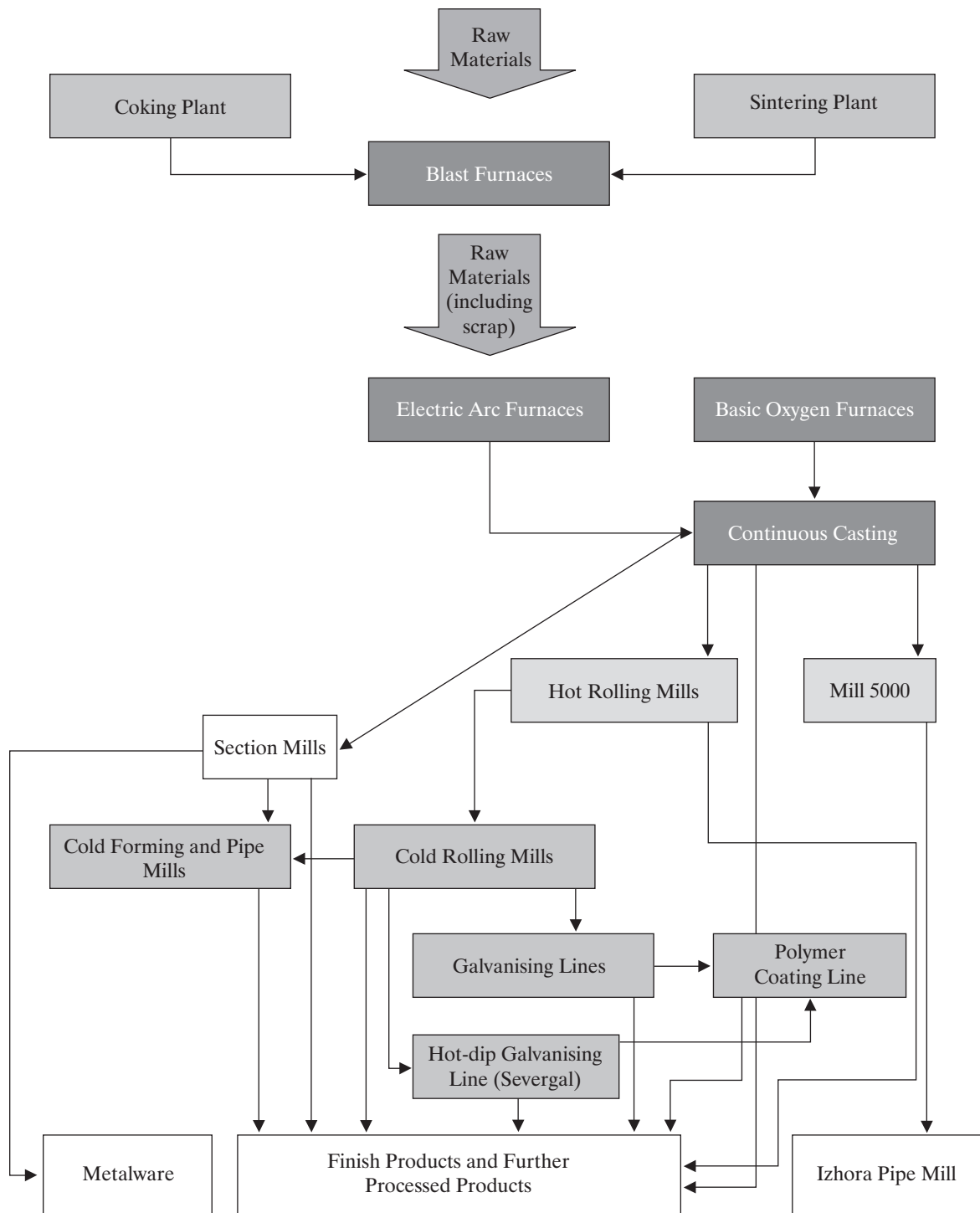
the Group represented approximately 38.2 percent of domestic Russian metalware production and approximately 38.3 percent of Ukrainian metalware production in 2009.

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 benefit from developing markets with a high concentration of industrial and retail customers. In addition to enjoying significant geographic coverage, Severstal-Metiz also 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. The Group's Metalware production business currently produces more than 55 thousand 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.

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 following diagram illustrates the principal steps in the Russian Steel Division's main steel production processes:



The Russian Steel Division continuously seeks to improve the efficiency of the steel production process through the implementation of its asset modernisation programme and the decommissioning of the open-hearth furnaces, the ingot casting lines and cogging facilities.

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 pig iron. 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 the Russian Steel Division as road-construction material. Gas produced by the blast furnaces is captured and recycled to produce heat.

The molten pig iron 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, each with a capacity of 150 tonnes per heat, do not need to be charged with molten pig iron, 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 metal used in the EAFs is approximately 75.0 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 the 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 surface 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 polymer coated.

**Quality control.** The Russian Steel Division has established comprehensive quality control systems at each stage of its production cycle. The Russian Steel Division currently operates a total quality management system at each of its steel production facilities, which involves organising employees in quality teams. Established in the converter shop at the Cherepovets Steel Mill in 2000, these teams are now in place at all of the Russian Steel Division’s shops. The Russian Steel Division employs techniques of benchmarking performance to best practice and statistical process control, which the Russian Steel Division began in 2001. Since 2005, the Cherepovets Steel Mill has been developing and implementing a system of statistical production management and from 2009 has begun implementation of the continuing improvement programme. The main objective of these quality control systems is to improve the quality of steel by improving technological process parameters. The current quality control systems are carried out by an internal quality control division with further support provided by SGS Vostok Limited, a French-based quality surveyor, during transportation and loading.

In 2009, Lloyd’s Register performed a re-certification audit of Cherepovets Steel Mill’s and extended its quality-management certificate of compliance with standard ISO 9001:2008 until 31 December 2011. In January 2008, Lloyd’s Register performed a re-certification audit of Cherepovets Steel Mill’s for compliance with ISO TS 16949-2002 automobile standard and extended its quality-management certificate of compliance with standard ISO TS 16949-2002 until 29 March 2011.

In February 2010, Lloyd’s Register performed a re-certification audit of the Company and extended the term of validity of quality management system approval in terms of its compliance with international standards’ requirements: ISO 9001:2008 until 31 December 2011 and ISO TS 16949-2009 until 29 March 2011.

The quality control measures employed by the Russian Steel Division have enabled it to maintain a range of products that meet the high standards required in the United States, Germany, Japan and other markets, in addition to the modernised Russian oil and pipeline industries. A range of products produced by the Russian Steel Division have been certified by the Marine Register of the Russian Federation, Lloyd’s Register, the American Bureau of Shipping, Norske Veritas, Germanischer Lloyd, Bureau Veritas and the Russian River Register. In 2001, the Russian Steel Division received several certificates attesting to the quality of the production output at Mill 5000. The Russian Steel Division’s steel products are also supplied to various offshore oil and gas development projects.

Severstal-Metiz’s three plants in Russia have management quality systems corresponding to the requirements of International Standard ISO 9001. Severstal-Metiz has a quality standard certification

under International Standard ISO/TS 16949:2009 concerning the production of cold-drawn steel and steel shaped profiles. In addition, Severstal-Metiz has a series of certificates attesting to the quality of its products, including welding wire, ropes, railway fasteners, engineering and high-strength fasteners, low-carbon wire for concrete reinforcement and fibre.

### Supply Chain

The principal raw materials used by the Russian Steel Division to produce steel include iron ore concentrate and pellets, coking coal, limestone and dolomite, non-ferrous metal and ferro-alloys and metal scrap. The Russian Steel Division maintains a minimum two-week reserve of all the main raw materials used in their 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.

The Russian Steel Division's steel production energy requirements include water, gas, electricity and steam.

**Raw materials.** Severstal Resources has the capacity and product mix to provide almost all of the iron ore and the substantial majority of hard coking coal requirements of the Russian Steel Division's steel operations. In 2009, the Russian Steel Division's steel operations procured approximately 80.0 percent of its iron ore, concentrate and pellets, and 70.0 percent of its coal requirements from Severstal Resources, purchasing its remaining requirements from third-party sources. The Group believes that the use of third-party sources for iron ore requirements ensures the security and reliability of the Russian Steel Division's iron ore supplies. The Russian Steel Division's sources a portion of its coal requirements from third-party suppliers due to its requirements for coal with different mineral contents and chemical features.

The Cherepovets Steel Mill's raw materials requirements account for approximately 100.0 percent of the Russian Steel Division's total raw material requirements.

The following table sets forth a breakdown of the raw materials consumed by the Cherepovets Steel Mill in 2008 and 2009.

#### *Consumption of Raw Materials—Cherepovets Steel Mill*

<u>Raw materials</u>	<u>Year ended</u> <u>31 December</u>	
	<u>2008</u>	<u>2009</u>
	<u>(thousand tonnes)</u>	
Iron ore (concentrate and pellets) . . . . .	11,836	10,774
Coal . . . . .	5,734	5,344
Metal scrap . . . . .	3,093	2,163
Ferro-alloys and non-ferrous metals . . . . .	200	140

**Iron ore and pellets.** The smelting process at the Russian Steel Division's blast furnace facilities requires up to 40.0 percent of the feedstock to be in the form of iron ore pellets, the majority of which are sourced from Severstal Resources. Iron ore concentrate and pellets are supplied to the Russian Steel Division's steel operations on the basis of contracts that are reviewed and renegotiated on an annual basis. All of the Russian Steel Division's operations contracts with its iron ore suppliers, including those with Severstal Resources, are concluded on an arm's length basis. The Russian Steel Division'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 the Russian Steel Division's production facilities. Some contract arrangements provide for price adjustments depending on the quality of the concentrate.

The Cherepovets Steel Mill's iron ore requirements account for approximately 100.0 percent of the Russian Steel Division's total iron ore requirements.

The following table sets forth a breakdown of the iron ore consumed by the Cherepovets Steel Mill by supplier in 2008 and 2009.

*Major suppliers of Iron Ore Concentrate and Iron Ore Pellets—Cherepovets Steel Mill*

Supplier	Year ended 31 December	
	2008	2009
	(thousand tonnes)	
<b>Iron ore concentrate</b>		
Olkon . . . . .	4,207	4,926
Kovdorsky GOK . . . . .	2,676	1,970
Yakovlevskaya Ruda . . . . .	259	—
<b>Iron ore pellets</b>		
Karelsky Okatysh . . . . .	4,468	3,567

*Coal.* The Russian Steel Division meets nearly all of its annual coke supply requirements from its own coke batteries, using coal purchased from Severstal Resources. It receives some additional supplies of coke concentrate from third-party suppliers.

The Russian Steel Division has long-standing relationships with its key coal suppliers, which consist primarily of companies in Severstal Resources, in particular Vorkutaugol. Vorkutaugol has been supplying coal to the Russian Steel Division 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 the Russian Steel Division'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. Payment under these contracts is made on delivery.

The Cherepovets Steel Mill's coal requirements account for approximately 100.0 percent of the Russian Steel Division's total coal requirements.

The following table sets forth a breakdown of the coal consumed by the Cherepovets Steel Mill by supplier in 2008 and 2009.

*Major suppliers of Coal—Cherepovets Steel Mill*

Supplier	Year ended 31 December	
	2008	2009
	(million tonnes)	
Vorkutaugol <sup>(1)</sup> .....	3,340	3,707
Sibuglemt .....	—	131
Mechel .....	—	997

Note:

(1) Vorkutaugol is part of the Group. Kuzbassugol was part of the Group until its disposal in April 2008.

*Scrap.* The Russian Steel Division 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.

The Russian Steel Division 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 25.0 percent in the oxygen converter and 75.0 percent in the electric arc shop.



In 2009, the Russian Steel Division processed approximately 3.3 million tonnes of scrap, of which 2.3 million tonnes were purchased and 1.0 million tonnes were internally sourced from the Cherepovets Steel Mill.

In August 2008, management responsibility for the scrap operations was transferred to the Russian Steel Division from Severstal Resources. The Group believes that the transfer of these operations into the Russian Steel Division is more appropriate, particularly given the planned addition of two mini-mills, the first of which is currently expected to be completed in 2013 with the second in 2015, and the resulting significant increase in the consumption of scrap metal (see “—*Capital Expenditure Programme*”).

*Other raw materials.* The Russian Steel Division 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, manganese and aluminium, are employed primarily in the production of higher value-added steel products, such as galvanised sheet. The Russian Steel Division sources most of its ferro-alloy requirements from third-party suppliers under annual contracts.

The Russian Steel Division also imports certain raw materials, such as ferro-alloys and refractory materials, from France, Austria, China and Ukraine. Contracts are typically for a term of one year, with prices being fixed on a quarterly 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 the Russian Steel Division’s electricity requirements. Its electricity requirements total approximately 5.4 billion kilowatt hours per year. In 2009, 59.0 percent of these electricity requirements were provided by two on-site power stations owned by the Russian Steel Division. The two power stations have a total installed capacity of approximately 446 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, the Russian Steel Division uses a relatively low amount of energy coal to generate electricity at its facilities. The Russian Steel Division covers its remaining electricity requirements through direct contracts to buy electricity in the Russian wholesale electricity market, typically with a term of one year.

The Cherepovets Steel Mill’s energy requirements account for a substantial portion of the Russian Steel Division’s total energy requirements.

The following table sets forth a breakdown of the energy consumption of the Cherepovets Steel Mill in 2008 and 2009.

*Consumption of Energy—Cherepovets Steel Mill*

Energy consumption	Year ended 31 December	
	2008	2009
Electricity (millions of kilowatt hours) <sup>(1)</sup> . . . . .	6,216.2	5,403.5
Natural gas (million cubic metres) . . . . .	2,435.3	2,053.8
Diesel and fuel oil (thousands of tonnes) . . . . .	28.5	25.5

Note:

- (1) Cherepovets Steel Mill’s electricity generation facilities generated 3,047.9 million kilowatt hours and 3,187.8 million kilowatt hours in 2008 and 2009, 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 3,168.4 million kilowatt hours and 2,215.7 million kilowatt hours in 2008 and 2009, 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, the Russian Steel Division would consider constructing additional generating units, and it is planned to commence

construction of 165 megawatt power unit No. 3 in the first quarter of 2012, with completion of the project in the fourth quarter of 2015.

To generate heat, the steelmaking facilities within the Russian Steel Division use blast-furnace gas. The gas used is sufficient to meet all of the heat requirements of the Russian Steel Division, with surplus heat being sold to local utilities.

Natural gas and fuel oil also form part of the Russian Steel Division's energy requirements. Natural gas is used as a heat source in the blast furnaces, reheating lines and power plants.

The power plants within the Russian Steel Division 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. The Russian Steel Division's power plants use fuel oil only in emergencies.

The Russian Steel Division purchases its natural gas from a subsidiary of Gazprom, the natural gas supplier, under a five-year contract expiring in 2012 primarily at prices established by the Russian Federal Tariff Service. 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.** With total crude steel output of 9.5 million tonnes in 2009 and crude steel production capacity of 11.1 million tonnes per year, the Russian Steel Division's utilisation rate was approximately 85.6 percent.

The following table sets forth the Russian Steel Division's production of crude steel in 2007, 2008 and 2009, as well as the estimated aggregate production of crude steel in Russia and the Russian Steel Division's estimated share of production.

### *Crude Steel Production—Russian Steel Division*

<u>Year</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Russian Steel Division, million tonnes . . . . .	11.9	11.1	9.5
Estimated aggregate production of crude steel in Russia, million tonnes . . . . .	72.8	69.1	60.0
Russian Steel Division's estimated share of production in Russia, percent . . . . .	16.3	16.1	15.9

Source: Chermet.

**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 Group classifies the following products as "semi-finished".

**Finished steel products.** Most of the Russian Steel Division'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.

**Crude steel output and sales by product**

The following table sets forth the Russian Steel Division's total output and sales by product category in 2008 and 2009.

**Total Output and Sales by Product—Russian Steel Division<sup>(1)</sup>**

	Year ended 31 December	
	2008	2009
	(thousand tonnes)	
<b>Total output</b>		
Crude steel . . . . .	11,097	9,548
<b>Sales by products</b>		
Hot-rolled strip and plate . . . . .	4,350	3,948
Large diameter pipes . . . . .	294	390
Cold-rolled sheet . . . . .	1,419	1,265
Metalware products . . . . .	899	683
Galvanised and other metallic coated sheet . . . . .	695	508
Long products . . . . .	1,466	788
Semi-finished products . . . . .	942	839
Other tubes and pipes formed shapes . . . . .	463	436
Colour-coated sheet . . . . .	244	234
Scrap . . . . .	834	289
<b>Total steel products</b> . . . . .	<u>11,606</u>	<u>9,380</u>
Other and shipping . . . . .	—	—
<b>Total sales by products</b> . . . . .	<u>11,606</u>	<u>9,380</u>

Note:

(1) Includes intersegmental sales.

**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.

The Russian Steel Division 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.

**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 the Russian Steel Division's galvanised and roll-formed products.

The Russian Steel Division 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). Other goods manufactured by the Russian Steel Division include civil construction goods and associated products.

*Galvanised and other metallic-coated sheet.* The Russian Steel Division produces galvanised coated products, including those produced for the automotive industry by Severgal. The Russian Steel Division believes that demand for galvanised products from international automotive manufacturers will increase. Due to strict requirements of automotive plants outside Russia, the Russian Steel Division has focused on improving the quality of its products significantly and has developed new grades of products (for example, products with an alumino-silicon coating and high-strength steels) to meet the demands of automotive customers. The Russian Steel Division has benefited from Severstal North America'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.* The Russian Steel Division 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.

*Colour-coated sheet.* The Russian Steel Division 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.* The Russian Steel Division conducts gathering, processing and delivery of breakage of ferrous metals for further use in steel-smelting units, including for export.

*Other and shipping.* Among other minor nonrecurring items, the Russian Steel Division renders services in transportation and support of cargoes both domestically and abroad.

### ***Metalware***

Severstal-Metiz's factories in Russia focus on the manufacture of metalware, 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: the Cherepovets site, the Orel site and the Volgograd site, located in northwest Russia, central Russia and the Povolzhie region of Russia, respectively. The Metalware business has an additional site in each of Ukraine and Italy.

### **Research and Development**

The Russian Steel Division has pursued research and development initiatives with Russian universities and research institutes. Such initiatives include a research and development centre for cokemaking and ironmaking and studies for oil and gas pipe and shipbuilding steel applications.

The Russian Steel Division is also conducting hot- and cold-rolled products research initiatives, including the development of new kinds of strips and pipes not currently produced in Russia, the development of more durable autosheet, research into increasing the efficiency of the manufacturing process of sheets for heavy bodies used in trucks and other construction applications, the optimisation of chemical compounds, the development of technological parameters for the improvement of surface quality, the reduction of expenses in the production of cold-rolled sheet and the development of technological bases and optimum parameters for the production of hot-dip galvanised steel for the automotive industry.

### **Sales, Marketing and Competition**

The Russian Steel Division sells its products in both export and Russian domestic markets. The Russian Steel Division 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, the Russian Steel Division aims to sell products for which there is low demand in Russia, and sales are made predominantly on a spot-market basis.

The following table sets forth the revenues by market for both domestic and export sales for the Russian Steel Division in 2008 and 2009.

*Revenues by Market—Russian Steel Division<sup>(1)</sup>*

<u>Market</u>	<u>Year ended 31 December</u>	
	<u>2008</u>	<u>2009</u>
	(percent of revenues)	(percent of revenues)
<b>Domestic sales</b>		
Russian Federation . . . . .	67.8	55.6
<b>Export sales</b>		
Europe . . . . .	13.6	13.5
CIS . . . . .	7.9	9.6
The Middle East . . . . .	4.4	6.4
China and Central Asia . . . . .	0.6	5.7
South-East Asia . . . . .	2.1	4.7
Africa . . . . .	0.8	2.3
Central and South America . . . . .	1.5	1.9
North America . . . . .	1.3	0.3
<b>Total</b> . . . . .	<b><u>100.0</u></b>	<b><u>100.0</u></b>

Note:

(1) Includes intersegmental sales.

The following table sets forth the revenues by industry sector for both domestic and export sales for the Russian Steel Division in 2008 and 2009.

*Revenues by Industry Sector—Russian Steel Division*

<u>Industry sector</u>	<u>Year ended 31 December</u>	
	<u>2008</u>	<u>2009</u>
	(percent of revenues)	(percent of revenues)
Construction and processing . . . . .	48.2	50.4
Oil and gas . . . . .	6.8	11.8
Machinery building . . . . .	18.4	13.8
Tube and pipemaking . . . . .	9.4	10.1
Automotive . . . . .	7.1	5.1
Other . . . . .	10.1	8.8
<b>Total</b> . . . . .	<b><u>100.0</u></b>	<b><u>100.0</u></b>

**Russian domestic sales.** The Russian Steel Division 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. However, due to the impact of the global economic downturn on Russian industries, the Group's domestic sales fell to 55.6 percent of total sales volume in 2009, from 67.8 percent in 2008. The market has improved in the first half of 2010, though, and the Group expects that the improvement in demand and prices will continue in the near term.

**Customers.** The Russian Steel Division's most important customers are the oil and gas, pipe-manufacturing and automotive sectors. Since 2007, the Russian Steel Division has also attached increasing importance to the construction and construction materials sectors, which include a number of important customers located in the European part of Russia, as well as to the large customers emerging in the developing economies of several CIS countries.

A major part of the Russian Steel Division's domestic sales is made by the Cherepovets Steel Mill, either directly to an end customer or to trading and distribution entities (see also "*—Distribution*"). The following paragraphs briefly describe the main end customers to which the Cherepovets Steel Mill sells directly.

Tube and pipe-making industries accounted for approximately 11.6 percent of the Russian Steel Division's total domestic sales by value in 2009 and approximately 11.2 percent in 2008. The Cherepovets Steel Mill's principal customers in the pipe manufacturing sector are the Vyksa pipe plant and Chelyabinsk tube rolling plant (*ChTPZ*). The Cherepovets Steel Mill sold more than 500 thousand tonnes of different products to domestic customers in this sector in 2009. The Cherepovets Steel Mill is able to produce sophisticated steel grades for pipe manufacturing as well as high-quality steel with a very low level of impurities, namely, a sulphur content of less than 0.025 percent and a phosphorus content of less than 0.05 percent.

The Russian automotive sector accounted for approximately 7.9 percent of the Russian Steel Division's total domestic sales by value in 2008, decreasing to approximately 5.7 percent in 2009, reflecting in part a reduction in the competitiveness of domestic car producers. The Russian Steel Division's key customers in the domestic automotive sector are OAO AutoVAZ and OAO UAZ. The Russian Steel Division aims to increase sales to foreign car producers, such as Renault and Ford. Due to the strict requirements of automotive plants, especially those outside Russia, the Russian Steel Division has focused on improving the quality of its products significantly and has developed new grades of products (for example, products with an alumino-silicon coating and high-strength steels) to meet the demands of customers and has benefited from Severstal North America's experience in manufacturing high-quality galvanised products for the automotive industry.

*Key customer management.* The Russian Steel Division 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-STAL, OAO Gazprom, OAO Tatneft, OAO Volzhsky Pipe Plant, OAO ChTPZ, OAO AutoVAZ and OAO GAZ. The Russian Steel Division 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 both for the customer and the Russian Steel Division. Services for such customers include the construction of consignment warehouses in different regions and quarterly product-quality co-ordination, overseen by representatives of both the Group and the relevant customer. Sales by the Russian Steel Division to such customers accounts for more than 30.0 percent of the Group's total sales.

*Distribution.* The Russian Steel Division's domestic sales are made to regional and other distributors, directly to end-users, or through TD Severstal Invest.

The regional distribution of the Russian Steel Division's products primarily involves the delivery of steel to the construction and processing industry. The Russian Steel Division received 36.7 percent and 40.8 percent of its revenues from sales to this group of Russian customers in 2009 and 2008, respectively.

*Products.* The Russian Steel Division's domestic sales are dominated by hot-rolled strip and plate, which accounted for approximately 32.3 percent of total domestic sales by volume in 2009. Higher value-added products such as cold-rolled flat products and colour-coated sheet are also very significant, making up approximately 13.8 percent and 4.9 percent, respectively, of total domestic sales by volume in 2009.



The following table sets forth the domestic sales by product for the Russian Steel Division in 2008 and 2009.

*Domestic Sales by Product—Russian Steel Division<sup>(1)</sup>*

Product	Year ended 31 December			
	2008		2009	
	(thousand tonnes)	(US\$ million)	(thousand tonnes)	(US\$ million)
Hot-rolled strip and plate . . . . .	2,681	2,539.3	1,420	781.1
Large-diameter pipes . . . . .	292	815.6	297	626.8
Cold-rolled products . . . . .	930	854.3	609	345.1
Metalware products . . . . .	577	776.4	425	351.4
Galvanised and other metallic-coated sheet . . . . .	563	670.9	336	273.6
Long products . . . . .	1,309	1,142.8	649	298.4
Semi-finished products . . . . .	37	24.8	4	2.5
Other tubes and pipes, formed shapes . . . . .	354	372.2	350	201.8
Colour-coated sheet . . . . .	216	317.9	214	225.2
Scrap . . . . .	70	26.0	95	19.4
<b>Total steel products . . . . .</b>	<b>7,029</b>	<b>7,540.2</b>	<b>4,399</b>	<b>3,125.3</b>
Others and shipping . . . . .	—	644.0	—	312.2
<b>Total sales by products . . . . .</b>	<b>7,029</b>	<b>8,184.2</b>	<b>4,399</b>	<b>3,437.5</b>

Note:

(1) Includes intersegmental sales.

*Contracts.* The Russian Steel Division has developed a flexible approach to contractual relations with its Russian domestic customers. Contracts are concluded on a quarterly, semi-annual, annual or 15-month 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 of the contractual terms (eg: 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 volatile, 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 as a rule 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.

The Russian Steel Division seeks prepayments from certain customers, including new customers and those companies who are considered to be at risk financially. In 2009, prepayments (full and partial) accounted for approximately 26.0 percent of the Russian Steel Division's sales by value. The remainder of contracts require settlement within a range of five to thirty days from delivery and combined settlements. This flexibility of contract and credit terms has generated a significant competitive advantage for the Russian Steel Division, allowing it to forge closer ties with customers and to react more effectively to changes in market conditions. In recent years, the Russian Steel Division has experienced very low levels of bad debts.

*Izhora Pipe Mill.* In 2009, approximately 79.9 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 61.0 percent of all products sold by the mill in 2009. Sales are usually made to customers directly, generally under one-year contracts.

*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.

The largest part of Severstal-Metiz's domestic sales consist of high-carbon products, such as ropes and steel wire, and low-carbon wire, which together accounted for approximately 65.0 percent of total domestic sales by volume in 2009.

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, the Russian Steel Division's export sales strategy is, on the whole, oriented towards spot markets of steel products. As a result of the global economic downturn the Russian domestic market for the Group's products declined from late 2008 to early 2009. In order to maintain capacity utilisation, the Russian Steel Division focused on the export market, which proved to be more resilient to the global economic downturn. While the traditional export markets in Europe and the United States, historically the most attractive in terms of margin, showed little opportunities in terms of volumes, the Chinese market was characterised by high levels of demand, driven in part by low commodity prices. By taking advantage of opportunities in China during the first quarter of 2009, the Russian Steel Division was able to maintain a robust utilisation rate during the global economic downturn.

**Customers.** The Russian Steel Division 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 the Group considers to be strategically important.

The Russian Steel Division's primary export customers are companies in the machinery, construction and automotive industries, such as Marcegaglia SpA, Taewoong Co. Ltd., PT Jaya Pari Steel TBK, Welspun Corp. Ltd., Dongkuk Steel Mill Co. Ltd., Saltzgitter Mannesmann International GmBs, Maghreb Steel S.A.

**Distribution.** The Russian Steel Division conducts its export sales through export-trading subsidiaries, Severstal Export GmbH, AS Severstallat, LLC Severstal-Ukraine and ZAO SeverstalBel. This system has enabled the Russian Steel Division to increase the efficiency of its export operations by minimising its reliance on intermediaries in the sales process and, therefore, reducing its distribution costs.

Severstal Export GmbH is the marketing centre for the Russian Steel Division'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 the Russian Steel Division 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 the Russian Steel Division's export agent in the Baltic region since its formation in 1992. Although the Russian Steel Division has direct contracts with certain customers in the Baltic market, the majority of sales contracts, primarily with shipbuilding companies, are entered into through AS Severstallat. AS Severstallat now operates as an export agent and a customer-oriented regional service centre for Baltic countries and elsewhere in Northern and Eastern Europe. It conducts a variety of businesses, including direct sales and a cutting service for coils.

The Russian Steel Division's export trading companies are responsible for the day-to-day management of export operations, with monitoring provided by the Russian Steel Division'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 the Russian Steel Division's long-term strategy.

**Products.** The Russian Steel Division's export sales consist predominantly of flat products, with hot-rolled products and cold-rolled products accounting for approximately 50.8 percent and 13.2 percent, respectively, of sales by volume in 2009. 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 product for the Russian Steel Division in 2008 and 2009.

*Export Sales by Product—Russian Steel Division<sup>(1)</sup>*

Product	Year ended 31 December			
	2008		2009	
	(thousand tonnes)	(US\$ million)	(thousand tonnes)	(US\$ million)
Hot-rolled strip and plate . . . . .	1,669	1,409.8	2,528	1,091.1
Large-diameter pipes . . . . .	2	4.3	93	151.2
Cold-rolled products . . . . .	489	394.8	656	335.7
Metalware products . . . . .	322	430.2	258	275.3
Galvanised and other metallic-coated sheet . . . . .	132	130.4	172	110.7
Long products . . . . .	157	127.0	139	60.6
Semi-finished products . . . . .	905	616.2	835	284.7
Other tubes and pipes, formed shapes . . . . .	109	113.4	86	53.6
Colour-coated sheet . . . . .	28	41.2	20	21.2
Scrap . . . . .	764	295.3	194	38.9
<b>Total steel products . . . . .</b>	<b>4,577</b>	<b>3,562.6</b>	<b>4,981</b>	<b>2,423.0</b>
Others and shipping . . . . .	—	317.0	—	318.6
<b>Total sales by products . . . . .</b>	<b>4,577</b>	<b>3,879.6</b>	<b>4,981</b>	<b>2,741.6</b>

Note:

(1) Includes intersegmental sales.

**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 with pipes made in Riga and Silesia (Poland) on AS Severstallat's facilities.

**Scrap.** Scrap is mostly sold on the domestic market. In 2008 and 2009, however, the Group exported some of its scrap due to decrease in demand on the Russian market.

### Competition

Both the Russian and the international steel markets are highly competitive due to increased consolidation. 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. To withstand this competition, the Group has consistently invested both 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 the Russian Steel Division further down the value-chain, producing higher-value-added, differentiated products and establishing closer relations with end-users in the export markets. The share of domestic market in Russian Steel Division total sales has decreased from approximately 67.8 percent in 2008 to 55.6 percent in 2009.

The Russian Steel Division's key competitors in the Russian domestic markets for flat-rolled steel products are MMK and NLMK. The major competitors in the market for steel sections and specialised products, such as heavy sections, include Evraz. Mechel is the competitor of the Group in long products, while Vykasa and ChTPZ compete with the Group in pipes.

The following table sets forth the principal competitors of the Russian Steel Division in the Russian crude steel market.

*Principal Competitors of the Russian Steel Division—Russian Crude Steel Market*

Company	Year ended 31 December		
	2007	2008	2009
	(thousands of tonnes)		
Evraz . . . . .	14,065	13,082	11,278
MMK . . . . .	13,264	11,957	9,729
Russian Steel Division . . . . .	11,867	11,097	9,548
NLMK . . . . .	9,057	8,512	10,104
Mechel . . . . .	5,579	5,346	5,748

Source: Official company data, Metal-Expert.

The Russian market is characterised by intensifying competition for customers, raw materials, capital and experienced personnel. The Russian Steel Division's low cost of production is of lesser importance in the domestic market, as the major domestic competitors enjoy, to a varying extent, the same cost reducing factors and have access to captive raw materials as well. In terms of volume, the Group believes that the Cherepovets Steel Mill is one of the two largest steel complexes in the CIS based on production data published by Chermet, and is one of the most modern and technically sophisticated. 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. The Russian Steel Division's ongoing goal of achieving quality and technical sophistication has also allowed it to gain strong positions in the strategically important pipe manufacturing sector.

Finally, the Russian Steel Division's relative market strength is underpinned by its proactive marketing strategy, which has allowed it to forge long-term relationships with key domestic customers in the pipe production and automotive sector.

### Capital Expenditure Programme

The Russian Steel Division's capital expenditure in 2008 and 2009 was approximately US\$709.2 million and US\$368.6 million, respectively, most of which was spent on new projects as well as on the repair and modernisation of its existing steel operations. The Russian Steel Division'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 galvanised steel and cold-rolled products. New products under development include tube-making strips, such as X-70 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; new-class carbon and low-alloyed steels with increased corrosion-resistant and low-temperature-resistant properties; and long products of A 500C class for construction applications.

In addition, aggregate capital expenditure on maintenance for the Group is expected to be approximately US\$450 million in 2010, and is expected to gradually increase to approximately US\$650 million in 2014 (provided that the Group undertakes the expansion projects contemplated by the current business plan).

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 the Russian Steel Division's facilities.

The Russian Steel Division's total capital expenditure excluding maintenance from 2010 to 2014 is expected to be approximately US\$4.4 billion, as set forth in the following table.

*Estimated Capital Expenditure Requirements from 2010 to 2014—Russian Steel Division*

<u>Production</u>	<u>Estimated cost</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
	(US\$ millions)				
<b>Russian Steel Division</b>					
Steel products . . . . .	351.5	615.1	742.4	1,208.7	1,191.4
Metalware . . . . .	0.0	6.6	33.2	27.1	49.5
Scrap . . . . .	0.0	24.9	0.0	0.0	0.0
Other . . . . .	0.0	80.0	10.6	23.2	4.9
<b>Total . . . . .</b>	<u>351.5</u>	<u>726.6</u>	<u>786.2</u>	<u>1,259.0</u>	<u>1,245.9</u>

Note: excluding maintenance capital expenditure

**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 2015. Blast Furnaces 3, 4 and 5 are scheduled to have PCI technology installed with Blast Furnaces 3 and 4, to be completed by 2015 and, in respect of Blast Furnace 5, during its capital refurbishment in 2016. 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 2014. Blast Furnace 2 is scheduled to be shut down in 2015. Blast Furnace 1 is scheduled to be shut down by the beginning of 2017. Coke batteries 7, 4, 8, 9 and 10 will gradually be refurbished, and the construction thereof will be completed in 2012, 2014, 2016, 2018 and 2020, respectively.

**Converter shop.** Capital expenditures will focus on improving the quality of output, enabling the production of new products, such as X-70 and X-100 API-class strength steel. Continuous Casting Machine 2 is to be fully reconstructed and the other continuous casting machines are to be modernised. Dust-treatment equipment is also to be installed. This is expected to increase the combined capacity of the continuous casters.

**Flat rolling facilities.** Automated systems and sheet-straightening machines are to be installed and heating facilities refurbished. Mill 5000 is also to be modernised and expanded to produce high-quality strips for large-diameter pipes and other applications which, when completed, are expected to increase the capacity of Mill 5000 to 850 thousand tonnes per year.

Pickling lines 1 and 3 are to be renovated to provide facilities for 100.0 percent of hydrochloric pickling. The cold-rolling equipment is to be refurbished to increase the rolling mill's production capacity from 2.8 million tonnes per year to 3.2 million tonnes per year by 2013.

**Energy-generating facilities.** The capital expenditure programme aims to increase the reliability of gas, water and energy supplies to the major production shops. This is expected to include the commissioning of one air-separating unit, as well as the refurbishment of two air-separating units in the oxygen shop. To decrease the share of purchased energy the Group is planning to refurbish existing generating facilities and to create a new generator.

**Capital maintenance.** Capital maintenance is primarily aimed at increasing production output, sustaining the main facilities, labour and production process safety and reduction in costs.

**Transportation facilities.** Capital expenditure on transportation facilities in the Russian Steel Division 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 the Russian Steel Division 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.



**Izhora Pipe Mill and Severstal-Metiz.** Izhora Pipe Mill is a new asset and is not expected to require significant additional capital expenditure in the near future. 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. Their annual capital expenditure in 2009 was approximately US\$25.7 million. The further capital expenditure programmes include project for special ropes on the Chinese market, development of cord business and development of rope service centres.

**Mini-mills.** The Russian Steel Division plans to add two mini-mills in Russia, each with a planned capacity of approximately 1 million tonnes of finished long products per year. In July 2007, construction of the first of these mini-mills, Balakovo, was started in the Saratov region of Russia. It is currently expected that the mini-mill will be completed in the second quarter of 2013 at an estimated cost of approximately US\$781 million (excluding VAT). The second mini-mill is to be built in the city of Ivanovo in central Russia. These production facilities are 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.

**Scrap metal assets.** The estimated capital expenditure requirements in the ferrous scrap metal business between 2010 and 2014 are approximately US\$24.9 million. The capital expenditure is expected to consist of expenditure on existing processing facilities.

### Employees

Employee numbers for the Russian Steel Division were reduced from 61,189 in 2008 to 50,848 in 2009, in part, the result of increased labour efficiency and changes in staff numbers occurring and in part as a result of the global economic downturn. This reduction was partially offset by an expansion of the repairs and maintenance services parts of the division, as well as the acquisition of the stevedoring and shipping logistics entities at the port of St. Petersburg and the ramp-up of production at the Izhora Pipe Mill. The Russian Steel Division is currently reviewing its labour structure to ensure it is optimal. A two-year collective bargaining agreement was 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. Since 1996, the Russian Steel Division has experienced no material labour disputes, strikes or employee legal actions. The Russian Steel Division considers its employee relations to be good.

The majority of employees of the Russian Steel Division 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 of Cherepovets Steel Mill are certified to be in conformance with the requirements of OHSAS 18001 and ISO 14001 international standards.

In 2008, there were 121 industrial accidents in the Russian Steel Division, declining to 82 in 2009. In 2009, there were 23 accidents in metalware production, compared to 24 in 2008. There were two accidents at the Izhora Pipe Mill in 2009 and two accidents in 2008. The total expenditures on occupational health and safety measures at the Cherepovets Steel Mill in 2009 amounted to approximately US\$4.4 million, compared to approximately US\$13.3 million in 2008. 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\$15.8 million in 2008 and US\$8.6 million in 2009.

### Insurance

The Russian Steel Division maintains a level of insurance covering the property, plant and equipment. The Russian Steel Division believes that this insurance is commensurate with the standards of other international and domestic steel companies and has business interruption insurance cover ranging from fixed costs to full gross profits, depending on the plant, for interruption periods of up to 12 months.



The Russian Steel Division does not purchase full insurance for third-party liability in respect of property or environmental damage.

Third-party insurance services are provided to the Russian Steel Division by Russian insurers, which in 2009 included Sheksna Insurance Company, which was previously owned by the Group and divested in 2004. In 2009 Sheksna Insurance Company was acquired by SOGAZ and subsequently the third-party insurance services for Russian Steel Division was redirected to insurance company SOGAZ. All risks covered by policies issued by Sheksna Insurance Company are reinsured, with approximately 70.0 percent to 95.0 percent reinsured in the international market and the remainder with domestic insurers.

#### **SEVERSTAL INTERNATIONAL**

Severstal International primarily comprises Severstal North America.

#### **Severstal North America**

Severstal North America is comprised of Dearborn, Severstal Columbus, Sparrows Point, Severstal Warren, Severstal Wheeling, MSC and holding companies—Severstal US Holdings LLC and Severstal US Holdings II LLC. Severstal North America 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*), Delaco Processing, LLC (*Delaco Processing*), Bethlehem Roll Technologies, Ohio Coatings Company. The joint ventures produce metallurgical coke and galvanised steel, and provide steel processing and roll grinding 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.

#### ***Dearborn***

Dearborn is located in Dearborn, Michigan. This location gives Dearborn strategic proximity to major automotive customers, 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 Dearborn is 2.2 million tonnes annually.

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.

Dearborn has two joint ventures and an associate, each established with US companies:

- Double Eagle a 50.0 percent joint venture with United States Steel Corporation (*US Steel*), with a capacity of 789 thousand tonnes per year, approximately one-half of which is dedicated to supplying Dearborn. Double Eagle produces electrogalvanised sheet steel for automotive customers;
- Spartan Steel, a 48.0 percent joint venture with Worthington Steel of Michigan, with a capacity of 544 thousand tonnes per year, approximately 80.0 percent of which is dedicated to Dearborn. Spartan Steel produces hot-dip galvanised sheet steel for automotive and service customers. Dearborn supplies nearly 100 percent of the sheet steel used as substrate to Spartan Steel; and
- Delaco Processing, an associate 49.0 percent of which is owned by Dearborn and 51.0 percent 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 minimill 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 with an initial annual production capacity of 1.5 million tonnes.

The Phase II expansion, which commenced in 2008 and is expected to be completed at the beginning of 2012, will increase crude steel capacity to 3.0 million tonnes, matching the hot strip mill capacity and allowing Severstal Columbus to achieve greater economies of scale. In addition, Phase II will increase the capacity of downstream operations approximately 30.0 percent to 120.0 percent depending on the unit, including a continuous pickle line, batch annealing, temper mill and continuous galvanising line.

Severstal Columbus produces a broad range of high quality hot-rolled, hot-rolled pickled 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 1,300 acre site has been designed to allow for additional on-site downstream operations, which is intended to be developed independently or through joint development opportunities.

### *Sparrows Point*

Sparrows Point operates Severstal North America's largest integrated steel production facility. The company currently has an annual capacity of 3.4 million tonnes of crude steel, 2.7 million tonnes of hot-rolled product, 1.3 million tonnes of cold-rolled product, 600 thousand tonnes of coated product and 470 thousand tonnes of tin. Sparrows Point operates the third largest blast furnace in North America and is capable of casting wide and thick slabs, which are suitable for both flat-rolled and plate steel applications. Sparrows Point is the only integrated producer of flat-rolled steel on the East Coast and has access to the Atlantic Ocean via its own deep-water port. Also, Sparrows Point is one of the top three tin producers in North America. Sparrows Point's sheet products include hot-rolled, cold-rolled, galvanised, galvalume and tin, with the majority of these products being sold to the container, construction, pipe and tube and distributor end-markets.

### *Severstal Warren*

Severstal Warren operates Severstal North America's smallest, but most specialised production facility, with current capacity of 1.4 million tonnes of crude steel, 1.3 million tonnes of hot-rolled, 500 thousand tonnes of cold-rolled and 310 thousand tonnes of coated. Located in Warren, Ohio, Severstal Warren has leading manufacturing capabilities in custom carbon, alloy and heavy gauge galvanised steel products. With the capability to produce over 185 unique grades of flat-rolled products, Severstal Warren has the broadest range of grades of any steel producer in the United States. Severstal Warren's customers include strip converters, processors, service centres, construction product manufacturers and, to a lesser extent, the automotive industry. Due to deteriorating market conditions, Severstal North America idled Severstal Warren's steel making operations in the fourth quarter of 2008 and idled its finishing operations in the first quarter of 2009. In March 2010, due to improving market conditions, management initiated the restart of Severstal Warren's steel making operations.

### *Severstal Wheeling*

Severstal Wheeling is a leading flat-rolled steel producer with particular strength in wide sheet and tin products. With both blast furnace and EAF production capabilities, Severstal Wheeling has the flexibility to utilise whichever manufacturing process is most cost effective. Severstal Wheeling manufactures hot-rolled, cold-rolled, hot dipped galvanised and corrugated steel products. Severstal Wheeling has an annual capacity of 2.5 million tonnes of cast steel, 3.1 million tonnes of hot-rolled, 730 thousand tonnes of cold-rolled, 810 thousand tonnes of coated and 130 thousand tonnes of tin. Strategically located in the Midwestern United States, Severstal Wheeling has easy access to a wide variety of end customers. Severstal Wheeling by itself and through its joint ventures, primarily distributes finished products to the construction, container, appliance and converter end-markets. Due to reduced market demand, Severstal North America idled Severstal Wheeling's crude steel operations in March 2009 and idled the company's cold-rolling operations in June 2009. Due to improving market conditions, Severstal North America

restarted Severstal Wheeling's cold-rolling and galvanising operations at Yorkville in December 2009 and at Martins Ferry in March 2010.

### MSC

Dearborn and Severstal Wheeling each own 50.0 percent of MSC, located in Follansbee, West Virginia. MSC 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. Ownership in MSC allows for the supply of coke every year at a substantially lower cost than delivered imported coke. MSC also generates significant revenues from the sale of coal chemical by-products to third parties.

### Facilities

Severstal North America's main production facilities at Dearborn, Severstal Columbus, Sparrows Point, Severstal Warren, Severstal Wheeling and MSC are set forth below.

#### *Steel Production Facilities, Severstal North America Division—Capacity*

	As at 31 December 2009	
	Equipment	Capacity (million tonnes per year)
<b>Dearborn</b>		
Blast furnace facilities . . . . .	1	2.2
Basic oxygen furnaces . . . . .	1	2.6
Ladle refining facilities . . . . .	2	2.6
Vacuum degassing facilities . . . . .	1	0.9
Continuous casters . . . . .	2	2.6
Hot rolling mills . . . . .	1	3.3
Pickle lines . . . . .	3	1.5
Tandem mills . . . . .	1	1.4
Temper mills . . . . .	1	0.8
Annealing processes . . . . .	2	0.8
Hot dip galvanising lines* . . . . .	1	0.4
Electro galvanising lines* . . . . .	1	0.4
<b>Severstal Columbus</b>		
EAfs . . . . .	1	1.5
Continuous casters . . . . .	1	1.6
Hot rolling mills . . . . .	1	3.1
Continuous pickle lines . . . . .	1	1.2
Tandem mills . . . . .	1	1.2
Temper mills . . . . .	1	0.5
Annealing processes . . . . .	1	0.4
Hot dip galvanising lines . . . . .	1	0.5
<b>Sparrows Point</b>		
Sintering plant . . . . .	1	3.2
Blast furnace facilities . . . . .	1	3.4
Basic oxygen furnaces . . . . .	2	3.5
Continuous casters . . . . .	2	3.4
Hot rolling mills . . . . .	1	2.7
Pickle line tandem cold mill . . . . .	1	1.3
Pickle lines . . . . .	1	0.8
Tandem mills . . . . .	1	0.6
Temper mills . . . . .	3	1.4
Annealing processes . . . . .	3	0.9
Hot dip galvanising lines . . . . .	3	0.6
Tin plating lines . . . . .	2	0.5

	As at 31 December 2009	
	Equipment	Capacity (million tonnes per year)
<b>Severstal Warren</b>		
Blast furnace facilities . . . . .	1	1.4
Basic oxygen furnaces . . . . .	2	1.5
Ladle refining facilities . . . . .	1	1.5
Vacuum degassing facilities . . . . .	1	0.5
Continuous casters . . . . .	1	1.5
Hot rolling mills . . . . .	1	1.5
Pickle lines . . . . .	2	0.8
Tandem mills . . . . .	1	0.5
Temper mills . . . . .	2	0.7
Annealing processes . . . . .	2	0.3
Hot dip galvanising lines . . . . .	1	0.3
<b>Severstal Wheeling</b>		
Blast furnace facilities . . . . .	1	1.3
Basic oxygen furnaces . . . . .	1	1.3
EAfs . . . . .	1	1.6
Continuous casters . . . . .	1	2.5
Hot rolling mills . . . . .	1	3.1
Pickle lines . . . . .	1	0.7
Tandem mills . . . . .	1	0.7
Temper mills . . . . .	2	0.7
Annealing processes . . . . .	2	0.5
Hot dip galvanising lines . . . . .	3	0.8
Tin plating lines* . . . . .	1	0.1
<b>MSC</b>		
Coking batteries . . . . .	4	1.0

\* Joint venture equipment. Severstal North America's share of the JV production is presented.

**Dearborn.** Dearborn is focused primarily on high quality flat-rolled carbon steel products and currently has a production capacity at its Dearborn facility of 2.2 million tonnes of crude steel per year. Dearborn's facility is a fully integrated plant that is located on an industrial site adjacent to Ford's stamping, engine, frame, paint and assembly plants. 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, three pickle lines, one tandem mill, one temper mill, two annealing facilities, a share of hot-dip galvanising line at Spartan Steel and 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 Dearborn to produce high quality, flat-rolled carbon steel products consisting of hot-rolled, cold-rolled and galvanised steel.

**Blast furnaces.** Dearborn's blast furnace "C" has a working volume of approximately 1,800 cubic metres and a capacity to produce approximately 2.2 million tonnes of crude steel per year. In 2007, blast furnace "C" was completely rebuilt and modernised. 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 crude steel capacity per year.

**Steelmaking facilities.** 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.** Dearborn's hot rolling mill has three walking beam furnaces, four roughing stands and seven finishing stands. This mill has a capacity of 3.3 million tonnes per year.

Dearborn has three pickle lines, two of which have maximum line speeds of 305 metres per minute and a maximum coil weight of 22.7 tonnes. The third line has a maximum line speed of 762 metres per minute

and a maximum coil weight of 25 tonnes. The pickle lines have a total capacity of 1.5 million tonnes per year.

The tandem mill is a four-stand by four-high mill. The maximum line speed is 975 metres per minute and the maximum coil weight is 27.2 tonnes. The tandem mill has a capacity of 1.4 million tonnes per year.

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.

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.

*Spartan Steel hot-dip galvanising line.* Dearborn owns 48.0 percent of a hot-dip galvanising line through a joint venture with Worthington Steel of Michigan. 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 544 thousand tonnes annually. Dearborn sells approximately 80.0 percent of this output.

*Double Eagle electrogalvanising line.* Dearborn owns 50.0 percent of an electrogalvanising line through a joint venture with US Steel. Double Eagle has a capacity of 789 thousand tonnes per year, approximately one-half of which is dedicated to 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.

*Delaco Processing slitter.* Delaco Processing, an associate 49.0 percent of which is owned by Dearborn and 51.0 percent by Delaco Supreme Tool and Gear Company, 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 with a current production capacity of 1.5 million tonnes of finished products. 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 Group plans to increase the production capacity at Severstal Columbus to approximately 3.0 million tonnes of finished products per year after completing Phase II, which is currently expected to occur at the beginning of 2012.

Severstal Columbus includes an EAF and steelmaking, casting and hot-rolling and cold-rolling facilities.

*Melt shop.* Severstal Columbus' state-of-the-art EAF has a diameter of 7.5 meters and a volume of 200 cubic meters. The tap weight of the furnace is 150 tonnes, with a tap-to-tap time of 45 minutes. The facility's melt shop also includes a 150 tonnes ladle metallurgy furnace and a 150 tonnes vacuum degasser.

*Continuous caster.* Severstal Columbus' continuous caster has a single strand, with a vertical mould. The caster has an annual rated capacity of 1.6 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).

*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 1.2 million tonnes. The cold mill includes a batch anneal facility with an annual capacity of



300 thousand 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 545 thousand tonnes.

*Hot dip galvanising line.* Severstal Columbus' hot dip galvanising line has an annual capacity of 450 thousand tonnes. The line is designed to coat cold-rolled strip for exposed automotive and appliance applications.

*Sparrows Point.* Sparrows Point is located on a 12.1 million square meter site in Sparrows Point, Maryland. It has flexible production capabilities, focused on construction, packaging and semi-finished products, with a crude steel production capacity of 3.4 million tonnes per year. The plant's deep water port and access to the Atlantic Ocean allow it to export to European markets and South America. Sparrows Point also has its own short-line railroad, the PB&R Short Line Railroad, which has over 260 kilometres of track and connects to both CSX and Norfolk Southern railroads. Sparrows Point operations consist of a sinter plant, one operating blast furnace, two BOFs, two straight mould continuous casters, one hot rolling mill, one continuous pickler linked tandem mill, three active hot-dip galvanising lines, hydrogen batch anneal bases, one temper/tension mill, and a self-contained tin mill operation. The tin plating operation consists of one pickle line, one tandem line, one continuous anneal line, one electrolytic cleaning line, twelve batch anneal bases, one temper mill, one duo mill and two plating lines. These facilities enable Sparrows Point to produce a wide range of products that serve multiple markets on the east coast and South-East United States.

*Sinter Plant.* The on-site sinter plant provides the ability to optimise production costs by utilising iron ore fines instead of pellets (which are usually more expensive) and by recycling all of the mill's reverts, which increases the overall yield on iron units.

*L Blast Furnace.* The L blast furnace has a hearth diameter of 13.5 meters, making it the third largest blast furnace in the Western Hemisphere (behind Mittal Steel's Indiana Harbor Works #7 and US Steel's #14 Gary Works). The furnace is equipped with PCI, which reduces the amount of coke consumed, a relatively high-cost fuel, in favour of steam and metallurgical coal.

*Cold Mill.* Originally commissioned in 2000, Sparrows Point's cold mill, which consists of pickle lines, tandem, temper mills and annealing processes, is a highly modernised facility. This facility includes a self-contained mill with full cold-rolling capabilities with state-of-the-art hydrogen annealing and skin passing/levelling line, a continuous 1,549 mm pickle line coupled to a five-stand tandem cold reduction mill, auto roll change, auto shape control, hydrogen batch annealing capabilities, a 1,549 mm temper mill/tension leveller line, automated packaging lines, warehouse facilities and a truck/railroad shipping system.

*Coated Product Capabilities.* Sparrows Point is an established producer of high quality galvanised and galvalume coated products, which are used extensively in construction applications. Sparrows Point remains the only producer of galvalume products on the east coast of the United States.

*Tin Mill Capabilities.* Sparrows Point has a self-contained tin plating facility that is capable of producing approximately 470 thousand tonnes of tin products annually. The facility's production includes drawn and ironed can stock, which is one of the more quality demanding products in the US tin mill market, along with single reduced and double reduced tin mill products.

*Excess Slab Production.* Sparrows Point is well positioned to produce light flat-rolled cold plate slab grades and sell them to the marketplace given its significant excess crude steel production capacity. Further, Sparrows Point's ability to produce slabs ranging from 254 mm to 305 mm thick and up to 2,642 mm wide makes it well suited to supply plate mill applications globally. In fact, Sparrows Point is one of only two domestic producers capable of producing 305 mm thick slabs ideal for heavy gauge plate products. Although not currently considered, there is ample space to construct a plate mill to service the East Coast and international markets.

*Severstal Warren.* Severstal Warren maintains a single integrated steel production facility on 4.5 million square meters of land located in Warren, Ohio, which is situated in the northeast region of the state. The plant is situated approximately 56 miles from Cleveland, Ohio, and 83 miles from Pittsburgh, Pennsylvania,



and has nearby access to both interstate highways and railroads. Severstal Warren's campus includes a blast furnace, a two-vessel BOF, a ladle refining facility, a tank-type vacuum degasser, a twin strand continuous caster, a hot rolling mill, tandem and temper mills, batch annealing furnaces, a hot dipped galvanising line as well as other finishing facilities. These facilities have the ability to cast grades with an alloy content approaching 5.0 percent, while Severstal Warren employs operational practices specifically designed to increase grade flexibility. In total, Severstal Warren has the capability to produce more than 185 grades of steel.

**Blast Furnace.** The blast furnace was completely relined in 2004.

**Continuous Caster.** The continuous caster is designed to provide increased internal soundness and quality for specialised grades of steel. Capabilities allow for increased focus on specialty steel products, such as high carbon and alloy grades.

**Hot Rolling Mill.** The hot rolling mill is 1,422 mm wide with a mill housing of 2,134 mm, making it a "stiff mill" capable of running high carbon alloy and stainless slabs. Severstal Warren's hot strip mill can accommodate thicknesses up to 17.8 mm making it one of the few hot mills in North America capable of rolling thicknesses above 12.7 mm. The mill also benefits from the walking beam furnace installed in 2007, which provides significant quality enhancements and cost savings.

**Galvanising Line.** The galvanising line is capable of producing steel with total coating weights for both sides of up to four ounces as well as differentially coated product. The line is also equipped with a turbulent cleaning section, allowing it to take hot bands straight from the hot mill into the galvanising line, bypassing traditional pickling operations.

**Vacuum Degasser/Ladle Metallurgy Furnace.** These facilities allow for precise chemistry and temperature control of liquid steel. For example, Severstal Warren has the capability to reduce steel carbon levels to as low as 0.002 percent carbon.

**Severstal Wheeling.** Severstal Wheeling's steel operations are located at three primary facilities: Mingo Junction, Martins Ferry and Yorkville, Ohio. In addition, Severstal Wheeling has a facility at Allenport that was idled in May 2008. The facilities are all strategically located on the Ohio and Monongahela rivers in the highly industrialised Midwestern United States, with easy access to logistics and transportation networks. The facilities are all capable of loading and unloading by river, rail or truck.

**Mingo Junction.** Severstal Wheeling's primary steel producing facility is located in Mingo Junction, Ohio, and includes one blast furnace, one EAF, one BOF with two vessels, a two strand continuous caster and a hot rolling mill. The 769 thousand square meter facility is located on 1.27 million square meters of land.

**Martins Ferry.** Martins Ferry, a hot dipped galvanised facility, is located in Martins Ferry, Ohio. This facility produces hot dipped galvanised steel on three continuous galvanising lines in a 231 thousand square meter factory.

**Yorkville.** The Yorkville facility, located in Yorkville, Ohio, is a cold finishing plant including a pickling line, batch annealing furnaces, an electrolytic cleaning line, a five stand light gauge tandem mill and two temper mills. The plant converts hot-rolled steel to cold-rolled to be further processed at the Ohio Coatings Company, a 50.0 percent joint venture tin plating line, Severstal Wheeling's Martins Ferry location, as well as for sale to third parties. Yorkville is located on a 789 thousand square meter site, of which 255 thousand square meters is currently used for manufacturing operations.

**Allenport.** The Allenport facility, located in Allenport, Pennsylvania, on a 1.6 million square meter site, has the capability to produce cold-rolled sheet steel for a wide range of industries and applications including automotive, appliance and construction. The 364 thousand square meter facility was idled in May 2008.

**MSC.** MSC's coke operations are located on a 320 thousand square meter site in Follansbee, West Virginia. MSC's site is strategically located on the Ohio River in the industrialised Midwestern United States, with easy access to logistics and transportation networks. MSC coke operations include four active coking batteries with 224 total ovens. The Old Block complex batteries, which are comprised of MSC's #1, #2 and #3 coke batteries, were originally constructed in 1955, 1953 and 1964, respectively. Key features of the Old Block include: two pushers, two door machines, two larry cars, two hot cars, two locomotives and a

new quench tower. MSC's #8 coke battery was originally constructed in 1976 and underwent a major overhaul beginning in 2005. Key features of the #8 battery include: two pushers, two door machines, two larry cars, two hot cars, one locomotive and two quench towers.

*Coal Storage & Handling.* Coal is unloaded from river barges with two unloaders that operate two turns per day. Coal is then either sent to on-site storage (up to approximately 170 thousand tonnes/40 day total storage), or is processed via MSC's pulverising and mixing operations and sent to MSC's two coke battery coal storage bunkers, which provide up to 1,350 tonnes of storage capacity for the Old Block complex and up to 1,800 tonnes of storage capacity for the #8 battery.

*#8 Battery.* 79 six-meter ovens in service, capable of pushing 99 ovens per day. In total, the #8 battery is capable of producing up to two thirds of MSC's total furnace coke production capacity.

*Old Block Complex.* This complex has a total of 145 three-meter ovens in service, which are capable of pushing 160 ovens per day. The Old Block complex is capable of operating independent of MSC's #8 battery given its own separate quenching tower, bag house and belt conveying systems. In total, the Old Block's three batteries are capable of producing up to one third of MSC's total furnace coke production capacity.

*Coke Storage & Handling.* Coke from MSC's Old Block complex and #8 battery is screened and furnace coke is either loaded directly into rail cars for shipment or sent to MSC's on-site storage facilities, which provide up to 135 thousand tonnes of storage capacity.

*By-Products Facilities.* MSC is capable of converting a significant portion of its by-product materials into revenue generating sales through its broad array of by-product processing equipment, which includes:

- two primary coolers;
- four oven exhausters;
- three detarrers;
- gas desulfurisation facility which produces 93.0 percent sulfuric acid;
- ammonia-saturators;
- ammonia sulfate processing and drying facilities;
- three final coolers;
- two benzol scrubbers; and
- three gas pressure boosters.

*Waste Water Treatment.* MSC's operating facilities also include a state-of-the-art biological treatment plant, which utilises activated carbon polishing.

### Supply Chain: Raw Materials and Energy

The following table sets out consumption of various raw materials by Severstal North America in 2008 and 2009.

#### *Consumption of Raw Materials and Energy—Severstal North America*

Raw materials	Year ended 31 December	
	2008	2009
	(thousand tonnes, except as otherwise noted)	
Iron ore . . . . .	7,478.3	5,263.7
Coal . . . . .	1,500.1	791.3
Hot briquetted iron and pig iron . . . . .	276.0	299.0
Coke . . . . .	2,171.3	1,608.4
Metal Scrap . . . . .	2,958.3	2,432.5
Ferro Alloys . . . . .	59.4	38.0
Fluxes . . . . .	244.1	143.2
Other Materials . . . . .	35.2	26.7
<b>Energy</b>		
Electricity (millions of kilowatt-hours) . . . . .	4,360.0	3,530.3
Natural Gas (1,000 cubic meters) . . . . .	753,430.6	514,164.2

**Dearborn.** The principal raw materials used by Dearborn to produce steel include iron ore pellets, coke and metal scrap. Dearborn does not maintain a minimum reserve of raw materials with the exception of iron ore pellets, which are delivered by ship. The Great Lakes shipping channels are typically closed during the period from January to March, and accordingly, Dearborn accumulates a 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 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 reference to then current market price, expiring at the end of 2022. Dearborn has committed to purchase all of its iron ore requirements from Cliffs Natural Resources through this period, including a minimum volume of 2.5 million tonnes per year from 2010 to 2022. Dearborn consumed approximately 2.5 million tonnes of iron ore per year in 2008 and 2009.

**Coke.** In 2009, Dearborn received approximately 275 thousand tonnes of coke from MSC. 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 Dearborn production processes. Approximately 20.0 percent of the BOF vessel charge is scrap and the remaining 80.0 percent is liquid iron. Dearborn also uses scrap-processing services, which allows 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, Dearborn believes that its strategic location in a region with significant sources of prime automotive scrap brings it an advantage in transport costs. 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 56.0 percent of the total scrap, compared with approximately 41.6 percent in 2008 and 41.7 percent in 2009.

**Purchased slabs.** Dearborn purchases slabs (semi-finished products) in order to produce incremental hot sheet products. In 2008, Dearborn purchased 67,510 tonnes of slabs from Lucchini, Valley Works and Severstal Warren. In 2009, Dearborn purchased a total of 179,286 from other companies including Sparrows Point, Severstal Warren and Severstal Wheeling. In 2010, Dearborn plans to purchase

approximately 276 thousand tonnes, all of which are expected to be purchased at spot market prices, pursuant to supply contracts. Of this amount, approximately 20 thousand tonnes are expected to be from the Cherepovets Steel Mill, 100 thousand tonnes from Severstal Warren and 56 thousand tonnes from Sparrows Point. The increase in the purchase of slabs in 2009, compared to 2008, is primarily due to blast furnace operating issues that occurred in the first quarter of 2009 and the depreciation of the US Dollar compared to the Euro, making it uneconomical for Dearborn to purchase and roll slabs to compensate for the reduction in crude steel production at Dearborn as a result of the closure of blast furnace “B” in 2008.

*Electricity.* Dearborn’s electricity requirements total approximately 0.6 million megawatt-hours per year. Electricity is purchased from DTE Energy, a local public utility, under two contracts which expire in 2013 and 2016. The contracts provide for firm power at a competitive price and interruptible power at a lower rate. In 2008, Dearborn received approximately US\$177 million from CMS Energy Corporation, an affiliate of DIG for the termination of an electricity supply arrangement that was otherwise to extend until 2030. The termination was at the request of DIG and the lump sum payment broadly compensates Dearborn for the differential in price it is likely to have to pay another supplier for the duration of the original arrangement.

*Natural gas.* Dearborn purchases gas on the open market from Southwest Energy LP. The gas is transported to Dearborn by the natural gas provider Michcon Pipeline, a subsidiary of DTE Energy, pursuant to a contract that expires in 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. In 2008, a significant amount of scrap was provided by Jefferson Iron and Metal Brokerage, Inc. (*Jefferson*) pursuant to a long-term contract that initially expires in 2012, but, absent notice of termination, will be automatically renewed for subsequent one year terms. Jefferson procures and manages Severstal Columbus’ inbound scrap supply, although Severstal Columbus holds title to inbound supply after procurement. Jefferson’s minimum commitment is to provide 30,500 tonnes per month.

The purchasing department of Severstal North America works with Jefferson to solicit bids for scrap in the market. The availability and price of scrap under the Jefferson contract are subject to market conditions. In addition to scrap purchased through Jefferson, Severstal Columbus has scrap buyback programmes with some of its 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. Using specially designed trucks, scrap can be transported back to Severstal Columbus in the same vehicle that delivers steel products to these customers, offering a substantial freight savings. Any remaining scrap needed by Severstal Columbus is purchased directly on the open market from one or several of the more than 50 vendors from which Severstal Columbus has purchased scrap in the past.

*Pig iron, HBI and DRI.* Stena Metal, Inc. (*Stena*) procures and manages Severstal Columbus’ international inbound pig iron, HBI and DRI supply. The supply procured by Stena is stored on consignment at Severstal Columbus’ facility and title passes to Severstal Columbus upon its notice to Stena to release such supply. Severstal Columbus also purchases pig iron from Consolidated Mill Supply, Inc. and StemCor USA, Inc. and from the Cherepovets Steel Mill and Sparrows Point at market prices.

*Electricity.* Severstal Columbus purchases electricity 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 expire in 2011 and 2012. 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 purchases natural gas from Atmos Energy Marketing, LLC pursuant to a contract that, absent default, is terminable on 30 days written notice. 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 fixed price contract with Atmos Energy Corporation that initially terminates in 2011, but, absent notice of termination, will be automatically renewed for a subsequent one year terms.

**Sparrows Point.** Sparrows Point's key raw materials and energy sources are iron ore, pulverised coal, coke, electricity, natural gas, oxygen and nitrogen. Key current supply relationships for these commodities include:

**Iron Ore Pellets.** Iron ore pellets are primarily supplied by Iron Ore Company of Canada (**IOC**) and Cliffs Natural Resources. The IOC contract for 1.7 million tonnes per year expires at the end of 2014 and provides approximately 66.0 percent of Sparrows Point's iron ore requirements when the blast furnace is operating. Pricing is based on the Eastern Canadian World Price (**ECWP**) index. The Cliffs Natural Resources contract for 0.42 million tonnes per year expires at the end of 2011 and provides for up to approximately 16.0 percent of Sparrows Point's iron ore requirements based on the present expectation for the operating rate at Sparrows Point. Pricing is based on the IOC contract price. The balance of Sparrows Point's iron ore requirements is currently purchased from Severstal Resources and on the spot market from a number of suppliers.

**Iron Ore Fines.** Sparrows Point currently intends to restart its sinter plant early in 2011. Severstal North America is in the process of negotiating an iron ore fines supply contract with multiple potential vendors.

**Coal.** Pulverised coal is supplied through DTE Coal Services, a subsidiary of DTE Energy, under an annual contract that expires in July 2012. Coal is purchased annually from multiple suppliers.

**Coke.** Coke is purchased under contract from Mittal Steel pursuant to a service agreement that extends through 2020 and provides for up to 240 thousand tonnes of coke per year (approximately 25.0 percent of annual requirements). The balance of Sparrows Point's coke requirements is purchased on the spot market from a number of suppliers.

**Electricity and natural gas.** Sparrows Point purchases electricity from various providers within the Pennsylvania, Jersey, Maryland Power Pool (**PJM**) deregulated market. In this deregulated environment, electricity is purchased at the spot market rate, which changes based on supply and demand factors. In addition, Sparrows Point is capable of generating 120 MW of power from its wholly-owned power plant. The power plant is capable of using blast furnace gas, natural gas, and oil to generate electricity. Natural gas is procured on the open market from competitive sources.

**Oxygen and nitrogen.** Oxygen and nitrogen are provided by Air Products and Chemicals, Inc. under a contract, which runs through March 2015. Air Products and Chemicals, Inc., has built an air separation facility on-site to service Sparrows Point.

**Severstal Warren.** Severstal Warren's key raw materials and energy sources are iron ore, coke, industrial gases, electricity and natural gas. Key supply relationships for these commodities include:

**Iron Ore.** Currently, Severstal Warren purchases iron ore pellets from Cliffs Natural Resources pursuant to a ten-year contract that expires in 2014 and provides for 100.0 percent of Severstal Warren's requirements. The purchase price is based on three Producer Price Indices: Industrial Commodities Less Fuels; Fuel and Related Products; and hot-rolled and cold-rolled market pricing, in addition to the benchmark world pellet price.

**Coke.** The majority of Severstal Warren's coke requirements are currently sourced under a long-term contract with DTE Energy. The contract expires in 2021 and provides for up to 325 thousand tonnes of coke annually, with pricing based on "coal cost plus conversion cost." The remainder of Severstal Warren's coke requirements is currently sourced from MSC.



Severstal Warren has explored an alternative to improve its fuel mix by introducing pulverised coal as another fuel injected into the blast furnace. Pulverised coal benefits Severstal Warren by replacing more expensive fuels such as coke or natural gas. Severstal Warren could choose to have pulverised coal delivered to its facilities or to construct a facility on-site that would both receive and pulverise coal. Both options require the construction of an on-site storage facility and distribution system.

**Industrial Gasses.** Industrial gasses are purchased under contract from Linde North America Inc. (**Linde**) under a long-term agreement that extends to 2017. Pricing is adjusted annually based on market indices.

**Electricity.** Severstal Warren does not have any contractual commitments for the purchase of its electricity. Electricity is purchased at prevailing market rates.

**Natural gas.** Severstal Warren purchases natural gas on the open market from Dominion Resources, Inc. The gas is transported to Severstal Warren by Dominion East Ohio Gas Company pursuant to a contract that expires in 2015.

**Severstal Wheeling.** Severstal Wheeling's largest variable cost purchases are for key raw materials such as iron ore, coke and metallics. Key current supply relationships for these materials include:

**Iron ore.** Iron ore pellets have historically been supplied through long-term contracts with Vale S.A. and Cliffs Natural Resources. The Vale contract expired in March 2010. The Cliffs Natural Resources contract expires in December 2011 and provides for up to 25.0 percent of Severstal Wheeling's annual iron ore pellets needs, with pricing based on three indices and the ECWP. Due to reduced market demand and the idling of Severstal Wheeling's crude steel production operations, no iron ore pellets were purchased in 2009 and none are expected to be purchased in 2010. Severstal Wheeling is well located to receive iron ore pellets from the Great Lakes region, if desired, or to source pellets from the rest of the world by river through the port of New Orleans.

**Coke.** Severstal Wheeling has the flexibility to source substantially all of its coke requirements from MSC. The MSC joint venture agreement stipulates that each partner has the obligation to purchase 50.0 percent of MSC's monthly coke production at the net production cost incurred by MSC, plus an additional charge to cover ongoing capital expenditure requirements.

**Scrap.** Severstal Wheeling's scrap requirements are purchased on the spot market from multiple suppliers. Severstal Wheeling's strategic location enables it to source scrap effectively from local markets as well as from the Pittsburgh and Cleveland areas. Severstal Wheeling can also reach into Southern markets due to its location on the Ohio River.

**Utilities.** Severstal Wheeling purchases electricity from the local power providers, American Electric Power (**AEP**) and Allegheny Power, under government regulated tariffs. Management is in the process of exploring some opportunities with AEP that could impact electricity costs. In addition, Severstal Wheeling receives power from a co-generation plant that is capable of utilising Mingo Junction's blast furnace gas in addition to natural gas. Severstal Wheeling has also recently completed a project that will allow the co-generation plant to consume coke oven gas as well. Natural gas is procured on the open market from Integrys Energy and Eagle Energy.

**Industrial Gasses.** Industrial gasses are purchased under contract from Linde at Mingo Junction and Yorkville, and Praxair Inc. (**Praxair**) at Allenport. The Linde contract extends to 2015 and the Praxair agreement expires in 2014. Pricing is adjusted annually based on market indices.

**MSC.** MSC's largest variable cost purchases are metallurgical coal and raw materials. Key supply arrangements for metallurgical coal include high volatile coal and low volatile coal.

High volatile coal is purchased from Central West Virginia Energy Company, a division of Massey Energy (**Massey**), under a long-term contract that expires in October 2010. The Massey contract provides for 100.0 percent of MSC's high volatile coal requirements, however, due to the recent closure of its Upper Big Branch mine, Massey is currently only supplying approximately 56.0 percent of MSC's needs. The remaining 44.0 percent is currently being purchased on the spot market from multiple suppliers. Massey has agreed to continue to ship 54 thousand tonnes of coal per month from November 2010 through May



2011 to make up for the shortfall. Severstal North America is currently negotiating a multi-year contract to replace the Massey contract after expiration.

MSC's low volatile coal requirements are purchased from PBS Coals. MSC also has the capability to purchase low volatile coal in the spot market from a number of potential suppliers.

### Products

The following table shows Severstal North America's production for the years ended 31 December 2008 and 2009:

#### *Total Output—Severstal North America Division*

	Year ended 31 December	
	2008	2009
	(thousand tonnes)	
<b>Total output</b>		
Hot metal . . . . .	3,201	3,456
Crude steel . . . . .	5,100	5,455
Hot-rolled strip and plate . . . . .	4,772	5,236
Cold-rolled sheet . . . . .	2,387	2,937
Galvanised and other metallic coated sheet . . . . .	1,400	1,600
Metalware products . . . . .	92	156

The following table shows Severstal North America's sales by product for the years ended 31 December 2008 and 2009:

#### *Sales by products—Severstal North America Division<sup>(1)</sup>*

Product	Year ended 31 December	
	2008	2009
	(thousand tonnes)	
Hot-rolled strip and plate . . . . .	2,215	2,029
Cold-rolled sheet . . . . .	1,088	1,334
Galvanised and other metallic coated sheet . . . . .	1,490	1,720
Colour-coated sheet . . . . .	17	60
<b>Total rolled products</b> . . . . .	<u>4,810</u>	<u>5,143</u>
Metalware Products . . . . .	70	125
Slabs . . . . .	294	47
Pig iron . . . . .	10	—
<b>Total semi-finished products</b> . . . . .	<u>304</u>	<u>47</u>
<b>Total steel products</b> . . . . .	<u>5,184</u>	<u>5,315</u>
<b>Others and shipping</b> . . . . .	—	—
<b>Total</b> . . . . .	<u><u>5,184</u></u>	<u><u>5,315</u></u>

Note:

(1) Includes intersegment sales.

The percentages in the following discussion are all for the year ended 31 December 2009.

### ***Dearborn.***

Most of Dearborn's crude steel production is further processed into finished steel products, including: hot-rolled sheet, cold-rolled sheet, hot-dip galvanised and electrogalvanised sheets and high-carbon, high-strength low-alloy, alloy and specialty steel sheets. Dearborn's products are consumed in a variety of

end markets, including automotive (43.0 percent of shipments), distributors (22.0 percent of shipments) and pipe and tube (13.0 percent of shipments).

***Severstal Columbus.***

Severstal Columbus's crude steel production is further processed into finished steel products, including hot-rolled sheet, cold-rolled sheet and hot-dip galvanised sheet steel. Severstal Columbus produces the following steel grades: commercial steel, drawing steel, deep drawing steel, extra deep drawing steel or interstitial free, structural steel, high-strength low alloy, and low-, medium- and high-carbon steels.

***Sparrows Point.***

Sparrows Point produces a broad range of flat-rolled steel products with no product category accounting for more than 22.0 percent of shipments. Sparrows Point has particular strengths in value-added steel products such as cold-rolled (26.0 percent of shipments), coated (22.0 percent of shipments) and tin/black plate (23.0 percent of shipments).

Sparrows Point's products are consumed in a variety of end-markets, including pipe and tube (9.0 percent of shipments), distributor (23.0 percent of shipments) and construction (24.0 percent of shipments). Sparrows Point enjoys leading market shares in construction-grade sheet products (hot-rolled, cold-rolled and coated) in the Eastern and Midwest regions of the United States and is the only producer of galvalume products on the Eastern Seaboard. In addition, Sparrows Point is a leading tin product supplier to packaging customers in the Northeast. At full operating capacity, Sparrows Point can ship 470 thousand tonnes of tin products annually.

***Severstal Warren.***

Severstal Warren produces both custom and commodity steel products, which each typically represent approximately 50.0 percent of annual production. Custom products are usually characterised by small order quantities, specialised chemistries, narrow widths, and value-added processing, with an emphasis on customer-specific quality requirements and just-in-time delivery. Custom products are typically produced in a variety of high carbon, alloy and ultra high strength grades. Commodity steel products produced at Severstal Warren consist primarily of hot- and cold-rolled low carbon sheet, and are manufactured according to generally accepted industry standards rather than customer-specific requirements.

***Severstal Wheeling.***

Severstal Wheeling produces a variety of flat-rolled steel products for multiple end-markets. Severstal Wheeling has particular strengths in hot rolled (59.0 percent of sales), cold-rolled (14.0 percent of sales), tin/black plate (13.0 percent of sales) and galvanised (12.0 percent of sales) products. Severstal Wheeling principally ships to customers in the pipe and tube (22.0 percent of sales), distributor (23.0 percent of sales), coil coater (19.0 percent of sales) and construction (20.0 percent of sales) end-markets.

***MSC.***

MSC primarily produces furnace coke and various screened fractions. MSC also generates significant revenues from the sale of coal chemical by-products such as coke oven gas, ammonium sulfate and tar to third parties. Surplus coke oven gas is sold to Severstal Wheeling for use as a process fuel and/or burning in a co-generation facility to produce steam and electricity. The amount of gas sold is as much as 100.0 percent of that available, depending upon which of Severstal Wheeling's facilities are operating. Historically, MSC has also generated revenue by selling its by-product steam and light oil by-products.

## Sales, Marketing and Competition

### Sales by products—Severstal North America Division

The following tables shows shipments to Severstal North America's top customers for the years ended 31 December 2009 and 2008:

<u>Severstal North America Top Customers shipped</u>	<u>Year ended 31 December 2009</u> (thousands of tonnes)
Ford . . . . .	390.5
Wheatland . . . . .	260.3
Worthington Steel . . . . .	173.6
GM . . . . .	165.3
Ohio Coatings Company . . . . .	113.9
NCI Companies . . . . .	105.6
The Techs . . . . .	97.7
 <u>Severstal North America Top Customers shipped</u>	 <u>Year ended 31 December 2008</u> (thousands of tonnes)
Ford . . . . .	451.1
Wheatland . . . . .	303.3
GM . . . . .	286.5
Arcelormittal Plate . . . . .	235.0
Worthington Steel . . . . .	200.4
Ohio Coatings Company . . . . .	160.9
Wheeling Nisshin . . . . .	152.9

The following table shows Severstal North America's sales by product for the years ended 31 December 2008 and 2009:

<u>Product</u>	<u>Year ended 31 December</u>			
	<u>2008</u>		<u>2009</u>	
	(thousand tonnes)	(US\$ million)	(thousand tonnes)	(US\$ million)
Hot-rolled strip and plate . . . . .	2,215	2,004	2,029	1,132
Cold-rolled sheet . . . . .	1,088	1,065	1,334	925
Galvanised and other metallic coated sheet . . . . .	1,490	1,549	1,720	1,536
Colour coated sheet . . . . .	17	29	60	70
<b>Total rolled products</b> . . . . .	<b>4,810</b>	<b>4,647</b>	<b>5,143</b>	<b>3,663</b>
Metalware Products . . . . .	70	128	125	187
Slabs . . . . .	294	294	47	21
Pig iron . . . . .	10	2	—	—
<b>Total semi-finished products</b> . . . . .	<b>304</b>	<b>294</b>	<b>47</b>	<b>21</b>
<b>Total steel products</b> . . . . .	<b>5,184</b>	<b>5,069</b>	<b>5,315</b>	<b>3,871</b>
<b>Other and shipping</b> . . . . .	<b>—</b>	<b>250</b>	<b>—</b>	<b>152</b>
<b>Total</b> . . . . .	<b>5,184</b>	<b>5,319</b>	<b>5,315</b>	<b>4,023</b>

The following table shows sales by volume for Severstal North America for domestic US sales and export sales for the years ended 31 December 2008 and 2009.

<u>Market</u>	<u>Year ended 31 December</u>	
	<u>2008</u>	<u>2009</u>
	(percent of sales by volume)	(percent of sales by volume)
US sales . . . . .	92.4	96.9
Export sales . . . . .	7.6	3.1
<b>Total</b> . . . . .	<b>100.0</b>	<b>100.0</b>

The following table shows the revenues of Severstal North America by industry sector for the years ended 31 December 2008 and 2009.

*Revenues by Industry Sector—Severstal North America Division*

Industry sector	Year ended 31 December	
	2008 (percent of revenues)	2009 (percent of revenues)
Automotive . . . . .	24.2	22.1
Service centers . . . . .	21.9	23.8
Converters . . . . .	31.1	23.6
Other . . . . .	22.8	30.5

Severstal North America has a national sales organisation which is structured into three geographic regions: Midwest, Eastern and South/West, and a separate Automotive team that covers all geographic areas. There are 32 individuals across all regions who are involved in direct selling, including account managers and sales managers. Each member of Severstal North America's sales team sells all products produced from any company of the Group. Order entry and customer service teams are located at each company. There are 45 individuals in customer service, with between 9 and 12 at each location in addition to an automotive customer service team.

Marketing and sales administration activities for Severstal North America, including analysis, forecasting, planning, market research and systems, are conducted for all companies by Severstal North America's corporate marketing department located in Dearborn, Michigan.

MSC does not currently require any direct sales support as all of its production is consumed within Severstal North America. If MSC were to engage in sales to third-party steel producers, a direct sales team could be established leveraging Severstal North America's existing sales force and selected outside hires.

**Competition**

Severstal North America competes directly with domestic and foreign flat-rolled carbon steel producers and producers of plastics, aluminium and other materials that can be used in place of flat-rolled carbon steel in manufactured products. Severstal North America competes principally on the basis of price, service, quality and the ability to meet the customers' product specification and delivery schedules.

The following table shows crude steel produced by Severstal North America's principal competitors for the years ended 31 December 2007, 2008 and 2009:

*Principal Competitors of Severstal North America*

Company	Year ended 31 December		
	2007	2008	2009
	(millions of tonnes)		
AK Steel . . . . .	5.9	5.3	3.5
ArcelorMittal . . . . .	16.4	13.3	7.3
Gallatin . . . . .	1.4	1.3	0.8
NLMK America* . . . . .	0.9	0.9	0.6
NordStar BHP* . . . . .	1.2	1.2	0.7
Nucor . . . . .	20.8	18.7	12.5
Steel Dynamics . . . . .	4.9	4.8	3.5
US Steel . . . . .	12.8	11.3	7.0

Sources: World Steel Dynamics (*WSD*), CRU

Note: \* estimated based on US steel capacity utilisation and WSD steelmaking capacity

The United States steel industry is a cyclical business that is highly competitive. In the United States, Severstal North America competes with many domestic integrated steel companies as well as with electric-furnace-based mini-mills, which generally have resulted in a more flexible maintenance cost structure than

integrated steel producers and derive certain competitive advantages by utilising a less capital-intensive steel-making process. 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 kilometres of the production facility.

### Capital Expenditure Programme

The following table sets forth the estimated capital expenditure requirements from 2010 to 2014 for Severstal North America:

*Estimated Capital Expenditure Requirements from 2010 to 2014—Severstal North America*

Facilities	Estimated cost				
	2010	2011	2012	2013	2014
	(US\$ million)				
<b>SNA Major Projects</b>					
<b>Dearborn</b>					
Pickle line and tandem cold mill ( <i>PLTCM</i> ) . . . . .	109.8	113.1	0.5	0.0	0.0
Exposed hot-dip galvanising line ( <i>HDGL</i> ) . . . . .	17.1	123.2	2.0	0.0	0.0
<b>Severstal Columbus</b>					
Phase II . . . . .	71.0	208.0	20.0	0.0	0.0
<b>SNA Other</b> . . . . .	10.5	101.5	7.4	0.9	0.9
<b>Total</b> . . . . .	<u>208.4</u>	<u>545.8</u>	<u>29.9</u>	<u>0.9</u>	<u>0.9</u>

Note: Excluding maintenance capital expenditure

**Dearborn.** Dearborn's capital expenditure programme is designed to replace or refurbish major equipment, increase productivity and efficiency, make environmental improvements, improve product quality and develop Dearborn's product mix.

Dearborn's modernisation programme is in progress with several projects completed to date, including (i) the modernisation and expansion of 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 Dearborn to significantly reduce natural gas consumption.

In addition to the recently completed projects, two major projects are underway:

- the construction of a new continuous pickle line and tandem cold mill, which is expected to decrease operating costs and allow Dearborn to produce steel products that will be required by its automotive customers in the future.
- The construction of a new exposed hot-dip galvanising line (*HDGL*).

Dearborn is working to obtain a US\$720 million term loan from the United States Department of Energy (the *DOE Loan*) under its Advanced Technology Vehicles Manufacturing Incentive Programme. The DOE Loan will finance the PLTCM, the HDGL, a new continuous annealing line and associated infrastructure. This loan is expected to have a 12 to 20 year amortisation period and an interest rate that approximates the United States Treasury's cost of funds.

**Severstal Columbus.** The Severstal Columbus capital expenditure programme is primarily aimed at the completion of Phase II of its expansion plan, scheduled to be completed at the beginning of 2012.

The Phase II expansion plan is expected to increase total annual capacity of Severstal Columbus to 3.0 million tonnes. Construction of all required buildings has been completed and certain equipment for the Phase II expansion has been purchased. The remaining projected expenditures to complete the Phase II expansion will be used for the construction of certain supporting systems (power distribution, water, piping and electrical), the purchase of remaining equipment and installation.

## Employees

**Dearborn.** As at 31 August 2010, Dearborn had 1,633 employees, including 61 employees devoted to corporate activities. Hourly employees of Dearborn are represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (the *UAW*). Dearborn and the UAW have a labour agreement with a five-year term which expires on 31 March 2012. The labour agreement provides for 401(k) plans, health insurance, life insurance and a defined contribution retirement plan.

**Severstal Columbus.** As at 31 August 2010, Severstal Columbus had 535 employees. 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.

**Sparrows Point.** As at 31 August 2010, Sparrows Point had 1,662 employees. The hourly employees of Sparrows Point are represented by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers Union International Union (*USW*) under a day-to-day extension of the collective bargaining agreement. Sparrows Point employees participate in 401(k) plans. Sparrows Point maintains health insurance and life insurance programmes for both its USW and salaried employees. For active USW employees of Sparrows Point, there is a retiree insurance benefit plan that has a co-insurance of 25.0 percent. Active USW employees of Sparrows Point also participate in the Steelworker Pension Trust (multi-employer plan) rather than a defined benefit plan. Severstal North America continues to work with the USW to pursue its restructuring plans to achieve lower costs and higher levels of productivity and expects to come to a mutually acceptable set of terms and conditions.

**Severstal Warren.** Severstal Warren has 867 employees working as at 31 August 2010. Following completion of its restart plan, Severstal Warren expects to reach a targeted level of 811 employees. This targeted level assumes Severstal Warren's current operating configuration and the implementation of all planned workforce restructuring efforts. Severstal Warren's hourly employees are represented by the USW under the same conditions as employees of Sparrows Point.

Severstal Warren's workforce represented by the USW is eligible to receive quarterly profit-sharing payments based on profit per tonne shipped. Severstal Warren also offers 401(k) plans to both hourly and salaried employees. The workforce represented by the USW also participates in a defined benefit pension plan. Severstal Warren also offers its retired hourly and salaried employees a defined benefit healthcare plan that provides postretirement medical benefits for health care, life insurance and surviving spouse benefits.

**Severstal Wheeling.** Severstal Wheeling has 622 employees working as of 31 August 2010. Following completion of its restart as a mini-mill, Severstal Wheeling expects to reach a targeted level of 1,260 employees. Severstal Wheeling's hourly employees are represented by the USW under the same conditions as employees of Sparrows Point.

Severstal Wheeling USW employees are eligible to receive quarterly profit sharing payments. The USW workforce also participates in the USW Steelworker Pension Trust (a multi-employer plan). Severstal Wheeling offers 401(k) plans and maintains health and life insurance programs for both its hourly and salaried employees.

**MSC.** MSC has 426 employees working as of 31 August 2010. The employees at MSC work under the same collective bargaining agreement as Severstal Wheeling and they share the same benefits as Severstal Wheeling employees.

## Health, Safety and Environment

**Health and Safety.** Severstal North America has striven to improve its safety performance through programs that involve employee safety awareness training, safety compliance audits, daily safety briefings, cardinal safety rules, supervisor safety leadership training and electronic safety concern tracking systems to ensure timely closure of identified issues.

**Environment.** Severstal North America's management believes it is in substantial compliance with environmental laws, rules and regulations.



## Insurance

Severstal North America maintains insurance covering its plant, property, and equipment, in order to provide adequate capital availability in the event of a significant property loss. Severstal North America'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 North America 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.

## Discontinued Operations—Lucchini

In October 2006, the Group acquired from the Majority Shareholder a controlling interest in Lucchini, which produces special and high-quality steel and quality and specialty long products for the European market. 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, the Group has decided to dispose of Lucchini, reflecting it as an asset held for sale and a discontinued operation in the Interim Financial Statements.

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 a 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 believes that the sale of this controlling stake will improve the Group's financial stability and provide additional flexibility for the negotiations of amendments to the terms of Lucchini's credit agreements.

In accordance with IFRS requirements, the Group still continues 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. The Group's management is still committed to the sale of Lucchini within the next twelve months to a third-party and considers such a sale as highly probable.

## SEVERSTAL RESOURCES

Severstal Resources is comprised of iron ore production, coal production and gold production, as well as a smaller ferroniobium mining operation.

- The Group's Iron Ore business is comprised of two iron ore extracting complexes: Karelsky Okatysh, which produces iron ore pellets, and Olkon, which produces iron ore concentrate, as well as of two iron ore projects in Africa: 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 investments in Core Mining which controls exploration licenses for Avima iron ore deposit in Republic of Congo and the Kango iron ore deposit in republic of Gabon. Karelsky Okatysh, located in the Karelia Republic, produces iron ore pellets and had an annual iron ore output of 25.9 million tonnes in 2009 and plans to increase it up to 33 million tonnes by 2020 and estimated JORC iron ore reserves and resources of approximately 508 million tonnes and 1,231 million tonnes, respectively. Olkon, located in the Murmansk region of Russia, produces iron ore concentrate and had an annual iron ore output of 14.1 million tonnes in 2009 and plans to increase it up to 15.1 million tonnes by 2013 and estimated JORC iron ore reserves and resources of approximately 120 million tonnes and 363 million tonnes, respectively. Liberia's Putu Range iron ore project has estimated resources of 1,077 million tonnes based on report issued by SRK Consulting Ltd in August 2009 prepared under the Guidelines of National Instrument 43-101. Core Mining projects in Congo and Gabon are at an early exploration stage and have no estimated ore resources.
- The Group's Coal business comprises Vorktaugol and PBS Coals. Vorkutaugol comprises five longwall mines, an open pit mine, and three washing plants. It extracts both coking and steam coal. PBS Coals operates open mines and deep room and pillar mines in the United States. It extracts coking and steam coal, and produces coking coal concentrate. Vorkutaugol, located in the Komi Republic,

produces coking and steam coal and had ROM of 10.6 million tonnes in 2009 and plans to increase it up to 13 million tonnes by 2013 and estimated JORC coal reserves of approximately 269 million tonnes. PBS Coals, located in South-West Pennsylvania, United States, produced 2.9 million tonnes of ROM in 2009 and plans to increase it up to up to 7.7 million tonnes by 2015 and estimated NI 43-101 coal reserves and resources of approximately 49 million tonnes and 223 million tonnes.

- The Group's gold business comprises the Group's gold mining assets recently consolidated under NordGold, Severstal's gold mining subsidiary. NordGold includes eight producing mines, two development projects, five advanced exploration projects and a broad portfolio of early exploration projects and licensees located across West Africa in Guinea and Burkina Faso, Kazakhstan and the Russian Federation.

Severstal Resources was the largest producer of hard coking coal and the second largest producer of iron ore pellets in Russia in 2009, according to Rudprom and Rasmin, respectively. With the capacity to supply all of the current iron ore and hard coking coal needs of the Russian Steel Division, 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 40 million tonnes of iron ore output, and ROM of 13.5 million tonnes of coal in 2009. Severstal Resources estimates that, as at 31 December 2009, it had iron ore reserves and resources of approximately 628.2 million tonnes and 2,670.6 million tonnes, respectively, and coal reserves and resources of approximately 318.0 million tonnes and 222.8 million tonnes, respectively, based on reports issued by IMC Consulting Ltd dated June 2006, prepared in accordance with JORC reporting standards (assets in Russia), by SRK Consulting Ltd dated August 2009 prepared under the Guidelines of National Instrument 43-101 (Putu deposit, Liberia) and by the John T. Boyd Company dated 30 May 2008 under the Guidelines of National Instrument 43-101 (PBS Coals).

## **Mining at a glance**

### ***Open pit mining***

The Group's iron ore production and a portion of its gold 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 beneficiation 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 and heap or agitation leaching for gold.

### ***Underground mining***

The majority of coal and a portion of gold ore are mined by means of underground mining techniques, using a system of shafts, declines, stopes or faces. The Group uses the following underground mining methods: ore blasting for hard gold ore, 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 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 65.0 percent. Karelsky Okatysh operates two major deposits that have an estimated life of 34 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 29.0 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 0.72 in 2009. The iron content in the ore is medium (28.6 percent total iron, 24.2 percent iron magnetite), though it is well suited for wet magnetic beneficiation. The deposit produces high-quality concentrate (68.4 percent iron) and pellets (63.0 to 65.0 percent iron). The Kostomuksha deposit has an iron ore output of 17.7 million tonnes at 29.0 percent iron per year.

**Korpanga.** In 2007, a mine opened at the Korpanga deposit, which consists 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 8.3 million tonnes at 28.0 percent total iron per year.

Extracted ore is delivered to the beneficiation plant by railway. The beneficiation plant is located seven kilometres from the central section of the Kostomuksha deposit and 25 kilometres from Korpanga. The beneficiation plant output was 9.3 million tonnes of concentrate (representing 25.6 million tonnes of input ore, excluding residual ore at transfer stocks and hoppers at the plant) in 2009. The Group believes that this capacity could be increased to 11.9 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-haematite quartzite ores and produces high-quality iron ore concentrate. Currently, ore mining is carried out in five open pits: Olenegorsky, Kirovogorsky, Baumansky, 15-Letiya Oktyabrya and Komsomolsky in conjunction with the new site at the Olenegorsky underground mine, which was built in 2005. Olkon has recently acquired two additional mining licenses for the Kurkenpahk and Vostochny deposits totalling around 50 million tonnes of non-JORC reserves, estimated according to the Russian methodology in A,B,C1 and C2 categories, suitable for open pit mining. Olkon's deposits have an estimated life of 19 years based on the Group's estimates of JORC reserves plus reserves extension.

There are 87 million tonnes of ore within the existing boundary of the open pits. Additionally, The Group plans to begin mining operations at satellite deposits such as Kurkenpahk and Vostochny. The average iron content in the Olkon reserves is 27.0 percent total iron and 22.0 percent iron magnetite. Olkon produces iron ore concentrate with an average iron content of 65.7 percent. The average stripping ratio was 0.81 in 2009. The annual ROM output has been increased from 12.0 to 14.1 million tonnes over the past few years. A further increase to approximately 15.1 million tonnes is planned once the satellite deposit mines are fully operational. The ore from the Kirovogorsky, Baumansky, 15-Letiya Oktyabrya 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 2009.

**Putu Range.** The Putu Range iron ore project is located in Liberia, 120 kilometres inland from the coast. According to a report by SRK Consulting Ltd., resources at Putu Range amount to 1,077 million tonnes at an average grade 37.6 percent of total iron. Extensive drilling is currently underway as part of the Bankable Feasibility Study, scheduled for completion in 2014. Production commencement is expected in 2017 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.

### **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 47 and 21 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 and one open pit. 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", "Zapolyrnaya" 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 Pyatyy seam is 0.9 metres thick and is currently extracted using plough technology. Total ROM output in 2009 was 6.7 million tonnes.

There is only one seam of workable thickness at the Vorgashorskaya mine. The total seam thickness is between 3.0 metres and 3.6 metres. The mine has two high-productivity faces, with an annual ROM output of 3.4 million tonnes in 2009. Some ROM coals are processed at the central Pechorskaya plant.

There is one open pit in operation, the Un'aginskoe mine, with an annual ROM of 0.5 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 8.5 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.

**PBS Coals.** PBS Coals is a coking and steam coal producer located in the United States. It operates several surface and underground mining complexes near Somerset, Pennsylvania. PBS Coals had a total output of 2.9 million tonnes in 2009. Planned production increases are expected to result in ROM up to 7.7 million tonnes of production by 2015. According to a report by the John T. Boyd Company dated 30 May 2008, under the Guidelines of National Instrument 43-101, estimated coal reserves and resources of approximately 49 million tonnes and 223 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.

### **Gold Facilities**

NordGold currently operates eight productive mines in Burkina Faso, Guinea, Kazakhstan and the Russian Federation. The Taparko mine in Burkina Faso, as well as the Irokinda, Zun-Holba and Berezitovy mines in the Russian Federation, are owned through High River Gold, in which the Group holds a 70.4 percent controlling interest, and the LEFA mine in Guinea is owned through Crew Gold, in which the Group holds a 93.4 percent controlling interest. NordGold maintains a 100.00 percent interest in each of the Neryungri, Aprelkovo and Suzdal mines, located in the Russian Federation. NordGold organises its business across three core regions:

#### **West Africa:**

- *Somita:* Comprises the Taparko mine in Burkina Faso, an open pit gold mine consisting of three open pit deposits. In 2009, this facility produced 97.7 Koz of gold.
- *Crew Gold:* Comprises the LEFA mine in Guinea, an open pit gold mine consisting of two material open pit deposits. In 2009, the mine produced 178 Koz of gold.
- *Development West Africa:* Comprises a number of properties in the development and exploration stage located in West Africa. The key development project in West Africa is at Bissa, which is expected to begin production in 2013. The Group also has over 30 exploration permits in Burkina Faso, where exploration works are being carried out, and the assessment of exploration potential by Crew Gold in Guinea is currently underway.

#### **Kazakhstan:**

- *Celtic and Semgeo:* Comprises the Suzdal underground gold mine in Kazakhstan and gold deposits in the auxiliary open pit gold mines of Zherek and Balazhal in the vicinity of Suzdal, which are currently under technological review and exploration. In 2009, this operation produced 114.7 Koz of gold.

#### **Russia:**

- *Berezitovy:* Comprises an open pit gold mine located in the Amur region of the Russian Federation. In 2009, this operation produced 87.3 Koz of gold.

- *Buryatzoloto*: Comprises the operations of Zun-Holba and Irokinda, two underground gold mines, located in the Buryatia Republic of the Russian Federation. In 2009, this operation produced of 154.6 Koz of gold.
- *Neryungri-Metallik and Aprelkovo*: Comprises open pit gold mines in the Republic of Yakutia and Transbaikal region of the Russian Federation. In 2009, this operation produced 79.1 Koz of gold.
- *Development Russia*: Comprises properties in the exploration and evaluation stages located in the Russian Federation.

### 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 and Vorkutaugol assets is based on the report issued by IMC Consulting Ltd dated June 2006, which was prepared in accordance with internationally accepted standards set forth in the JORC code. Reserves and resource estimations for Severstal Resources' PBS Coals operations and the Putu Range iron ore project have been developed under the guidelines of National Instrument 43-101, which is the standard of public disclosure of information relating to mineral properties in Canada and essentially similar to Australasian JORC standard. Reports for PBS Coals and the Putu Range project have been prepared by the John T. Boyd Company and SRK Consulting, respectively (see also "*Industry—Mining Industry—International Reporting Methodologies*"). NordGold's proven and probable reserves totalled 9.1 Moz as at 1 July 2010. Of this total, reserves in West Africa accounted for 67.0 percent while reserves in the Russian Federation and Kazakhstan accounted for 25.0 and 8.0 percent, respectively. The measured and indicated resources totalled 12.5 Moz as at 1 July 2010, while inferred resources totalled 9.6 Moz, for a total of measured, indicated and inferred resources of 22.1 Moz. NordGold also has 103 Moz of inferred silver resources through its 50.0 percent interest in the Prognoz project. Of this total, resources in West Africa accounted for 48.0 percent while reserves in the Russian Federation and Kazakhstan accounted for 43.0 and 9.0 percent, respectively.



*Estimated Reserves and Resources—Severstal Resources<sup>(1)</sup>*

	Reserves	Resources	Reserves extension <sup>(6)</sup>
<b>Iron Ore</b>			
Karelsky Okatysh <sup>(2)(3)(4)</sup> . . . . .	507.8	1,231.0	56.0
Olkon <sup>(2)(3)(4)</sup> . . . . .	120.4	362.6	47.0
Putu <sup>(5)</sup> . . . . .	—	1,077.0	—
<b>Total</b> . . . . .	<b>628.2</b>	<b>2,670.6</b>	<b>103.0</b>
<b>Coal</b>			
Vorkutaugol <sup>(2)(3)(4)</sup> . . . . .	269.0	—	52.5
PBS Coals <sup>(7)</sup> . . . . .	49.0	222.8	—
<b>Total</b> . . . . .	<b>318.0</b>	<b>222.8</b>	<b>52.5</b>
<b>Gold<sup>(8)</sup></b>			
West Africa . . . . .	6.02	10.62	—
Kazakhstan . . . . .	0.72	1.97	—
Russia . . . . .	2.21	9.52	—
<b>Total</b> . . . . .	<b>8.95</b>	<b>22.11</b>	<b>—</b>

Source: (see Notes).

## Notes:

- (1) All numbers for iron ore and coal are presented in millions of tonnes, numbers for gold presented in Moz
- (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 of 31 December 2009
- (5) Inferred Resources based on SRK Consulting Report issued in August 2009
- (6) Estimation of Reserves extension based on Russian methodology: A,B,C1,C2 categories within current licenses
- (7) Reserves and Resources a report by the John T. Boyd Company dated 30 May 2008 under the Guidelines of National Instrument 43-101
- (8) Proven and Probable Gold Reserves; Measured, Indicated and Inferred Gold Resources (on a 100 percent basis including Crew Gold) as of 1 July 2010 (Company data)

**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 “Gazprom neft”, OAO “NK Rosneft”, “TNK-BP Holding” and OAO “Lukoil”. Suppliers are selected according to 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. In 2009, a total of 14 contracts were entered into with petroleum suppliers; however, usually only three to five suppliers actually supply petroleum products in any given month. 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 2009.



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 14.0 percent of its total supply chain requirements in 2009 and include electricity purchased from local energy producers, typically under annual contracts, with prices fixed for the duration of the term.

## 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 2009, iron pellets constituted 63.0 percent of Severstal Resources’ production of iron ore, and coking coal concentrate constituted 57.0 percent of its coal production.

The following table sets forth Severstal Resources’ volumes of extraction and production in 2008 and 2009.

### *Sales Volumes—Severstal Resources<sup>(1)</sup>*

Product	Year ended 31 December	
	2008	2009
	(thousands of tonnes, unless otherwise indicated)	
Coking coal . . . . .	746	180
Coking coal concentrate . . . . .	4,504	5,083
Steam coal . . . . .	1,983	3,885
Pellets . . . . .	9,164	8,763
Iron ore concentrate . . . . .	4,763	5,107
Gold (ounces) . . . . .	214,638	516,245
Ferroniobium (tonnes) . . . . .	146	296

Notes:

(1) Includes intersegmental 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 8.5 percent.

**Steam coal.** Vorkutaugol also produces steam coal. It is sold to local heating and power plants in the Komi region, as well as other industrial customers.

**Iron ore pellets and concentrate.** Karelsky Okatysh produces iron ore pellets. These have an iron content of 65.0 percent for non-fluxed and 63.2 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 65.7 percent. Currently these fines are shipped only to the Russian Steel Division where they are used as sinter feed, before being blended with coke and loaded into the blast furnace.

**Gold.** NordGold is gold producer operating a diverse portfolio of eight producing assets located in Burkina Faso, Guinea, Russia and Kazakhstan. In 2009, the gold production business produced approximately 529 Koz of gold. In 2009, production from the gold mines in the Russian Federation accounted for 60.0 percent of NordGold’s total production, while the gold mines in Kazakhstan and West Africa accounted for 22.0 percent and 18.0 percent, respectively. Over time, the proportion of production from the Russian Federation is expected to decrease relative to production from West Africa, including from the LEFA mine in Guinea.

Ore is mined either from underground mines or from open pits. The ore is then stored until it is able to be crushed and ground into a finer consistency, to be processed to obtain gold through one of the methods. Each method used by NordGold and the industry as a whole involves the use of cyanide to draw out the gold and other chemical processes that separate the gold from other elements in the ore. Gold is then extracted from the solution onto metal cathode bars, which are melted down and poured into doré bars, which primarily contain gold but which can also contain a small amount of silver or copper. Once the gold is poured into doré bars, the doré is collected and stored securely at the mines until an appropriate amount of doré has accumulated, when it is boxed and transported, via secure truck, helicopter or aircraft, to the refinery, where the doré is refined into gold bullion bars. The gold bullion is transferred to safe storage at a bank, which holds the gold until the Severstal gold business makes the decision to sell on the spot market.

NordGold has approximately 22.1 million ounces of measured, indicated and inferred resources according to JORC as of 1 July 2010, most of which are equally distributed between West Africa (44.0 percent) and Russia (43.0 percent) with the remaining 13.0 percent located in Kazakhstan.

*Ferroniobium.* Ferroalloys are being produced at a smelter located in Vishnevogorsk in the Ural Mountains in Russia. Current production is 450 tonnes of ferroniobium with a grading of 65.0 to 67.0 percent Nb. The smelter's total capacity is approximately 1,500 tonnes. Niobium concentrate for ferroniobium production is shipped from the Severstal's niobium mine operating in the Krasnoyarsk region of Russia.

### 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 gold, which accounted for approximately 27.4 percent sales by revenue in 2009. Coking coal concentrate and coking coal together accounted for approximately 24.2 percent of sales by revenue. Iron ore pellets accounted for approximately 21.6 percent of sales by revenue, while all other products represented 26.8 percent of Severstal Resources' sales by revenue.

The following table sets forth sales by product for Severstal Resources in 2009 and 2008.

#### *Sales by Product<sup>(1)</sup>—Severstal Resources*

Product	Year ended 31 December			
	2008		2009	
	(thousand tonnes)	(US\$ million)	(thousand tonnes)	(US\$ million)
Coking coal . . . . .	746	38.7	180	3.5
Coking coal concentrate . . . . .	4,504	650.5	5,083	449.3
Steam coal . . . . .	1,983	70.9	3,885	154.7
Pellets . . . . .	9,164	939.3	8,763	404.7
Iron ore concentrate . . . . .	4,763	341.6	5,107	180.5
Gold (ounces) . . . . .	214,638	190.4	516,245	512.3
Ferroniobium (tonnes) . . . . .	146	3.6	296	7.4
<b>Total sales by products . . . . .</b>	<b>—</b>	<b>2,235.0</b>	<b>—</b>	<b>1,712.4</b>
Others and shipping . . . . .	—	217.7	—	158.4
<b>Total sales revenue . . . . .</b>	<b>—</b>	<b>2,452.7</b>	<b>—</b>	<b>1,870.8</b>

Note:

(1) Includes intersegmental sales.

*Customers.* Within the Group, Severstal Resources sells iron ore pellets and coking coal to the Russian Steel Division and Severstal International.

In 2009, Severstal Resources' total iron ore and coal sales were 23 million tonnes, of which 12.4 million tonnes were sold to the Russian Steel Division and Severstal North America, 4.7 million tonnes were sold domestically and 5.9 million tonnes were exported. In 2009, Severstal Resources' total sales were

8.8 million tonnes of iron ore pellets and 5.1 million tonnes of coal concentrate. In 2009, Severstal Resources provided 100.0 percent of the pellets required by the Russian Steel Division. Severstal Resources estimates that its total production of pellets and coal concentrate in 2012 will be continue to satisfy demand by the Russian Steel Division for such products, with total production of pellets and coal concentrate increasing to 9.3 million tonnes and 7.7 million tonnes, respectively. In 2010, the estimated demand by the Russian Steel Division is expected to be 4.7 million tonnes of pellets and 3.4 tonnes of coking coal concentrate, and demand by Severstal North America is expected to be 0.6 million tonnes of pellets and 0.4 million tonnes of coking coal.

Since there has historically been a large number of available gold purchasers globally, NordGold is not dependent on sales of gold to any particular customer. Due to the size of the international bullion market and stockpiles of gold reserves, individual gold producers and other market participants generally do not significantly influence pricing or total quantities offered and sold.

Severstal Resources' main customers are domestic Russian and European steel producers. Severstal Resources' largest domestic customers, other than the Russian Steel Division, are Mechel and NLMK. Major European customers include Corus and ArcelorMittal. Additionally, smaller amounts of coal are also sold to steel producers, stand-alone coking companies and power plants.

Of Severstal Resources' exports by volume in 2009, 30.0 percent were sold to the European Union, 17.0 percent to Asia, 11.0 percent to Ukraine and 9.0 percent to Turkey and other countries, excluding sales to Severstal International and other related parties.

*Contracts.* Severstal Resources operates through direct contracts with customers. Usually contracts with domestic customers have a three-month term, after which both the volume and price may be reviewed. The majority of export sales are made through one to three-year contracts, with price terms reviewed annually. Severstal Resources contracts on an annual basis with Corus, its largest export buyer, and intends to increase the amount of sales organised under annual fixed price contracts in the future. It also intends to offer combined pellet and coking coal concentrate contracts for its main international customers.

At present, Severstal Resources enters into most contracts on a FOB, DAF and FCA delivery basis; however in the future, it intends to gradually move to CPT/CIF contracts. Because Severstal Resources ships large volumes, it is often able to negotiate discounts on freight and rail fees, resulting in better margins on its sales.

The Severstal gold business sells its gold in the form of bullion, which is kept for sale in gold accounts at Nomos Bank for the Group's Russian operations, at Metalor for the Kazakh operations, at Standard Bank for Burkina Faso operations and at MKS Finance S.A. for its Guinean operation. Most sales are currently made at the spot price. The decision whether to sell is made depending on the current market environment and sales are typically made at least each quarter. The exception is gold from Guinea refined at Pamp. Benchmark prices for gold are generally based on the London gold market quotations. An advance of approximately 90.0 percent of the estimated value of each shipment is obtained from MKS Finance S.A. at the London PM price on the day the shipment arrives at the Zurich airport. Due to the size of the international bullion market and stockpiles of gold reserves, individual gold producers or other market participants generally do not significantly influence pricing or total quantities offered and sold.

### ***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 higher-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 2009:

*Principal Competitors of Severstal Resources—Russian Coking Coal Market*

Producer of coking coal	Year ended 31 December 2008	Year ended 31 December 2009
	(estimated percentage of Russian production, 50.9 million tonnes)	(estimated percentage of Russian production, 44.7 million tonnes)
Raspadskaya (affiliated with Evraz) . . . . .	13.6	17.5
Sibuglemet (independent producer) . . . . .	10.6	14.4
Yuzhkuzbassugol (affiliated with Evraz) . . . . .	9.0	9.5
Yuzhny Kuzbass (owned by Mechel) . . . . .	11.7	9.4
Severstal Resources <sup>(1)</sup> . . . . .	8.6	9.2
Yakutugol (owned by Mechel) . . . . .	10.4	4.2
KRU (independent producer) . . . . .	—	2.7
Other . . . . .	36.1	33.1

Source: Rasmin.

(1) Includes Kuzbassugol production in 2008.

The following table shows Severstal Resources' principal competitors in the Russian iron ore market for the year ended 31 December 2009.

*Principal Competitors of Severstal Resources—Russian Iron Ore Market*

Producer of iron ore (concentrate, pellets or lump)	Year ended 31 December 2008	Year ended 31 December 2009
	(estimated percentage of Russian production, 89.4 million tonnes)	(estimated percentage of Russian production, 85.4 million tonnes)
Metalloinvest . . . . .	35.9	31.1
Evraz . . . . .	19.5	20.4
NLMK . . . . .	13.3	16.2
Severstal Resources . . . . .	15.7	16.0
Kovdor (independent producer) . . . . .	5.3	6.6
Mechel . . . . .	5.4	5.0
Other . . . . .	4.9	4.7

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 and Sibuglemet. 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 two thousand 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 6.5 million tonnes of pellets and 7.9 million tonnes of iron ore concentrate into the Russian domestic market in 2009. 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 2009, OAO SSGPO exported approximately 2.8 million tonnes of pellets and 6.1 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 2008 and 2009, its capital expenditure was approximately US\$413 million and approximately US\$242 million, respectively.

Further capital improvements are currently underway at each of Severstal Resources' mining assets, with a planned total capital expenditure of approximately US\$1.0 billion from 2010 to 2014. 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.

The following table sets forth Severstal Resources' estimated capital expenditure requirements from 2010 to 2014.

*Estimated Capital Expenditure Requirements from 2010 to 2014—Severstal Resources<sup>(1)</sup>*

	Estimated cost				
	2010	2011	2012	2013	2014
	(US\$ millions)				
Iron ore . . . . .	11.1	39.9	38.4	25.8	11.7
Coal . . . . .	21.5	31.6	63.9	88.2	46.7
Gold <sup>(2)</sup> . . . . .	173.5	289.9	205.3	102.5	58.9
<b>Total</b> . . . . .	<u>206.1</u>	<u>361.4</u>	<u>307.6</u>	<u>216.5</u>	<u>117.4</u>

Notes:

(1) Excluding maintenance capital expenditure

(2) Capital expenditure for the gold business for 2010-2014 includes maintenance and is presented including funds for safety, facility balances and replacement of equipment according to life of mine models

**Karelsky Okatysh.** The capital expenditure requirements at Karelsky Okatysh between 2010 and 2014 include the following: expansion of ore extraction, beneficiation, and pelletising capacities; upgrade of concentration facilities; selective debottlenecking projects; and the addition of dry magnetic separation and flotation systems at the beneficiation plant.

Overall, the planned improvements are expected to result in full utilisation of the pelletiser and to increase long-term production of pellets by approximately 19.0 percent against 2010 production levels up to an estimated 10.3 million tonnes by 2014.

**Olkon.** The capital expenditure requirements at Olkon between 2010 and 2014 include the following projects: construction of two additional underground mines; improvements at the existing open pit at Komsomolsky; and improvements in the capacity of the mine's railroads.

Overall, the planned improvements are expected to increase the production output to 5.0 million tonnes of iron ore concentrate per year by 2014.

**Vorkutaugol.** The estimated capital expenditure requirements at Vorkutaugol between 2010 and 2014 include: replacement of obsolete mining equipment with equipment of improved efficiency; surface and underground mine infrastructure development; and various investments in mine safety measures.

Overall, the planned improvements are expected to maintain the average production output at 8.2 million tonnes of product per year to 2014.

**PBS Coals.** The main capital expenditure requirements for PBS Coals between 2010 and 2014 are: the development of new surface and deep mines; the construction of a new plant; and the construction of a port facility.

These improvements, once completed, are expected to increase the production output of PBS Coals up to 6.9 million tonnes in 2014 in comparison with 4.3 million tonnes in 2010.

**Gold mining assets.** The estimated capital expenditure requirements in connection with gold mining assets between 2010 and 2014 are approximately US\$ 547.3 million. The capital expenditure is expected to consist of expenditure at the existing mines in Russia, Kazakhstan and West Africa to improve productivity, the development of deposits under the mining licences acquired earlier, and the acquisition of additional licences and other gold mining assets.

## Employees

Severstal Resources expects its restructuring and headcount optimisation programme to lead to a headcount of approximately 25,464 by the end of 2010, but which is likely to increase to approximately 25,613 in 2012 driven by anticipated production increases, particularly in the gold mining and coal. The headcount reductions are expected to arise from 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 at the end of 2010, 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 2010.

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. 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 risk management 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. 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.

The number of industrial accidents at Severstal Resources was 118 in 2009, 169 in 2008 and 271 in 2007. Severstal Resources made health and safety investments of approximately US\$27.2 million in 2009, US\$19.6 million in 2008 and US\$9.9 million in 2007. Karelsky Okatysh, Vorkutaugol and Olkon are accredited under the international occupational health and safety standard, OHSAS 18001. Severstal Resources has instituted a "safety for all" programme that is significant in both its scale and the number of participants, and the Group's management believes that it has been effective in reducing the number of incidents in recent years.

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 actual value. These assets also have limited business interruption insurance covering the direct costs of an interruption, including lost profit and incurred fixed costs of operation. Insurance services are provided to Severstal Resources by SOGAZ.

Insurance coverage in respect of property, plant and equipment at the coal mines is provided on a limited basis and does not include business interruption insurance. 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. Severstal Resources does not have comprehensive insurance for third-party liability in respect of property or environmental damage.

## MANAGEMENT

### 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;
- 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; and
- review of the consolidated budget of the Group and submission of recommendations related to such budget.

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 with a value exceeding 10.0 percent of the book value of the Company's assets shall be approved by the majority vote of the Board of Directors and 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 15 September, 2010, 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 530 900) is as follows:

<u>Name</u>	<u>Year of Birth</u>	<u>Current position/biography and outside memberships</u>	<u>Since</u>
Christopher Clark . . . . .	1942	Independent Chairman of the Board of Directors, Member of Nomination and Remuneration.	2006

Mr. Clark is a leading industrialist and brings extensive business knowledge to the Board. His career spans 40 years at Johnson Matthey plc, the specialty chemicals and precious metals group, where he became Chief Executive Officer 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 is a graduate in metallurgy; he studied at Trinity College, Cambridge and Brunel University, London.

Mr. Clark's outside activities include the following:

- Associated British Ports (Chairman of the Board of Directors);
- Urenco Limited (Chairman of the Board of Directors); and
- Citicorp Venture Capital (Adviser).

<u>Name</u>	<u>Year of Birth</u>	<u>Current position/biography and outside memberships</u>	<u>Since</u>
Alexey A. Mordashov . . . . .	1965	<p>Member of the Board of Directors; Chief Executive Officer of the Group, Member of Nomination and Remuneration Committee.</p> <p>Mr. Mordashov has worked for Severstal since 1988. He started his career as a senior shop economist, becoming Chief Financial Officer in 1992 before being appointed in December 1996 as Severstal's Chief Executive Officer. In June 2002, he was elected Chairman of Severstal's Board of Directors and served as Chief Executive Officer of Severstal Group. Since December 2006, he has been Chief Executive Officer of Severstal. Mr. Mordashov serves on the Entrepreneurs Council of the Government of the Russian Federation. In addition, he is a member of the Russian-German workgroup responsible for strategic economic and finance issues, and head of the Russian Union of Industrialists and Entrepreneurs' (RSPP) Committee of Trade Policy. Since March 2006 he has been a member of the EU-Russia Business Cooperation Council. He is also a member of the Atlantic Council President's International Advisory Board. 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). Mr. Mordashov was granted honorary doctorates from the Saint-Petersburg State University of Engineering and Economics in 2001 and from the University of Northumbria in 2003.</p> <p>Mr. Mordashov's outside activities include the following:</p> <ul style="list-style-type: none"> <li>• OAO Rossiya Bank (Member of the Board of Directors);</li> <li>• OOO Capital (General Director);</li> <li>• OOO Algoritm (General Director);</li> <li>• ZAO Laguna-Delta (General Director);</li> <li>• OAO Sveza (Chairman of the Board of Directors);</li> <li>• OOO Terraprof (General Director);</li> <li>• OAO Power machines (Chairman of the Board of Directors); and</li> <li>• ZAO Severgroup (General Director).</li> </ul>	1996
Martin Angle . . . . .	1950	<p>Independent Director, Chairman of the Audit Committee.</p> <p>Mr. Angle holds a number of non-executive directorships in addition to JSC Severstal, including, in the UK, Pennon Group plc, Savills plc and the Chairmanship of the National Exhibition Centre Group Ltd. Until December 2009 he also sat on the Board of Dubai International Capital LLC. 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</p>	2006



Name	Year of Birth	Current position/biography and outside memberships	Since
		<p>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 &amp; Co Ltd, Morgan Stanley and Dresdner Kleinwort Benson. Mr. Angle is a graduate in physics, a Chartered Accountant, a Member of the Securities Institute and a Fellow of the Royal Society of Arts. He also sits on the Advisory Board of the Warwick Business School.</p> <p>Mr. Angle's outside activities include the following:</p> <ul style="list-style-type: none"> <li>• Savills Plc (Independent Director);</li> <li>• Pennon Group Plc (Independent Director);</li> <li>• The National Exhibition Group (Chairman); and</li> <li>• Warwick Business School (Member of the Board of Directors).</li> </ul>	
Ronald Freeman . . . . .	1939	<p>Independent Director, Member of the Audit Committee.</p> <p>Mr. Freeman is a member of the Board of Directors, an Advisory Partner and stockholder of the Moscow-based Troika Dialog investment bank. He is also a non-executive member of the Board of Directors of Volga Gas and of Polish Telecom; 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 the Development Committee of Mansfield College (Oxford, 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 Euros. Prior to that, Mr. Freeman was vice-chairman of Citigroup European investment banking and a general partner of Salomon Brothers. He holds a BA degree from Lehigh University, and an LLB from the Law School of Columbia University. He was admitted to the New York Bar.</p> <p>Mr. Freeman's outside activities include the following:</p> <ul style="list-style-type: none"> <li>• Moscow-based Troika Dialog Investment Bank (Member of the Board of Directors; Consulting Partner);</li> <li>• Polish Telecom (Member of the Board of Directors);</li> <li>• Columbia Law School (Member of the International Advisory Council);</li> </ul>	2006

Name	Year of Birth	Current position/biography and outside memberships	Since
Anatoly N. Kruchinin . . . . .	1960	<ul style="list-style-type: none"> <li>• Volga Gas (member of the Board of Directors);</li> <li>• Atlantic Council (Member of the Executive Committee);</li> <li>• Mansfield College (Member of the Development Committee);</li> <li>• The Pilgrims (Honorary Secretary); and</li> <li>• UK/US Fulbright Commission (Commissioner, Co-Chairman).</li> </ul>	1999
		<p>Member of the Board of Directors.</p> <p>Mr. Kruchinin joined Severstal in 1982. In 1993 he became Chief Power Engineer and in March 1999 he was appointed Commercial Director. From January 2002 Mr. Kruchinin worked as Executive Director of Severstal and in July 2002 he became CEO of the Company. Following the new system of corporate management adopted at the Company, he served as CEO from December 2006 until his retirement from that position in August 2010. In April 2008 he was appointed CEO of Severstal Russian Steel Division. Mr. Kruchinin is a graduate of the Ivanovo Power Engineering Institute and holds an MBA degree from the National Economic Academy under the Government of the Russian Federation.</p> <p>Mr. Kruchinin's outside activities include the following:</p> <ul style="list-style-type: none"> <li>• OOO Aviation Company Severstal (Chairman of the Board of Directors);</li> <li>• JSC Severstal-metiz (Chairman of the Board of Directors);</li> <li>• ZAO Torgovy Dom Severstal-Invest (Chairman of the Board of Directors);</li> </ul> <p>AS Severstallat (Chairman of the Board of Directors);</p> <p>SANO Hockey club "Severstal (Member of the Supervisory Council);</p> <p>OOO Severstal Mebel (Chairman of the Board of Directors);</p> <p>ZAO NEVA-METALL (Member of the Board of Directors);</p> <p>ZAO Izhorsky pipe mill (Member of the Board of Directors);</p> <p>ZAO Severstal SMC-Kolpino (Member of the Board of Directors);</p> <p>ZAO Severstal pipe mill—Sheksna (Member of the Board of Directors);</p> <p>ZAO Severstal—mini-mill "Balakovo" (Member of the Board of Directors);</p>	

Name	Year of Birth	Current position/biography and outside memberships	Since
		<p>Severstallat Silesia Sp.z.o.o. (Chairman of the Board of Directors);</p> <p>Latvijas metals (Chairman of the Board of Directors); and</p> <p>OAo Metallurgremont (Member of the Board of Directors)</p>	
Peter Kraljic . . . . .	1939	<p>Independent Director; Member of the Audit Committee.</p> <p>Mr. 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 recently 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.</p> <p>Mr. Kraljic's outside activities include the following:</p> <ul style="list-style-type: none"> <li>• Business School Bled (member of Advisory Board); and</li> <li>• LEK d.d., Slovenia (member of Advisory Board).</li> </ul>	2006
Sergey A. Kuznetsov . . . . .	1971	<p>Member of the Board of Directors, Chief Executive Officer of Severstal International, Chief Executive Officer of Severstal North America.</p> <p>Mr. 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). From 1995 to 2001 he worked as a commercial representative at the Steel Trading Section of Moscow Representative Office of Cargill Enterprises, Inc. He joined Severstal in 2002 to head the Business Planning Group, responsible for acquisitions of foreign assets and the 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 JSC Severstal. In July 2009 Mr. Kuznetsov 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</p>	2009

Name	Year of Birth	Current position/biography and outside memberships	Since
		<p>California State University, Hayward.</p> <p>Mr. Kuznetsov's outside activities include the following:</p> <ul style="list-style-type: none"> <li>• Severstal Investments, LLC (Member of the Board of Directors, President)</li> <li>• Severstal Dearborn, Inc (President);</li> <li>• Severstal US Holdings, LLC (Executive Director);</li> <li>• Severstal Sparrows Point, LLC (Director);</li> <li>• Lucchini S.p.A. (Director);</li> <li>• Severstal Columbus Holding, LLC (Director);</li> <li>• Severstal Warren, Inc (President);</li> <li>• Severstal Wheeling, Inc (President);</li> <li>• Severstal US Holdings II Company (President);</li> <li>• Severstal Wheeling Steel Group, Inc (President); and</li> <li>• Charnwood I, LLC (Executive Director).</li> </ul>	
Alexey G. Kulichenko . . . . .	1974	<p>Member of the Board of Directors, Chief Financial Officer of Severstal.</p> <p>Mr. 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, Pocap, 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 combines 20 plants in Russia and Ukraine. From December 19, 2005 to July 2009 he served as CFO of ZAO Severstal Resources. Since May 2006 Mr. Kulichenko has been a member of the Board of Directors of OAO Vorkutaugol. In July 2009 he was appointed CFO of JSC Severstal.</p> <p>Mr. Kulichenko does not have outside activities.</p>	2009
Mikhail V. Noskov . . . . .	1963	<p>Member of the Board of Directors of the Group.</p> <p>Mr. 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, and from 2007 till 2008 he was Deputy CEO for Finance and Economics of Severstal. Mr. Noskov graduated from the Moscow Institute of Finance.</p> <p>Mr. Noskov's outside activities include the following:</p> <ul style="list-style-type: none"> <li>• OAO Sveza (Member of the Board of Directors);</li> </ul>	1998

Name	Year of Birth	Current position/biography and outside memberships	Since
		<ul style="list-style-type: none"> <li>• ZAO “National Media Group” (Member of the Board of Directors); and</li> <li>• Non governmental pension fund “Stalfond” (Chairman of Advisory Board).</li> <li>• Non governmental pension fund “Gazfond” (Member of the Board of Directors).</li> </ul>	
Rolf Stomberg . . . . .	1940	<p data-bbox="643 535 1326 591">Independent Director, Chairman of the Nomination and Remuneration Committee.</p> <p data-bbox="643 614 1326 1220">Mr. Stomberg is Chairman of the Supervisory Board of LANXESS AG, Leverkusen, a global chemical Company, which was formed after reorganisation of Bayer AG. He is Senior Independent Director of medical device producer Smith and Nephew plc, London, and advises a number of German family-owned companies. 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 private-equity-owned companies. Mr. Stomberg is an economics graduate holding a Doctorate of Hamburg University, where he also served as a lecturer. He was an Honorary professor at the business school of Imperial College, London, and the Institut Francais de Petrol, Paris.</p> <p data-bbox="643 1242 1286 1265">Mr. Stomberg’s outside activities include the following:</p> <ul style="list-style-type: none"> <li>• Lanxess AG (Chairman of the Supervisory Board);</li> <li>• Smith &amp; Nephew plc (Senior Independent Director).</li> <li>• HOYER GmbH (Vice-chairman of Advisory Council);</li> <li>• Biesterfeld AG (Member of Supervisory Board); and</li> <li>• KEMNA Bau Andreae GmbH+Co.KG (Member of the Supervisory Board).</li> </ul>	2006

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:

<u>Name</u>	<u>Position</u>
Mr. Roman Antonov . . . . .	Deputy Chief Audit Executive
Mr. Artem Voronchikhin . . . . .	Chief Audit Executive
Mrs. Irina Utyugova . . . . .	Head of the Internal Control Department of Russian Steel Division



#### **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**

The aggregate amount of compensation paid by the Company to its senior managers as a group in 2009 was US\$20.8 million and was US\$43.9 million in 2008. This group includes members of the Board of Directors, the Chief Executive Officer of the Group and his deputies, and the Chief Executive Officers of the Group's business divisions. Senior managers also received benefits in kind, including life insurance and real estate insurance from the Company.

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 15 September 2010 according to the Company's share register:

<u>Shareholder</u>	<u>Percentage of shares</u>
OOO Deutsche Bank <sup>(1)</sup> . . . . .	25.04
ASTROSHINE LIMITED . . . . .	19.99
LORANEL LIMITED . . . . .	19.99
ZAO BANK CREDIT SUISSE . . . . .	15.02
RAYGLOW LIMITED . . . . .	9.41
OOO Capital . . . . .	2.27
NP National Depository Centre . . . . .	1.5
Other minority shareholders . . . . .	6.78
<b>Total</b> . . . . .	<b><u>100.0</u></b>

Notes:

- (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 London Stock Exchange on 14 November 2006. Each GDR represents one ordinary share.

As at 15 September 2010, approximately 77.41 percent of the Company's share capital was indirectly controlled by Mr. Alexey Mordashov, the Group's chief executive officer and a member of the Board of Directors. Mr. Mordashov has an option to purchase another 4.96 percent of the Company's share capital and intends to exercise it in the near future. As at 15 September 2010, 0.015 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 six months ended 30 June 2010 and the years ended 31 December 2009, 2008 and 2007. For further details of these transactions, see Note 11 to the Annual Financial Statements for the years ended 31 December 2009, 2008 and 2007 and Note 5 of the Interim Financial Statements for the six months ended 30 June 2010 and 2009.*

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 sales, 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. The scope of related party transactions entered into by the Group as reflected in the Annual Financial Statements were similar to those entered into by the Group in the six months ended 30 June 2010.

### SALES

As disclosed in the Interim Financial Statements, the Group's sales to related parties totalled US\$95.4 million for the six months ended 30 June 2010. As disclosed in the Annual Financial Statements, the Group's sales to related parties totalled US\$102.8 million, US\$254.3 million and US\$151.0 million for the years ended 31 December 2009, 2008 and 2007, respectively.

The main part of Group's sales is represented by sales to associates and joint ventures. Sales to associates and joint ventures amounted US\$79.2 million in the six months ended 30 June 2010 and US\$54.0 million, US\$87.9 million and US\$3.5 million for the years ended 31 December 2009, 2008 and 2007, respectively, and mainly comprised sales of Severstal North America segment to Ohio Coatings Company and sales of the Russian Steel segment to Air Liquide Severstal.

Ohio Coating Company is a tin plate steel producer with a total production capacity of 300 thousand tonnes a year. Severstal Wheeling owns a 50.0 percent of voting interest and an approximately 44.0 percent of equity interest in Ohio Coating Company, which is a joint venture among Severstal Wheeling, TCC Steel and Nittetsu Shoji America Inc.

Air Liquide Severstal 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 has been set up within the Cherepovets steel complex, in the Vologda region, Russia.

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 Interim Financial Statements for the six months ended 30 June 2010 and 2009, the Group's purchases from related parties amounted US\$95.4 million for the six months ended 30 June 2010. As disclosed in the Annual Financial Statements, the Group's purchases from related parties totalled US\$193.3 million, US\$371.5 million and US\$895.4 million for the years ended 31 December 2009, 2008 and 2007, respectively.

The main part of Group's purchases is represented by purchases from associates and joint ventures totalled US\$75.3 million the six months ended 30 June 2010 and US\$112.1 million, US\$220.4 million and US\$220.7 million for the years ended 31 December 2009, 2008 and 2007, respectively, and mainly

comprised purchases by Severstal North America from Double Eagle, Spartan Steel and purchases by the Russian Steel Division from Air Liquide Severstal.

Double Eagle is the world's largest electrogalvanising line which produces premium quality galvanised sheet steel. The plant, located in Dearborn, Michigan, has a production capacity of 789 thousand tonnes per year, approximately one half of which is dedicated to one of the Severstal North America entities—Severstal Dearborn.

Spartan Steel produces hot dip galvanised sheet steel. The plant is located in Monroe, Michigan, and has a production capacity of 544 thousand tonnes per year, about 80.0 percent of which is dedicated to Severstal Dearborn.

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 Interim Financial Statements, the Group's interest income from related parties amounted US\$10.5 million for the six months ended 30 June 2010 and mainly represented by interest income received on deposits placed to a related party bank OAO "Metcombank".

As disclosed in the Annual Financial Statements, the Group's interest income from related parties totaled US\$17.9 million, US\$18.1 million and US\$13.9 million for the years ended 31 December 2009, 2008 and 2007, respectively, and mainly represented by interest income received on deposits placed to a related party bank OAO "Metcombank".

#### **ADDITIONAL INFORMATION**

For additional information and certain financial statement amounts with respect to various related party transactions for the years ended 31 December 2009, 2008 and 2007 and the balances as at such date, refer to the following parts of the Annual Financial Statements for the years ended 31 December 2009, 2008 and 2007:

Consolidated income statements  
Consolidated statements of financial position  
Notes to the consolidated financial statements:  
Note 11—Related party transactions  
Note 12—Related party balances  
Note 20—Investments in associates and joint ventures  
Note 29—Subsidiaries, associates and joint ventures  
Note 30—Segment information

For relevant disclosures for the six months ended 30 June 2010 and 2009 and the balances as of those dates, refer to the corresponding parts of the Interim Financial Statements for the six months ended 30 June 2010 and 2009, and in particular the following:

Consolidated interim condensed income statements  
Consolidated interim condensed statements of financial position  
Notes to the consolidated interim condensed financial statements:  
Note 5—Related party transactions  
Note 6—Related party balances

## 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.

On 14 February 2009 the Government founded the Government’s Commission on Development of Metals Production Sector (the **Commission**). The main functions of the Commission is to coordinate the above-mentioned regulatory authorities’ actions concerning development and implementation of state policy in the sphere of steel industry.

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. 128-FZ “On Licensing of Certain Types of Activities” of 8 August 2001 as amended (the *Licensing Law*), as well as other laws and regulations, set forth the activities subject to licensing and establish procedures for issuing licences. In particular, some of the Group's Russian companies need to obtain licences, permits and approvals of executive authorities 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, transportation 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 a period of five years and in most cases may be extended upon application by the licensee. 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. Certain types of licences may also have unlimited terms.

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 our 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 research, 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 on 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 two major types of payments with respect to the use of subsoil: (1) periodic payments for geological exploration under the Subsoil Law and (2) the minerals extraction tax under the Tax Code. Failure to make these payments could result 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 licenses are generally awarded without a tender or auction by the special commission formed by the Subsoil Agency, 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 licenses 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 Subsoil Agency (or its regional department). Unless there is more than one application with respect to the same deposit (in which case the Subsoil Agency 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 a licensing agreement. The licensing agreement sets out the terms and conditions for the use of the subsoil licence. Prior to the August 2004 amendments, the relevant regional authority, the Ministry of Natural Resources and the licensee were each party to a licence agreement. Under the August 2004 amendments, only the Federal Agency for Subsoil Use and the licensee are parties to licence agreements.

Under a licensing agreement, 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 regional authorities; making all obligatory payments when due and commitments with respect to social and economic development of the region. 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 licence agreements are generally not negotiable. The Group expects that it will be able to meet the commitments set forth in its licensing agreements.

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 January 2012.

The Group’s mining subsidiaries (composing Severstal Resources) generally have a right of perpetual use of their plots or have entered into long-term lease agreements. 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 (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 (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, 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 acquisition by a foreign investor of a direct or indirect control over a Strategic Company requires a permit of the competent state authority.

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) of direct or indirect control over a Strategic Company requires a permit of the competent state authority. Therefore, *inter alia*, an acquisition by a foreign entity (or its group member) of a stake in a Strategic Company which vests an acquirer with right to exercise certain percentage of voting rights (ranging from 5 to 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 could be found void upon the claim of any interested party (including the Federal Antimonopoly Service of the Russian Federation) or the acquirer may be deprived from voting rights which correspond to the stake acquired in the Strategic Company.



## 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 joint stock company, or 33.3 percent of the participation interest in a 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 joint stock company or participation interests in a 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 if the book value of such assets exceeds 20.0 percent of the production or intangible assets of the seller (transferor); or
- an acquisition of (direct or indirect) rights to determine the terms of the business of another entity (e.g. rights to give binding instructions to another entity or control the decision making process in another entity) or to exercise the powers of its executive body.

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.

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, or otherwise impact the competition environment in Russia.

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. 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 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;
- any single gross violation by the employee of his or her duties; 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 RUR4,330 from 1 January 2009.

**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.

### **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 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 Economic Development.

**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 if Russia accedes to the WTO in the near future.

**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*

<b>Products</b>	<b>Year ended 2008 (tonnes)</b>	<b>Year ended 2009 (tonnes)</b>	<b>Year ended 2010 (tonnes)</b>
<b>SA. Flat products</b>			
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
<b>SB. Long products</b>			
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
<b>Total</b> . . . . .	<b>3,031,000</b>	<b>3,294,657</b>	<b>3,184,445</b>

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 181 states and the EU have ratified, accepted, accessed or approved the Protocol. Discussions are ongoing as to a possible successor to the Kyoto Protocol, with the aim of signing a new agreement in December 2009. 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, 162600, Russian Federation. The telephone number of the Company's Moscow office is +7 495 540 7766.

## 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 Prospectus, is €31,000 divided into 310 registered shares with a par value €100, each of which is fully paid.

### 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 JSC 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 Lakoudi . . . . .	2, Boulevard Konrad Adenauer L-1115 Luxembourg
Mme. Heike Kubica . . . . .	2, Boulevard Konrad Adenauer L-1115 Luxembourg
Mme. Rachel Aguirre . . . . .	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. 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 Facility Agreement** is made on 19 October 2010 **between:**

- (1) **JSC “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) The Lender has at the request of Severstal agreed to make available to Severstal a loan facility in the maximum amount of the Programme Limit (as defined below) on the terms and subject to the conditions of this 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 is 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.

**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, U.S. 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 supranational 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 U.S.\$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 19 October 2010.

**“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:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” 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

“**D<sub>2</sub>**” 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:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” 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

“**D<sub>2</sub>**” 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:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” 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

“**D<sub>2</sub>**” 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**”, “**U.S. dollars**”, “**\$**” and “**U.S.\$**” 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.

“**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.

**“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”** has the meaning specified in the relevant Loan Supplement.

**“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 per cent. or more of the consolidated gross revenues of the Group; or
- (b) has total assets representing 10 per cent. 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.

**“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 per cent. 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 U.S.\$3,000,000,000 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.

**“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.

**“Rate of Interest”** has the meaning specified in the relevant Loan Supplement.

**“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 U.S. 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.

**“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 per cent. 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 U.S.\$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.

**“U.S. Dollar Equivalent”** means with respect to any monetary amount in a currency other than U.S. dollars, at any time for determination thereof, the amount of U.S. dollars obtained by converting such foreign currency into U.S. dollars at the spot rate for the purchase of U.S. 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.

**“U.S. 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.

## **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) two Business Days 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. 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 U.S.\$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**

### **7.1 Documents to be Delivered**

The obligation of the Lender to make each Loan shall be subject to the receipt by the Lender on or prior to the relevant Closing Date of written evidence that the persons mentioned in Clause 17.3.2(iv) have agreed to receive process in the manner specified therein.

### **7.2 Further Conditions**

The obligation of the Lender to make each Loan shall be subject to the further 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 U.S.\$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 U.S.\$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 U.S.\$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 U.S.\$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 U.S.\$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 U.S.\$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 U.S.\$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 U.S. 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 U.S. 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 U.S. dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. 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 U.S. Dollar Equivalent, as appropriate, of the Indebtedness Refinanced, except to the extent that (A) such U.S. 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 U.S. 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.

## 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 U.S.\$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 ozdorovleniye*), 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 (*mirovoye soglaseniye*) 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 U.S.\$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 Subject to Clause 17.3, 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 Courts**

- 17.3.1 Before any arbitrator or arbitral tribunal has been appointed to determine a Dispute, the Lender may by notice in writing to Severstal require that all Disputes or a specific Dispute be heard by a court of law. If such notice is duly given, the Dispute to which such notice refers shall be determined in accordance with sub-Clause 17.3.2.
- 17.3.2
  - (i) With respect to any Dispute heard in a court of law, the courts of England have exclusive jurisdiction to settle such Disputes.
  - (ii) The parties hereto agree that the courts of England are the most appropriate and convenient courts to settle Disputes and accordingly no party will argue to the contrary.
  - (iii) This Clause is for the benefit of the Lender only. Nothing contained in any Loan Agreement shall limit the right of the Lender to take Disputes against Severstal in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Disputes in connection with such Loan Agreement in one or more jurisdictions preclude the Lender from the taking of Disputes in any other jurisdiction (whether concurrently or not) or in any other court of competent jurisdiction in connection with such Loan Agreement to the extent permitted by any applicable law.
  - (iv) Each of Severstal and the Lender irrevocably appoints Law Debenture Corporate Services Limited at its London office, now of Fifth Floor, 100 Wood Street, London EC2V 7EX, England, as its agent to accept service of process in England. If such person is not or ceases to be effectively appointed to accept service of process on behalf of either Severstal or the Lender, the relevant party (the “**First Party**”), shall, on written demand by the other party (the “**Second Party**”), appoint a further person in England to accept service of process on its behalf by written notice to the other party and failing such appointment, within 15 calendar days, the Second Party shall be entitled to appoint such a person by written notice to the First Party. Nothing in this Clause shall affect the right of the Second Party to serve process in any other manner permitted by law.

### **17.4 Immunity**

To the extent that Severstal or the Lender may now or hereafter be entitled, in any jurisdiction in which any legal action or proceeding may at any time be commenced with respect to any Loan Agreement, to claim for itself or any of its undertaking, properties, assets or revenues present or future any immunity (sovereign or otherwise) from suit, jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of a judgment, execution of a judgment or award or from set-off, banker's Lien, counterclaim or any other legal process or remedy with respect to its obligations under such Loan Agreement and/or to the extent that in any such jurisdiction there may be attributed to Severstal or the

Lender any such immunity (whether or not claimed), Severstal and the Lender hereby irrevocably agree not to claim, and hereby waive, any such immunity.

#### **17.5 Consent to enforcement etc**

Severstal and the Issuer consent generally in respect of any arbitration or litigation 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 translated into Russian and may be 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

## Form of Loan Supplement

This Loan Supplement is made on      •      between:

- (1) JSC “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 a facility agreement dated      •      2010 (the “Facility Agreement”) with the Lender in respect of Severstal’s U.S.\$3,000,000,000 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 [Bank Name] [Bank Address] (account number      •      ,      •      );

“Base Prospectus” 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;]

“Loan Agreement” means the Facility Agreement as amended and supplemented by this 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      •      basis points, 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/means      •      ;]

“Notification Time” means 10 a.m. (Relevant Time)      •      Business Days [which for U.S.\$, € 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 U.S.\$, € 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 exercises its call option;]

["Reference Banks" 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 • ;

["Treasury Rate" means a rate equal to the yield, as published by the • , on actively traded • 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 • dealers in • 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 • preceding the Redemption Date; and]

### 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:     | • per cent. per annum payable [annually/semi-annually quarterly/monthly/other ( <i>specify</i> )] in arrear   |
| (iii) Interest Payment Date(s): | • in each year [adjusted in accordance with [ <i>specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"</i> ]/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. <i>[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)]</i>
(viii)	Other terms relating to the method of calculating interest for Fixed Rate Loans:	[Not Applicable/give details]
<b>4.2.2</b>	<b>Floating Rate Loan Provisions</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	Interest Commencement Date	●
(ii)	Interest Period(s):	●
(iii)	Specified Interest Payment Dates:	●
(iv)	First Interest Payment Date:	●
(v)	Interest Period Date(s):	● <i>(Not applicable unless different from Interest Payment Date)</i>
(vi)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other <i>(give details)</i> ]
(vii)	Business Centre(s):	●
(viii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other <i>(give details)</i> ]
(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):	[+/-]● per cent. per annum
(xiii)	Minimum Rate of Interest:	● per cent. per annum
(xiv)	Maximum Rate of Interest:	● per cent. per annum
(xv)	Day Count Fraction:	●



- (xvi) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Facility Agreement: ●]

#### 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: JSC "Severstal"

Dated: ●

Dear Sirs

**JSC "Severstal" – Facility Agreement dated ● 2010 (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<sup>(1)</sup>.  
for and on behalf of JSC "Severstal"

Signed:

\_\_\_\_\_  
[principal executive officer/  
principal accounting officer/  
principal financial officer] of JSC  
"Severstal"

\_\_\_\_\_  
[officer]  
of  
JSC "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 and amendment 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 a trust deed (as amended or supplemented as at the Issue Date, the **“Principal Trust Deed”**) dated 19 October 2010, 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 JSC “Severstal” (**“Severstal”**). The Issuer and Severstal have recorded the terms of the Loan in a facility agreement (the **“Facility Agreement”**) dated 19 October 2010, 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, a paying agency agreement (the “**Agency Agreement**”) dated 19 October 2010 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 “**U.S. 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 €50,000 or its equivalent in other currencies) 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 U.S.\$100,000 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 per cent. 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 U.S. 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 U.S. 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' 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 in the Final Terms (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.

## **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 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 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 deliver Notes to the Issuer, having an aggregate principal value of at least U.S.\$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 U.S.\$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 per cent. 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 London Stock Exchange and the rules of that exchange so require, file a notice with a Regulatory Information Service approved by the UK Financial Services Authority. 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

*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.*

### JSC “SEVERSTAL”

#### Series      •      •      •      Loan Participation Notes due      • issued by, but with limited recourse to, 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

### JSC “SEVERSTAL”

Under the Programme for the Issuance of Loan Participation Notes described in a Base Prospectus (the “**Base Prospectus**”) dated • 2010 (the “**Programme**”), 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 in the Base Prospectus, as completed by final terms (each a “**Final Terms**”) setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed U.S.\$3,000,000,000 (or the equivalent in other currencies). These Final Terms are the Final Terms applicable to the issue by the Issuer of Series •      •      •      Loan Participation Notes due      • (the “**Notes**”). Terms defined in the Base Prospectus have the same meaning in these Final Terms, unless otherwise defined herein. The Notes are issued on the terms set out in these Final Terms read together with the Base Prospectus.

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the 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 the 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 Loan. **Noteholders will be deemed to have accepted and agreed that they will be relying solely on the credit and financial standing of Severstal in respect of the payment obligations of the Issuer under the Notes.**

The sole purpose of issuing the Notes will be to finance a loan (the “**Loan**”) to JSC “Severstal” (“**Severstal**”) as borrower, on the terms of a facility agreement between the Issuer and Severstal dated • 2010 (the “**Facility Agreement**”), as amended and supplemented by a loan supplement dated • 2010 (the “**Loan Supplement**” and, together with the Facility Agreement, the “**Loan Agreement**”) between the Issuer and Severstal. Subject as provided in the Trust Deed (as defined herein) the Issuer will charge as security for its payment obligations in respect of the Notes and under the Trust Deed, its rights and interests as lender under the Loan Agreement to Citibank, N.A. as trustee (the “**Trustee**”), for the benefit of the holders of the Notes and will assign its administrative rights under the Loan Agreement to the Trustee.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS” SET OUT IN THE BASE PROSPECTUS.

The Notes and the Loan (together, the “**Securities**”) have not been, and will not be, registered under the U.S. Securities Act of 1933 (the “**Securities Act**”), and, subject to certain exceptions, may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons. The Notes may be offered and sold (i) within the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act (“**Rule 144A**”)) that are also qualified purchasers as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940 (the “**Investment Company Act**”) in reliance on the exemption from registration provided by Rule 144A (the “**Rule 144A Notes**”); and (ii) to certain persons in offshore transactions in reliance on Regulation S under the Securities Act (the “**Regulation S Notes**”). The Issuer has not been and will not be registered under the Investment Company Act. 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, see “Subscription and Sale” and “Transfer Restrictions” as set out in the Base Prospectus.

Application has been made for the Notes to be admitted to trading on the regulated market of the London Stock Exchange plc (the “**London Stock Exchange**”), which is a regulated market for the purposes of Article 4.1 (14) of Directive 2004/39/EC of the European Parliament and of the Council on Markets in financial instruments and to be admitted to the Official List of the UK Financial Services Authority.

The Regulation S Notes and the Rule 144A Notes will be offered and sold in the denominations set out herein. The Regulation S Notes will initially be represented by a Global Certificate in registered form (the “**Regulation S Global Certificate**”), without interest coupons, which will be deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg on the Closing Date (as defined herein). Beneficial interests in the Regulation S Global Certificate will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. The Rule 144A Notes will initially be represented by a Global Certificate in registered form (the “**Rule 144A Global Certificate**” and together with the Regulation S Global Certificate, the “**Global Certificates**”), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC on the Closing Date. Beneficial interests in the Rule 144A Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. Individual Definitive Certificates in registered form will only be available in certain limited circumstances as described in the Base Prospectus.

[NAMES AND TITLES OF DEALER(S)]



Final Terms dated ●

## JSC “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 JSC “SEVERSTAL”  
under a U.S.\$3,000,000,000 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 ● 2010 [and the supplemental Base Prospectus dated ● ] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (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 [address].]

*[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**”) contained in the Trust Deed dated ● and set forth in the Base Prospectus dated ● [and the supplemental Base Prospectus dated ● ] and incorporated by reference into the Base Prospectus dated ● and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (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. [The Base Prospectuses [and the supplemental Base Prospectuses] are available for viewing [at [website]] [and] during normal business hours at [address] [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.]*

*[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*



- |    |        |  |  |
|----|--------|--|--|
| 1  | (i)    | Issuer:  | Steel Capital S.A.   |
|    | (ii)   | Borrower:  | JSC “SEVERSTAL”  |
| 2  | [(i)]  | Series Number:   | ●  |
|    | [(ii)] | Tranche Number:  | ●  |
|    |        | <i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)</i> | ●]   |
| 3  |        | Specified Currency or Currencies:  | ●  |
| 4  |        | Aggregate Principal Amount of Notes:   | ●  |
|    | [(i)]  | Series:  | ●  |
|    | [(ii)] | Tranche:   | ●]   |
| 5  |        | Issue Price:   | ● per cent. of the Aggregate Principal Amount [plus accrued interest from [insert date] (if applicable)]   |
| 6  | (i)    | Specified Denominations:   | ● <sup>(1)</sup>   |
|    | (ii)   | Calculation Amount   | ●  |
| 7  | (i)    | Closing Date:  | ●  |
|    | (ii)   | Interest Commencement Date:  | [Specify/Closing Date/Not Applicable]  |
| 8  |        | Maturity Date:   | [specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]                             |
| 9  |        | Interest Basis:  | [● per cent. Fixed Rate]<br><br>[[Specify reference rate] +/- ● per cent. Floating Rate]<br><br>(further particulars specified below)              |
| 10 |        | Redemption/Payment Basis:  | Redemption at par  |
| 11 |        | Change of Interest or Redemption/Payment Basis:  | [Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]                                   |
| 12 | (i)    | Status of the Notes:   | [Senior]   |
|    | (ii)   | [Date of [Board] approval for issuance of Notes and borrowing of Loan obtained:  | ● [and ●, respectively]](N.B Only relevant where Board (or similar) authorisation is required for the particular Series of Notes or related Loan)] |
| 13 |        | Method of distribution:  | [Syndicated/Non-syndicated]  |
| 14 |        | Financial Centres:   | ●  |
| 15 |        | Loan:  | ●  |

---

(1) Not to be less than €100,000 (or its equivalent in other currencies). Notes (including Notes denominated in sterling) 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 FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

**16 Put/Call Options:**

[Put Option/Call Option/Not Applicable] [(further particulars specified below)]

**PROVISIONS RELATING TO INTEREST (IF ANY)  
PAYABLE UNDER THE LOAN**

**17 Fixed Rate Note Provisions:**

[Applicable/Not Applicable] *(if not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Rate [(s)] of Interest:
  - per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (specify)]] in arrear]
- (ii) 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]
- (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 / Actual/Actual (ICMA /ISDA)/ other]
- (vi) 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)]
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:
  - [Not Applicable/give details]

**18 Floating Rate Note Provisions:**

[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Interest Period(s):
  -
- (ii) Specified Interest Payment Dates:
  -
- (iii) First Interest Payment Date:
  -
- (iv) Interest Period Date(s):
  - (not applicable unless different from Interest Payment Date)
- (v) Business Day Convention:
  - [Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ other (give details)]
- (vi) Business Centre(s):
  -
- (vii) Manner in which the Rate(s) of Interest is/ are to be determined:
  - [Screen Rate Determination/ISDA Determination/other (give details)]

- |        |  |  |
|--------|--|--|
| (viii) | Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent):  | ●  |
| (ix)   | Screen Rate Determination:   | As set out in the attached Loan Supplement |
| (x)    | ISDA Determination:  | As set out in the attached Loan Supplement |
| (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:  | ●  |
| (xv)   | Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes and Floating Rate Loans, if different from those set out in the Conditions: | ●  |

#### PROVISIONS RELATING TO REDEMPTION

- |           |  |   |
|-----------|--|---|
| <b>19</b> | Final Redemption Amount of each Note:  | ● per Calculation Amount  |
| <b>20</b> | Early Redemption Amount(s) per Calculation Amount payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date and/or the method of calculating the same (if required or if different from that set out in the Conditions): | ●   |
| <b>21</b> | <b>Call Option:</b>  | [Applicable/Not Applicable]<br><i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>                                |
| (i)       | Early Redemption Amount:   | As set out in the attached Loan Supplement  |
| (ii)      | Make Whole Amount:   | As set out in the attached Loan Supplement  |
| (iii)     | Optional Redemption Date(s):   | ●   |
| (iv)      | Notice Period:   | ●   |
| <b>22</b> | <b>Put Option:</b>   | [Applicable/Not Applicable]<br><i>(If not applicable or if Put Option is applicable, delete the remaining sub-paragraphs of this paragraph)</i> |
| (i)       | Put Settlement Date(s):  | ●   |
| (ii)      | Notice Period:   | ●   |

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

- |           |                |                  |
|-----------|----------------|------------------|
| <b>23</b> | Form of Notes: | Registered Notes |
|-----------|----------------|------------------|

- 24 Payment Time: ● a.m./p.m. (Relevant Time) ● Business Day[s] *(which for U.S.\$, € and £ shall be one Business Day and for ¥ and RUB shall be two Business Days)*
- 25 Other final terms: [Not Applicable/give details]  
*(When adding any other final terms consideration should be given as to whether such terms constitute a “significant new factor” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*

## DISTRIBUTION

- 26 (i) If syndicated, names of Managers: [Not Applicable/give names]  
(ii) Stabilising Manager(s) (if any): [Not Applicable/give name]
- 27 If non-syndicated, name of Dealer: [Not Applicable/give name]
- 28 Additional selling restrictions: [Not Applicable/give details]

## [PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the London Stock Exchange of Notes described herein pursuant to the U.S.\$3,000,000,000 Programme for the Issuance of Loan Participation Notes of 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:

Signed on behalf of Severstal:

By: \_\_\_\_\_  
Duly authorised

By: \_\_\_\_\_  
Duly authorised

By: \_\_\_\_\_  
Duly authorised

By: \_\_\_\_\_  
Duly authorised

## Part B—Other Information

### 1 LISTING

- (i) Listing: [London / other (*specify*)/None]
- (ii) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on ● with effect from ●.] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on ● with effect from ●.] [Not Applicable.]
- (Where documenting a fungible issue need to indicate that original Notes are already admitted to trading)*
- (iii) Estimate of total expenses related to admission to trading: ●

### 2 RATINGS

- Ratings: The Programme is rated:
- [S & P: ●]  
[Moody's: ●]
- The Notes to be issued have been rated:
- [S & P: ●]  
[Moody's: ●]  
[[Other]: ●]
- (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 [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.”<sup>(2)</sup>

### 4 [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i) Reasons for the offer ●
- (See “Use of Proceeds” wording in Base Prospectus—if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]*
- [(ii)] Estimated net proceeds: ●

---

(2) If there are material interests, but they are not discussed in “Subscription and Sale”, insert the section name where they are discussed instead. If there are no material interests, delete the whole of paragraph 4.

*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*

[(iii)] Estimated total expenses:

● [Include breakdown of expenses.]

*(Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)*

## 5 [Fixed Rate Notes only—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 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/give name(s) and number(s) [and addresses]]

Delivery:

Delivery [against/free of] payment

Names and addresses of initial Paying Agent(s):

●

Names and addresses of additional Paying Agent(s) (if any):

●



## 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 U.S. 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-U.S. 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 U.S. 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-U.S. 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 144A 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, 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 or 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 London Stock Exchange and the rules of that exchange so require, file a notice with a Regulatory Information Service approved by the UK Financial Services Authority. 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 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A 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 U.S. 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 144A 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 depository 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, an ISIN and Common Code and unless otherwise indicated in such Final Terms, 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 144A 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 U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. 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 144A 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 depository 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 144A 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 depository 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 depository 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 depository 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 summary of certain Russian, Luxembourg, United Kingdom and United States tax consequences of ownership of Notes is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Base Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Notes. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Notes. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of Notes, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this Base Prospectus, and of any actual changes in applicable tax laws after such date.*

### RUSSIAN FEDERATION

#### General

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of any Series of the Notes as well as taxation of interest payments on the corresponding Loans. This summary is based on the laws of Russia in effect at the date of this Prospectus (whereas they are subject to changes which could occur frequently, at short notice and could be applied retroactively). The information and analysis contained within this section are limited to taxation 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 any Series of the Notes. This summary does not seek to address the applicability of, or any procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Similarly, this summary does not seek to address the availability of double tax treaty relief in respect of income payable on any Series of the Notes or practical difficulties, connected with claiming such double tax treaty relief.

Prospective investors should consult their own advisers regarding tax consequences relating to investing in the Notes that may arise in their own particular circumstances. No representation with respect to Russian tax consequences relevant for any particular holder of the Notes is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack of interpretive guidance resulting in inconsistent interpretations and application thereon. Furthermore, provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable changes and inconsistent interpretations than those in jurisdictions with more developed capital markets and tax systems.

In practice, the interpretation of tax laws and regulations by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by law. Furthermore, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, the term **Non-Resident Noteholder** means:

- a legal entity or an organisation in each case not organised under Russian law, which holds and disposes of the Notes otherwise than through a permanent establishment in Russia (the **Non-Resident Noteholder—Legal Entity**), and
- a Noteholder who is an individual not actually present in Russia for an aggregate period of 183 days or more in a period comprised of 12 consecutive months (the **Non-Resident Noteholder—Individual**). Presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education.

For the purposes of this summary, a **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, the definitions “Resident Noteholder” and “Non-Resident Noteholder” in respect of individuals are taken at face value based on the wording of the tax law as currently written. In practice, however, the application of the above formal residency definition may differ based on the position of the tax authorities. The law is currently worded in a way that implies the potential for a split-year residency for individuals. However, both the Ministry of Finance of the Russian Federation and the tax

authorities have expressed the view that an individual should be either a resident or non-resident in Russia for the full calendar year. Consequently, if the travel pattern dictates a differing residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by introduction of amendments to articles of the Tax Code dealing with taxation of individuals, a change in the position of the tax authorities or by outcomes of tax controversy through the courts.

Russia's taxation rights may be affected by an applicable double tax treaty.

## **Taxation of the Notes**

### ***Resident Noteholders***

Resident Noteholders will be subject to all applicable Russian taxes in respect of income derived by them in connection with the acquisition, ownership and disposition of the Notes.

Resident Noteholders should consult their own tax advisers with respect to the effect that the acquisition, holding and disposition of the Notes may have on their tax position.

### ***Non-Resident Noteholders***

A Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer.

A Non-Resident Noteholder should also generally not be subject to any Russian taxes in respect of any gain or other income realised on the Notes outside Russia (including gains upon redemption, sale or other disposition of the Notes outside Russia).

## **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 pursuant to the provisions of the Tax Code relating to the material benefit (deemed income) received by individuals as a result of the acquisition of securities. If the acquisition price of the Notes is below the “market price” decreased by the amount of the maximum permissible fluctuation rate, the difference may be subject to Russian personal income tax at the rate of 30 percent. The Russian tax legislation as currently in effect contains a specific procedure for the determination of market prices of securities and the maximum permissible fluctuation rate for tax purposes. It is expected that, effective 1 January 2011, these rules will be amended.

Under the Russian tax legislation, taxation of income of Non-Resident Noteholders—Individuals depends on whether this income is received from Russian or non-Russian sources. Although the Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, the 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 additional guidance as to what should be considered as a purchase of securities “in Russia”, the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of the transaction for the acquisition of the Notes, the location of the Issuer, or other similar criteria.

### ***Disposition of the Notes***

Subject to any available tax treaty relief, if the receipt of proceeds from the disposition of the Notes by a Non-Resident Noteholder—Individual is classified as income from Russian sources for Russian personal income tax purposes, these proceeds will be subject to Russian personal income tax at the rate of 30 percent. The tax will apply to the gross amount of sales proceeds received upon disposition of the Notes decreased by the amount of any available cost deductions (including the original purchase price of the Notes). There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the tax authorities, the cost deduction will be disallowed and the tax will apply to the gross amount of sales proceeds.

In certain circumstances, if the 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 any other person located in Russia

(including a foreign company with a permanent establishment or any registered presence in Russia and an individual entrepreneur located in Russia), who carries out operations under an agency agreement, a commission agreement or another similar agreement for the benefit of the Non-Resident Noteholder—Individual, the applicable personal income tax at the rate of 30 percent should be withheld at source by such person, who will be considered as the tax agent. The amount of the tax to be withheld would be calculated as the difference between sales proceeds paid to a Non-Resident Noteholder—Individual and the amount of duly documented deductions relating to the purchase value of the Notes and other related expenses to the extent that such deductions and expenses can be determined by the entity making the payment of income to a Non-Resident Noteholder—Individual.

Where a sale is made to other legal entities or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder—Individual would be required to file a tax return individually, report on the amount of income realised to the Russian tax authorities and apply for a deduction in the amount of acquisition expenses confirmed by the supporting documentation. The applicable tax would then have to be paid by the individual on the basis of the filed tax return.

Under certain circumstances, gains received and losses incurred by a Non-Resident Noteholder—Individual as a result of the disposition of the Notes and other securities occurring within the same tax year may be aggregated, which would affect the total amount of tax payable by a Non-Resident Noteholder—Individual in Russia.

There is a risk that any gain derived by a Non-Resident Noteholder—Individual from the disposition of the Notes may be affected by changes in the exchange rate between the currency of acquisition of the Notes, the currency of disposition of the Notes and rubles.

There is also some uncertainty regarding the treatment of the portion of sales proceeds derived by a Non-Resident Noteholder—Individual from Russian sources in connection with disposition of the Notes that is attributable to the accrued interest income on the Notes. The tax authorities could argue that the portion of sales proceeds attributable to interest income, provided that these sales proceeds are derived from a Russian source, should be subject to Russian personal income tax at the rate of 30 percent, even if the disposition itself results in a capital loss. This rate, however, could be reduced or eliminated under an applicable double tax treaty.

Non-Resident Noteholders should consult their own tax advisers with respect to tax consequences arising in connection with the disposition of the Notes, including the receipt of sales proceeds from a source within Russia upon the disposition of the Notes.

## **Taxation of Non-Resident Noteholders—Legal Entities**

### ***Acquisition of the Notes***

The acquisition of the Notes by Non-Resident Noteholders—Legal Entities should not constitute a taxable event under Russian tax law. Consequently, the acquisition of the Notes should not trigger any Russian tax implications for the Non-Resident Noteholders—Legal Entities.

### ***Disposition of the Notes***

Capital gains derived by a Non-Resident Noteholder—Legal Entity from Russian sources in connection with disposition of the Notes should not be subject to Russian withholding tax. There is however some residual uncertainty regarding tax treatment of the portion of the sales proceeds attributable to accrued interest on the Notes. Subject to reduction or elimination under provisions of an applicable double tax treaty relating to interest income, the portion of sales proceeds attributable to accrued interest may be subject to Russian withholding tax at the rate of 20 percent, even if the disposal results in a capital loss.

## **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 Union of Soviet Socialist Republics. These tax treaties may contain provisions that allow the reduction or elimination of Russian withholding tax due with respect to income received by a Non-Resident Noteholder from a source within Russia, including income from the

disposition of the Notes. In order to obtain benefit available under the respective double tax treaty, a Non-Resident-Noteholder must comply with the certification, information and reporting requirements in force in Russia.

Currently a Non-Resident Noteholder—Legal Entity would need to provide the payer of income with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income. The certificate should confirm that the respective Non-Resident Noteholder—Legal Entity is the tax resident of the relevant double tax treaty country in a particular calendar year during which the income is paid. This certificate should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate may be required. There can be no assurance, however, that the advance treaty relief will be available in practice.

Under Russian domestic tax legislation, in order to enjoy benefits of an applicable tax treaty a Non-Resident Noteholder—Individual must provide to the Russian tax authorities a tax residency certificate issued by the competent authorities of his or her country of residence for tax purposes and confirmation from the relevant foreign tax authorities of income received and the tax paid outside Russia in relation to income with respect to which treaty benefits are claimed. Technically, these requirements mean that a Non-Resident Noteholder—Individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. In practice, individuals would not be able to obtain the advance treaty relief in relation to income derived from Russian sources, as it is unlikely that the supporting documentation required for the treaty relief can be provided to the Russian tax authorities and, consequently, approval from the latter can be obtained, before the receipt of income by a Non-Resident Noteholder—Individual occurs.

#### **Refund of Tax Withheld**

If Russian withholding tax on income derived by a Non-Resident Noteholder—Legal Entity from Russian sources was withheld at source, despite the right of such Non-Resident Noteholder—Legal Entity to rely on the benefits of an applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at the reduced rate in relation to such income, a claim for a refund of the tax that was excessively withheld at source can be filed with the Russian tax authorities within three years following the year in which the tax was withheld.

If Russian personal income tax on income derived by a Non-Resident Noteholder—Individual from Russian sources was withheld at source, despite the fact that such Non-Resident Noteholder—Individual is entitled to rely on benefits of an applicable double tax treaty allowing it not to pay the tax in Russia or to pay the tax at the reduced rate in relation to such income, a claim for a refund of the tax which was excessively withheld can be filed with the Russian tax authorities within one year following the year in which the tax was withheld.

The Russian tax authorities may in practice require a wide variety of documentation confirming the right of a Non-Resident Noteholder to obtain tax relief available under an applicable double tax treaty. Such documentation may not be explicitly required by the Tax Code.

Obtaining a refund of Russian taxes that were excessively withheld at source is likely to be a time consuming process and no assurance can be given that such refund will be granted in practice.

Non-Resident Noteholders should consult their own tax advisers regarding possible tax treaty relief and procedures required to be fulfilled in order to obtain treaty relief with respect to any Russian taxes imposed on income received in connection with the acquisition and disposition of the Notes.

#### **Taxation of Interest on the Loan**

In general, payments of interest on borrowed funds made by a Russian entity to a non-resident legal entity or organisation having no registered presence and/or 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. The Company believes that payments of interest to the Issuer on each Loan should not be subject to Russian withholding tax based on the Convention. However, there can be no assurance that this tax relief will be available in practice and/or will continue to be available during the term of relevant Loans.

If interest under any Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the Convention will cease and payments of interest by the Company should become subject to Russian withholding tax at the rate of 20 percent, or such other rate as may be in force at the time of payment. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty under such circumstances. In such cases, the Noteholders may seek the reduction or elimination of Russian withholding tax or seek a refund of the tax under applicable double taxation treaties entered into between their countries of residence and Russia. There is no assurance however that the respective treaty relief will be available to them in practice under these circumstances.

If payments under any Loan are subject to any Russian withholding tax (as a result of which the Issuer would reduce payments under the corresponding Series of the Notes by the amount of tax withheld), the Company will be obliged (subject to certain conditions) to increase payments made under the relevant Loan as may be necessary so that the net payments received by the Issuer and the Noteholders will be equal to the amounts they would have received in the absence of such withholding.

It is currently unclear, however, whether provisions obliging the Company to gross-up interest payments payable under any Loan will be enforceable under Russian law. There is a risk that gross up for withholding tax will not take place and that the interest payments made by the Company under the relevant Loan Agreement will be reduced by the amount of the Russian income tax withheld by the Company at the rate of 20 percent, or such other rate as may be in force at the time of payment. If the Company is obliged to increase payments, 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 be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of redemption.

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***

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 resident 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 the tax certificate procedure. The same regime applies to payments of interest and other similar income made to certain “residual entities” within the meaning of Article 4.2 of the Savings Directive established in a Member State or in certain EU dependent or associated territories 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, which are not UCITS recognised in accordance with the European Council Directive 85/611/EEC 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 and which have not opted to be treated as UCITS recognised in accordance with the European Council Directive 85/611/EEC).

The current withholding tax rate is 20 percent, increasing to 35 percent as from 1 July 2011. 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, 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 or for the exchange of information regime) are subject to a 10 percent withholding tax.

Pursuant to the Luxembourg law of 23 December 2005 as amended by the law of 17 July 2008, 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 gain upon 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 sale, redemption or exchange of the Notes should be addressed by the Noteholders’ advisors depending on their particular circumstances.

#### ***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; 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.

### **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 is 20 percent and it will be increased to 35 percent with effect 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 entity 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 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 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 Notes. It does not address the tax treatment of prospective purchasers that will hold the Notes in connection with a permanent establishment. It also does not address the tax treatment of prospective purchasers subject to special rules, such as banks, dealers, traders that elect to mark to market, insurance companies, investors liable for the alternative minimum tax, US expatriates, tax-exempt entities or persons holding the Notes as part of a hedge, straddle, conversion or other integrated financial transaction. It also does not address prospective purchasers of further Notes, which may be issued at a discount or premium.

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. To the extent relevant for US federal income tax purposes, the Issuer intends to treat the Notes as indebtedness for such purposes and this discussion assumes that treatment is correct. 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 discussion. Alternative characterisations include treatment of the Notes as beneficial ownership of the Loan or as equity in the Issuer, which is a passive foreign investment company (*PFIC*). 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.

**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 that is, for purposes of US federal income taxation, (i) an individual citizen or resident of the United States, (ii) a corporation, partnership or other business entity 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 partner of a partnership that acquires or holds the Notes should consult its own tax advisors.

#### **Interest**

Stated interest paid on the Notes, including any additional payments, will be included in the gross income of a US Holder in accordance with the holder's regular method of tax accounting. The interest and any original issue discount (*OID*) 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  $\frac{1}{4}$  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.

It is unclear whether a US Holder of Notes eligible for benefits under the income tax treaty between the Russian Federation and the United States may claim an exemption from Russian withholding tax, if any, imposed on the Notes. A US Holder also may not be able to claim a deduction or a foreign tax credit for Russian withholding tax, if any, imposed on the Notes. Each US Holder should consult its own tax advisor about its eligibility for exemption from, and its ability to credit or deduct, Russian withholding tax, if any, imposed on the Notes.

### **Disposition**

A US Holder will recognise gain or loss on the sale, redemption 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 be the amount the US Holder paid for the Note increased by OID included in the US Holder's income with respect to the Note and reduced by payments other than qualified stated interest.

Gain or loss on disposition of a Note generally will be US source capital gain or loss. A US Holder will have long-term capital gain or loss if it has held the Note 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.

### **Information Reporting and Backup Withholding**

Payments of principal and interest 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 amounts subject to reporting 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 advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

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 U.S. 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 U.S. 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 U.S.\$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 U.S.\$100,000 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 U.S. 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 U.S. person and is not a QIB and also a QP to sell its interest in the Rule 144A 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 U.S. 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 U.S. Tax Code to which Section 4975 of the U.S. 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 U.S. 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 U.S. 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 U.S.\$100,000 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 U.S.\$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 U.S. \$100,000 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 U.S. 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 REALES OF THIS NOTE.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. 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 U.S.\$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 U.S. \$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 U.S. 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 U.S. 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 U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO JSC 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 U.S. 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 Arrangers 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 Arrangers 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 144A Notes of a Series will be evidenced by a Rule 144A Global Certificate. Before any interest in a Rule 144A 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 U.S. 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)(1) of the U.S. Tax Code to which Section 4975 of the U.S. 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 Arrangers 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 Arrangers 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)(1) OF THE U.S. TAX CODE TO WHICH SECTION 4975 OF THE U.S. 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 a Dealer Agreement dated 19 October 2010 (the *Dealer Agreement*) between the Company, the Issuer, the Arrangers 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, U.S. 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, U.S. 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, U.S. 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-U.S. persons may be sold in reliance on Regulation S. The Dealer Agreement provides that the Dealer(s) may directly or through their respective U.S. 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 U.S.\$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 U.S.\$100,000 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. 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 U.S. 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 U.S. broker-dealer affiliate. Distribution of this Base Prospectus by any non-U.S. person outside the United States or by any QIB/QP within the United States to any U.S. 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-U.S. 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 U.S. person or other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. 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 the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

The Arrangers, the Dealers and their respective affiliates have 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 Arrangers and the Dealers performed various investment banking, financial advisory, and other services for the Company, for which they received customary fees, and the Arrangers, the Dealers and their respective affiliates may provide such services in the future.



## **LEGAL MATTERS**

Certain legal matters in connection with the establishment 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 establishment of the Programme and the issue of the Notes thereunder will be passed upon for the Arrangers 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, 10 Presnenskaya Naberezhnaya Block C Moscow 123317 as stated in its report appearing herein. The Interim Financial Statements included in this Base Prospectus, have been reviewed by ZAO KPMG in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, as stated in its report appearing herein.

## ADDITIONAL INFORMATION

- (1) The loans backing each Series of the Notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes.
- (2) The Company and the Issuer have obtained or will obtain all necessary consents, approvals, authorisations or other orders in connection with any Loan, the issue of the corresponding Series of Notes and the other documents to be entered into by the Company and the Issuer in connection with each Loan and the issue of each Series of Notes in Luxembourg.
- (3) The establishment of the Programme was approved by the Company's Board of Directors on 29 September 2010.
- (4) There has been no significant change in the financial or trading position of the Company since 30 June 2010, such date being the date of the latest financial statements of the Company.
- (5) There has been no material adverse change in the prospects of the Company since 31 December 2009, such date being the date of the latest audited financial statements of the Company.
- (6) The admission of the Notes to listing on the Official List and trading on the Market will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that listing of the Programme in respect of such Notes will be granted on or before 21 October 2010 subject only to the issue of a Global Certificate in respect of each Series. Prior to official listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions on the Market will normally be effected for delivery on the third business day after the day of the transaction. However, Notes may be issued pursuant to the Programme which will not be listed on any stock exchange.
- (7) There are no governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Group 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 Group's financial position or profitability.
- (8) The Issuer has not been involved in any governmental, legal or arbitration proceedings that have had, in the 12 months before the date of this Base Prospectus, a significant effect on the Issuer's financial position or profitability, nor, so far as the Issuer is aware, are any such proceedings pending or threatened.
- (9) For so long as any Series of Notes is outstanding, copies (and English translations where the documents in question are not in English) of the following documents may be obtained free of charge in physical form at the specified offices of the Trustee and the Paying Agent in London during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):
  - the latest audited consolidated financial statements the Company;
  - the latest consolidated interim financial statements of the Company;and copies of the following documents will be available for inspection in physical form at the specified offices of the Trustee and the Paying Agent in London and New York during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):
  - the charter of the Company and the articles of incorporation of the Issuer;
  - the Trust Deed in respect of the Notes (including the forms of the Global Notes and definitive Notes);
  - the Dealer Agreement;
  - the Paying Agency Agreement;
  - each Loan Agreement;
  - each Final Terms for Notes which are listed on the London Stock Exchange and traded on the Market 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 Paying Agent as to its holding of Notes and identity);

- a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus; and
- all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Base Prospectus.

- (10) The Notes have been accepted for clearance through Euroclear and 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.
- (11) The Company prepares annual and interim consolidated financial statements in accordance with IFRS.
- (12) Neither the Company nor the Issuer intends to provide any post-issuance transaction information regarding any Series of Notes or any Loan.

## GLOSSARY

<b>Annealing</b> . . . . .	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.
<b>Bars</b> . . . . .	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.
<b>Basic oxygen furnace</b> . . . . .	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.
<b>Beneficiation</b> . . . . .	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.
<b>Billet</b> . . . . .	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.
<b>Blast furnace</b> . . . . .	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.
<b>Blooms</b> . . . . .	See “ <i>Billet</i> ”.
<b>Coated steel</b> . . . . .	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”.
<b>Cogging</b> . . . . .	An intermediate rolling process when a hot ingot is reduced to a bloom or slab in a cogging mill.
<b>Coils</b> . . . . .	Steel that has been wound.
<b>Coke</b> . . . . .	A fuel obtained by the pyrolysis of coal in coke ovens and used as a reducing agent for iron ore in the blast furnace.
<b>Coke breeze</b> . . . . .	A lightweight aggregate stone formed by a refractory process.
<b>Coking coal</b> . . . . .	Coal used for making coke, used to make steel.
<b>Cold-rolled sheet</b> . . . . .	Sheet steel that has been run through a cold-rolling mill.
<b>Cold-rolling mill</b> . . . . .	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.

<b>Continuous casting</b> . . . . .	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.
<b>Cooling-tower</b> . . . . .	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.
<b>Cowper</b> . . . . .	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.
<b>Debottlenecking</b> . . . . .	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.
<b>Dolomite</b> . . . . .	A sedimentary rock composed largely of calcium magnesium carbonate.
<b>Draglines</b> . . . . .	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.
<b>Electric arc furnace (EAF)</b> . . . .	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.
<b>Ferro-alloy</b> . . . . .	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.
<b>Ferrous</b> . . . . .	Metals that consist primarily of iron.
<b>Flat products</b> . . . . .	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.
<b>Galvanised steel</b> . . . . .	See “Coated Steel”.
<b>Galvannealed</b> . . . . .	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.



<b>High Strength Low Alloy steel (HSLA)</b> . . . . .	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.
<b>Hot-rolled steel</b> . . . . .	Steel rolled in a hot-rolling mill.
<b>Hot-rolling</b> . . . . .	A process whereby solidified steel, preheated to a high temperature, is continuously rolled between rotating cylinders.
<b>Ingot</b> . . . . .	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.
<b>Integrated metallurgical process</b> .	The process including all stages starting from raw coal and iron ore to rolling finished products at one site.
<b>Ladle furnace</b> . . . . .	A furnace used for refining hot metal between the converter or electric arc furnaces and casting.
<b>Lance (Oxygen)</b> . . . . .	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.
<b>Long products</b> . . . . .	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.
<b>Long-wall mining</b> . . . . .	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.
<b>Metallurgical lime</b> . . . . .	Quick lime. Slag-former and lining protector used in metallurgical processes.
<b>Metalware</b> . . . . .	Small industrial, household and similar articles made of metal.
<b>Middlings</b> . . . . .	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.
<b>Open-hearth furnace</b> . . . . .	A broad, shallow hearth to refine pig iron and scrap into steel (also known as a <i>Martin furnace</i> ). Heat is supplied from a large flame over the surface and the refining takes 7-9 hours.
<b>Open-pit methods</b> . . . . .	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.
<b>Pellets</b> . . . . .	Iron ore or limestone particles which are baked into little balls of a specified size in a balling drum and hardened by heat.
<b>Pickling</b> . . . . .	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.

<b>Polymer-coated steel products . .</b>	A variety of products produced either by film coating or direct extrusion of a multi-layer polymer coating.
<b>Refining . . . . .</b>	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”).
<b>Reinforcing bar or Rebar . . . . .</b>	A commodity-grade steel used to strengthen concrete in highway and building construction.
<b>Run of mine (ROM) . . . . .</b>	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/floating in the case of coal.
<b>Scrap . . . . .</b>	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.
<b>Semi-finished products . . . . .</b>	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.
<b>Sinter . . . . .</b>	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.
<b>Slab . . . . .</b>	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.
<b>Slag . . . . .</b>	A by-product, containing inert materials, produced during the blast-furnace smelting process and other steelmaking operations.
<b>Slitting . . . . .</b>	Cutting a sheet of steel into narrower strips.
<b>Strip . . . . .</b>	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.
<b>Tandem mill . . . . .</b>	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.
<b>Tempering . . . . .</b>	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.
<b>Vacuum degasser . . . . .</b>	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.

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# **OA O Severstal and subsidiaries**

Consolidated interim condensed financial statements  
for the six months ended June 30, 2010 and 2009

**OA O Severstal and subsidiaries**  
**Consolidated interim condensed financial statements**  
**for the six months ended June 30, 2010 and 2009**

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## **Independent Auditors' Report**

To the Board of Directors  
OAO Severstal

### *Introduction*

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO Severstal (the "Company") and its subsidiaries (the "Group") as at 30 June 2010, the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income for the three- and six-month periods ended 30 June 2010 and 2009, and the related consolidated interim condensed statements of changes in equity and cash flows for the six-month periods ended 30 June 2010 and 2009, and selected explanatory notes (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our reviews.

### *Scope of Reviews*

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

### *Conclusion*

Based on our reviews, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2010, and for the three- and six-month periods ended 30 June 2010 and 2009 is not prepared, in all material aspects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

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2 September 2010



**OAO Severstal and subsidiaries**  
**Consolidated interim condensed income statements**  
**Six months ended June 30, 2010 and 2009**  
(Amounts expressed in thousands of US dollars, except as otherwise stated)

		Six months ended June 30,		Three months ended June 30,	
	Note	2010 (unaudited)	2009 (unaudited)*	2010 (unaudited)	2009 (unaudited)*
<b>Sales</b>					
Sales—external . . . . .		7,291,728	4,733,992	4,196,166	2,438,063
Sales—to related parties . . . . .	5	95,431	75,671	49,220	28,964
	4	7,387,159	4,809,663	4,245,386	2,467,027
Cost of sales . . . . .		(5,394,049)	(4,480,139)	(2,953,119)	(2,199,125)
<b>Gross profit</b> . . . . .		1,993,110	329,524	1,292,267	267,902
General and administrative expenses . . . . .		(338,460)	(316,788)	(169,401)	(150,537)
Distribution expenses . . . . .		(464,235)	(348,920)	(268,351)	(180,366)
Other taxes and contributions . . . . .		(81,654)	(68,555)	(42,958)	(35,982)
Share of associates' income . . . . .		12,509	5,167	10,424	1,408
Loss from securities operations . . . . .		(60,136)	(6,098)	(56,622)	(405)
Loss on disposal of property, plant and equipment and intangible assets . . . . .		(30,059)	(7,415)	(31,248)	(5,004)
Net other operating expenses . . . . .		(5,331)	(12,845)	(6,024)	(2,406)
<b>Profit/(loss) from operations</b> . . . . .		1,025,744	(425,930)	728,087	(105,390)
(Impairment)/reversal of impairment of non-current assets . . . . .		(60,626)	(26,524)	3,094	229
Net other non-operating expenses . . . . .		(19,404)	(21,681)	(9,162)	(10,585)
<b>Profit/(loss) before financing and taxation</b> . . .		945,714	(474,135)	722,019	(115,746)
Interest income . . . . .		62,725	43,781	28,387	19,707
Interest expense . . . . .		(323,875)	(258,908)	(128,786)	(122,329)
Foreign exchange difference . . . . .		(29,622)	(215,058)	(149,523)	164,128
<b>Profit/(loss) before income tax</b> . . . . .		654,942	(904,320)	472,097	(54,240)
Income tax (expense)/benefit . . . . .		(184,590)	101,675	(78,675)	(121,957)
<b>Profit/(loss) from continuing operations</b> . . .		470,352	(802,645)	393,422	(176,197)
Loss from discontinued operation . . . . .	3	(1,036,929)	(187,403)	(182,145)	(127,303)
<b>(Loss)/profit for the period</b> . . . . .		<u>(566,577)</u>	<u>(990,048)</u>	<u>211,277</u>	<u>(303,500)</u>
Attributable to:					
shareholders of OAO Severstal . . . . .		(592,593)	(945,580)	192,759	(289,742)
non-controlling interests . . . . .		<u>26,016</u>	<u>(44,468)</u>	<u>18,518</u>	<u>(13,758)</u>
Weighted average number of shares outstanding during the period (millions of shares) . . . . .		<u>1,005.2</u>	<u>1,005.2</u>	<u>1,005.2</u>	<u>1,005.2</u>
Basic and diluted (loss)/profit per share (US dollars) . . . . .		(0.59)	(0.94)	0.19	(0.29)
Basic and diluted profit/(loss) per share— continuing operations (US dollars) . . . . .		<u>0.44</u>	<u>(0.75)</u>	<u>0.37</u>	<u>(0.16)</u>

\* These amounts reflect adjustments made in connection with the completion of purchase price allocations and the presentation of the discontinued operation.

These consolidated interim condensed financial statements were approved by the Board of Directors on September 2, 2010.

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

**OA0 Severstal and subsidiaries**  
**Consolidated interim condensed statements of comprehensive income**  
**Six months ended June 30, 2010 and 2009**  
**(Amounts expressed in thousands of US dollars)**

	Six months ended June 30,		Three months ended June 30,	
	2010 (unaudited)	2009 (unaudited)*	2010 (unaudited)	2009 (unaudited)*
<b>(Loss)/profit for the period . . . . .</b>	<u>(566,577)</u>	<u>(990,048)</u>	<u>211,277</u>	<u>(303,500)</u>
<b>Other comprehensive (loss)/income</b>				
Foreign exchange difference . . . . .	(337,197)	(305,867)	(382,560)	383,675
Changes in fair value of cash flow hedges . . . . .	(5,770)	(5,933)	(1,133)	1,155
Deferred tax on changes in fair value of cash flow hedges . . . . .	1,776	1,347	—	(1,364)
Changes in fair value of available-for-sale investments . . . . .	14,854	10,815	12,580	(1,154)
Deferred tax on changes in fair value of available-for-sale investments . . . . .	(3,740)	(3,668)	(3,798)	79
<b>Other comprehensive (loss)/income for the period, net of tax . . . . .</b>	<u>(330,077)</u>	<u>(303,306)</u>	<u>(374,911)</u>	<u>382,391</u>
<b>Total comprehensive (loss)/income for the period . . .</b>	<u>(896,654)</u>	<u>(1,293,354)</u>	<u>(163,634)</u>	<u>78,891</u>
Attributable to:				
shareholders of OA0 Severstal . . . . .	(915,448)	(1,248,359)	(172,125)	69,687
non-controlling interests . . . . .	<u>18,794</u>	<u>(44,995)</u>	<u>8,491</u>	<u>9,204</u>

\* These amounts reflect adjustments made in connection with the completion of purchase price allocations.

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

**OAo Severstal and subsidiaries**  
**Consolidated interim condensed statements of financial position**  
**June 30, 2010 and December 31, 2009**  
**(Amounts expressed in thousands of US dollars)**

	Note	June 30, 2010 (unaudited)	December 31, 2009
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents . . . . .		1,839,842	2,853,376
Short-term bank deposits . . . . .		165,010	95,533
Short-term financial investments . . . . .		205,561	73,129
Trade accounts receivable . . . . .		1,462,759	1,457,651
Accounts receivable from related parties . . . . .	6	20,183	26,716
Inventories . . . . .		2,688,214	2,974,227
VAT recoverable . . . . .		240,557	288,032
Income tax recoverable . . . . .		88,469	106,019
Other current assets . . . . .		310,710	285,453
Assets held for sale . . . . .	3	1,885,332	24,415
<b>Total current assets</b> . . . . .		<u>8,906,637</u>	<u>8,184,551</u>
<b>Non-current assets:</b>			
Long-term financial investments . . . . .		155,112	128,616
Investments in associates and joint ventures . . . . .		252,947	143,857
Property, plant and equipment . . . . .		7,924,955	9,485,480
Intangible assets . . . . .		1,248,614	1,369,204
Restricted cash . . . . .		50,709	17,541
Deferred tax assets . . . . .		149,078	239,835
Other non-current assets . . . . .		82,882	74,802
<b>Total non-current assets</b> . . . . .		<u>9,864,297</u>	<u>11,459,335</u>
<b>Total assets</b> . . . . .		<u>18,770,934</u>	<u>19,643,886</u>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Trade accounts payable . . . . .		1,105,357	1,378,300
Accounts payable to related parties . . . . .	6	17,623	16,656
Short-term debt finance . . . . .	7	988,882	1,478,301
Income tax payable . . . . .		35,362	34,150
Other taxes and social security payable . . . . .		161,243	209,084
Dividends payable . . . . .		5,446	5,704
Other current liabilities . . . . .		570,545	693,844
Liabilities related to assets held for sale . . . . .	3	1,860,291	11,979
<b>Total current liabilities</b> . . . . .		<u>4,744,749</u>	<u>3,828,018</u>
<b>Non-current liabilities:</b>			
Long-term debt finance . . . . .	7	5,302,879	5,748,559
Deferred tax liabilities . . . . .		370,398	394,990
Retirement benefit liabilities . . . . .		653,503	787,714
Other non-current liabilities . . . . .		444,891	508,266
<b>Total non-current liabilities</b> . . . . .		<u>6,771,671</u>	<u>7,439,529</u>
<b>Equity:</b>			
Share capital . . . . .		3,311,288	3,311,288
Treasury shares . . . . .		(26,303)	(26,303)
Additional capital . . . . .		1,165,530	1,165,530
Foreign exchange differences . . . . .		(382,453)	(52,478)
Retained earnings . . . . .		2,915,271	3,436,270
Other reserves . . . . .		50,720	43,600
<b>Total equity attributable to shareholders of OAO Severstal</b> . . . . .		<u>7,034,053</u>	<u>7,877,907</u>
<b>Non-controlling interests</b> . . . . .		<u>220,461</u>	<u>498,432</u>
<b>Total equity</b> . . . . .		<u>7,254,514</u>	<u>8,376,339</u>
<b>Total equity and liabilities</b> . . . . .		<u>18,770,934</u>	<u>19,643,886</u>

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

**OA Severstal and subsidiaries**  
**Consolidated interim condensed statements of cash flows**  
**Six months ended June 30, 2010 and 2009**  
**(Amounts expressed in thousands of US dollars)**

	<b>Six months ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(unaudited)</b>	<b>(unaudited)*</b>
<b>Operating activities:</b>		
Profit/(loss) before financing and taxation	945,714	(474,135)
Adjustments to reconcile profit/(loss) to cash generated from operations:		
Depreciation and amortization	391,655	388,158
Impairment of non-current assets	60,626	26,524
Movements in provision for inventories, receivables and other provisions	(15,542)	(185,180)
Loss on disposal of property, plant and equipment and intangible assets	30,059	7,415
Loss on remeasurement and disposal of financial investments	60,136	6,098
Share of associates' results less dividends from associates	(12,509)	(5,167)
Changes in operating assets and liabilities:		
Trade accounts receivable	(517,909)	134,620
Amounts receivable from related parties	(48,420)	46,000
VAT recoverable	(20,357)	(4,452)
Inventories	(444,074)	1,067,000
Trade accounts payable	187,034	(194,698)
Amounts payable to related parties	45,044	(49,905)
Other taxes and social security payables	30,484	(2,990)
Other non-current liabilities	(31,587)	(41,044)
Assets held for sale	(8,826)	(6,641)
Net other changes in operating assets and liabilities	(69,326)	(166,900)
<b>Cash from operating activities—continuing operations</b>	<b>582,202</b>	<b>544,703</b>
Interest paid	(230,430)	(256,318)
Income tax paid	(167,404)	(9,399)
Net cash from operating activities—continuing operations	184,368	278,986
Net cash (used in)/from operating activities—discontinued operation	(52,101)	75,683
<b>Net cash from operating activities</b>	<b>132,267</b>	<b>354,669</b>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(472,689)	(394,229)
Additions to intangible assets	(29,995)	(6,596)
Net (increase)/decrease in short-term bank deposits	(125,310)	376,282
Additions to financial investments and associates	(520,446)	(128,024)
Acquisitions of non-controlling interests	(220,622)	(15,112)
Net cash outflow on acquisitions of subsidiaries	(4,029)	—
Net cash inflow on disposals of subsidiaries	118,647	—
Proceeds from disposal of property, plant and equipment	2,696	12,602
Proceeds from disposal of financial investments	243,085	139,713
Interest received	53,511	45,642
Dividends received	—	5,821
Cash (used in)/from investing activities—continuing operations	(955,152)	36,099
Cash used in investing activities—discontinued operation	(57,004)	(61,696)
<b>Cash used in investing activities</b>	<b>(1,012,156)</b>	<b>(25,597)</b>
<b>Financing activities:</b>		
Proceeds from debt finance	2,507,903	1,956,796
Repayment of debt finance	(2,183,353)	(2,448,854)
Repayments under lease obligations	(2,906)	(8,901)
Dividends paid	—	(115,619)
Cash from/(used in) financing activities—continuing operations	321,644	(616,578)
Cash used in financing activities—discontinued operation	(49,050)	(111,171)
<b>Cash from/(used in) financing activities</b>	<b>272,594</b>	<b>(727,749)</b>
Effect of exchange rates on cash and cash equivalents	(143,619)	(7,893)
<b>Net decrease in cash and cash equivalents</b>	<b>(750,914)</b>	<b>(406,570)</b>
Less cash and cash equivalents of discontinued operation and assets held for sale at end of the period	(262,620)	—
<b>Cash and cash equivalents at beginning of the period</b>	<b>2,853,376</b>	<b>2,653,742</b>
<b>Cash and cash equivalents at end of the period</b>	<b>1,839,842</b>	<b>2,247,172</b>

\* These amounts reflect adjustments made in connection with the completion of purchase price allocations and the presentation of the discontinued operation.

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

**OAQ Severstal and subsidiaries**  
**Consolidated interim condensed statements of changes in equity**  
**Six months ended June 30, 2010 and 2009**  
**(Amounts expressed in thousands of US dollars)**

	Attributable to shareholders of OAQ Severstal							Non-controlling interests	Total
	Share capital	Treasury shares	Additional capital	Foreign exchange differences	Retained earnings	Other reserves	Total		
Balances at December 31, 2008 . . . . .	3,311,288	(26,303)	1,165,530	84,987	4,488,396	27,601	9,051,499	501,117	9,552,616
Loss for the period (unaudited)* . . . . .	—	—	—	—	(945,580)	—	(945,580)	(44,468)	(990,048)
Foreign exchange difference (unaudited)* . . . . .	—	—	—	(302,546)	—	—	(302,546)	(3,321)	(305,867)
Changes in fair value of cash flow hedges (unaudited) . . . . .	—	—	—	—	—	(5,162)	(5,162)	(771)	(5,933)
Deferred tax on changes in fair value of cash flow hedges (unaudited) . . . . .	—	—	—	—	—	1,172	1,172	175	1,347
Changes in fair value of available-for-sale investments (unaudited) . . . . .	—	—	—	—	—	5,685	5,685	5,130	10,815
Deferred tax on changes in fair value of available-for-sale investments (unaudited) . . . . .	—	—	—	—	—	(1,928)	(1,928)	(1,740)	(3,668)
Total comprehensive loss for the period (unaudited)* . . . . .	—	—	—	—	—	—	(1,248,359)	(44,995)	(1,293,354)
Dividends (unaudited) . . . . .	—	—	—	—	—	—	—	(3,552)	(3,552)
Effect of acquisitions and disposals (unaudited) . . . . .	—	—	—	—	(6,050)	—	(6,050)	(10,047)	(16,097)
Balances at June 30, 2009 (unaudited)* . . . . .	3,311,288	(26,303)	1,165,530	(217,559)	3,536,766	27,368	7,797,090	442,523	8,239,613
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)/profit for the period (unaudited) . . . . .	—	—	—	—	(592,593)	—	(592,593)	26,016	(566,577)
Foreign exchange difference (unaudited) . . . . .	—	—	—	(329,975)	—	—	(329,975)	(7,222)	(337,197)
Changes in fair value of cash flow hedges (unaudited) . . . . .	—	—	—	—	—	(5,770)	(5,770)	—	(5,770)
Deferred tax on changes in fair value of cash flow hedges (unaudited) . . . . .	—	—	—	—	—	1,776	1,776	—	1,776
Changes in fair value of available-for-sale investments (unaudited) . . . . .	—	—	—	—	—	14,854	14,854	—	14,854
Deferred tax on changes in fair value of available-for-sale investments (unaudited) . . . . .	—	—	—	—	—	(3,740)	(3,740)	—	(3,740)
Total comprehensive loss for the period (unaudited) . . . . .	—	—	—	—	71,594	—	(915,448)	18,794	(896,654)
Effect of acquisitions and disposals (unaudited) . . . . .	—	—	—	—	—	—	71,594	(296,765)	(225,171)
Balances at June 30, 2010 (unaudited) . . . . .	3,311,288	(26,303)	1,165,530	(382,453)	2,915,271	50,720	7,034,053	220,461	7,254,514

\* These amounts reflect adjustments made in connection with the completion of purchase price allocations.

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

**OAo Severstal and subsidiaries**  
**Notes to the consolidated interim condensed financial statements**  
**Six months ended June 30, 2010 and 2009**  
**(Amounts expressed in thousands of US dollars)**

**1. Accounting policies and estimates**

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

The accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended December 31, 2009, except that the Group has adopted those new/revised standards mandatory for financial annual periods beginning on January 1, 2010. The adoption of the pronouncements did not have a significant impact on the Group's consolidated interim condensed financial statements except for those discussed below.

***Change in accounting policy for business combinations***

The Group has adopted revised IFRS 3 *Business Combinations* and amended IAS 27 *Consolidated and Separate Financial Statements*, which became effective as at 1 January 2010.

Revised IFRS 3 and amended IAS 27 incorporate the following changes that are relevant to the Group's operations:

- The definition of a business has been broadened, which results in more acquisitions being treated as business combinations.
- Transaction costs, other than share and debt issue costs, are expensed as incurred.
- Total comprehensive income/loss is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Revised IFRS 3 and amended IAS 27 have been applied prospectively and therefore there is no impact on prior periods in the Group's 2010 consolidated financial statements.

***Change in presentation of the statement of changes in equity***

The Group applied amended IAS 1 *Presentation of Financial Statements*, which became effective as at 1 January 2010. The amended standard requires presentation in the statement of changes in equity of a reconciliation, for each component of equity, between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from profit or loss, each item of other comprehensive income and transactions with owners. The amendment was applied retrospectively by re-presenting the comparative information.

**2. Seasonality**

There are no material seasonal effects in the business activities of the Group.



**OA0 Severstal and subsidiaries**  
**Notes to the consolidated interim condensed financial statements**  
**Six months ended June 30, 2010 and 2009**  
**(Amounts expressed in thousands of US dollars)**

**3. Discontinued operation and assets held for sale**

The Group's discontinued operation represents the Lucchini segment which is classified as held for sale as at June 30, 2010.

The results of the discontinued operation were as follows:

	Six months ended June 30,		Three months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Revenue . . . . .	1,235,208	838,611	657,772	384,917
Expenses . . . . .	(1,254,256)	(1,082,634)	(620,062)	(541,348)
Loss on remeasurement of the Lucchini disposal group to fair value less costs to sell . . . . .	(1,010,280)	—	(207,945)	—
<b>Loss before income tax . . . . .</b>	<b>(1,029,328)</b>	<b>(244,023)</b>	<b>(170,235)</b>	<b>(156,431)</b>
Income tax (expense)/benefit . . . . .	(7,601)	56,620	(11,910)	29,129
<b>Loss for the period . . . . .</b>	<b>(1,036,929)</b>	<b>(187,403)</b>	<b>(182,145)</b>	<b>(127,303)</b>
Attributable to:				
shareholders of OA0 Severstal . . . . .	(1,036,929)	(149,548)	(182,145)	(101,588)
non-controlling interests . . . . .	—	(37,855)	—	(25,715)

Furthermore, there was a cumulative net loss of US\$ 46.6 million recognized in other comprehensive income as at June 30, 2010 in relation to foreign exchange differences and changes in cash flow hedges for the Lucchini segment.

The Lucchini segment was classified as held for sale as at March 31, 2010 and measured at fair value less costs to sell as at that date. As at June 30, 2010 management reassessed the fair value less costs to sell of the Lucchini segment and recognized an additional loss of US\$ 207.9 million.

The fair value less costs to sell was measured using a combination of valuation techniques. The valuation is sensitive to changes in certain assumptions, including Lucchini's forecast operating results, the market prices of equity instruments of Lucchini's peer group, as well as other inputs related to current and future market conditions.

The losses were allocated to property, plant and equipment and intangible assets on a pro-rata basis.

**OA0 Severstal and subsidiaries**  
**Notes to the consolidated interim condensed financial statements**  
**Six months ended June 30, 2010 and 2009**  
**(Amounts expressed in thousands of US dollars)**

The Group's assets held for sale as at June 30, 2010 primarily consisted of the Lucchini segment.

The major classes of assets and liabilities of the disposal group at June 30, 2010 and December 31, 2009 were as follows:

	<b>June 30, 2010 (unaudited)</b>	<b>December 31, 2009</b>
<b>Current assets:</b>		
Cash and cash equivalents . . . . .	262,620	1,267
Short-term financial investments . . . . .	1,484	—
Trade accounts receivable . . . . .	571,244	5,868
Inventories . . . . .	642,379	1,617
VAT recoverable . . . . .	29,152	263
Income tax recoverable . . . . .	3,146	—
Other current assets . . . . .	17,618	1,627
<b>Total current assets . . . . .</b>	<b>1,527,643</b>	<b>10,642</b>
<b>Non-current assets:</b>		
Long-term financial investments . . . . .	9,157	—
Investments in associates . . . . .	900	—
Property, plant and equipment . . . . .	282,586	13,773
Intangible assets . . . . .	7,708	—
Deferred tax assets . . . . .	54,322	—
Other non-current assets . . . . .	3,016	—
<b>Total non-current assets . . . . .</b>	<b>357,689</b>	<b>13,773</b>
<b>Total assets . . . . .</b>	<b>1,885,332</b>	<b>24,415</b>
<b>Current liabilities:</b>		
Trade accounts payable . . . . .	595,764	2,870
Short-term debt finance . . . . .	763,261	—
Income tax payable . . . . .	4,911	—
Other taxes and social security payable . . . . .	55,028	111
Other current liabilities . . . . .	89,542	8,360
<b>Total current liabilities . . . . .</b>	<b>1,508,506</b>	<b>11,341</b>
<b>Non-current liabilities:</b>		
Long-term debt finance . . . . .	187,415	—
Deferred tax liabilities . . . . .	926	—
Retirement benefit liabilities . . . . .	107,648	—
Other non-current liabilities . . . . .	55,796	638
<b>Total non-current liabilities . . . . .</b>	<b>351,785</b>	<b>638</b>
<b>Total liabilities . . . . .</b>	<b>1,860,291</b>	<b>11,979</b>

**OA0 Severstal and subsidiaries**  
**Notes to the consolidated interim condensed financial statements**  
**Six months ended June 30, 2010 and 2009**  
**(Amounts expressed in thousands of US dollars)**

**4. Sales**

Sales by product were as follows:

	Six months ended June 30,		Three months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Hot-rolled strip and plate . . . . .	2,247,447	1,255,257	1,259,677	611,810
Galvanized and other metallic coated sheet . . . . .	1,133,791	840,093	604,848	445,122
Cold-rolled sheet . . . . .	1,107,810	713,088	624,485	360,434
Large diameter pipes . . . . .	466,851	342,229	263,946	214,499
Metalware products . . . . .	456,161	393,157	262,876	202,353
Shipping and handling costs billed to customers . . . . .	330,205	236,857	192,066	120,316
Coal and coking coal concentrate . . . . .	301,798	97,251	180,785	45,535
Gold . . . . .	298,415	209,721	164,038	103,839
Long products . . . . .	193,832	155,594	131,243	59,690
Semi-finished products . . . . .	185,289	96,480	162,476	38,580
Other tubes and pipes, formed shapes . . . . .	158,259	106,941	92,343	59,739
Color-coated sheet . . . . .	144,160	125,554	93,053	76,917
Pellets and iron ore . . . . .	122,489	75,822	76,209	41,389
Scrap . . . . .	46,637	18,403	33,801	10,346
Other . . . . .	194,015	143,216	103,540	76,458
	<u>7,387,159</u>	<u>4,809,663</u>	<u>4,245,386</u>	<u>2,467,027</u>

Sales by delivery destination were as follows:

	Six months ended June 30,		Three months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Russian Federation . . . . .	2,764,669	1,499,119	1,553,533	841,465
North America . . . . .	2,748,663	1,940,244	1,538,282	935,103
Europe . . . . .	1,121,656	645,233	667,672	300,409
Central and South America . . . . .	268,056	41,483	187,504	20,631
The Middle East . . . . .	189,914	78,581	121,256	42,458
China and Central Asia . . . . .	169,089	426,661	86,465	216,871
South-East Asia . . . . .	84,284	125,880	77,862	90,469
Africa . . . . .	40,828	52,462	12,812	19,621
	<u>7,387,159</u>	<u>4,809,663</u>	<u>4,245,386</u>	<u>2,467,027</u>

**OA O Severstal and subsidiaries**  
**Notes to the consolidated interim condensed financial statements**  
**Six months ended June 30, 2010 and 2009**  
**(Amounts expressed in thousands of US dollars)**

**5. Related party transactions**

	Six months ended June 30,		Three months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Sales to related parties:				
Sales to associates . . . . .	14,626	1,518	6,996	578
Sales to joint ventures . . . . .	64,531	50,217	36,328	19,449
Sales to other related parties . . . . .	16,274	23,936	5,896	8,937
Interest income . . . . .	10,458	7,072	4,760	3,758
	<u>105,889</u>	<u>82,743</u>	<u>53,980</u>	<u>32,722</u>
Purchases from related parties:				
Purchases from associates:				
Non-capital expenditures . . . . .	30,309	25,706	14,509	15,075
Purchases from joint ventures:				
Non-capital expenditures . . . . .	45,030	22,159	37,451	11,928
Purchases from other related parties:				
Non-capital expenditures . . . . .	17,084	40,490	4,804	6,159
Capital expenditures . . . . .	3,005	15,948	144	9,997
	<u>95,428</u>	<u>104,303</u>	<u>56,908</u>	<u>43,159</u>

**OAo Severstal and subsidiaries**  
**Notes to the consolidated interim condensed financial statements**  
**Six months ended June 30, 2010 and 2009**  
**(Amounts expressed in thousands of US dollars)**

**6. Related party balances**

	June 30, 2010 (unaudited)	December 31, 2009
<b>Joint ventures' balances</b>		
Short-term trade accounts receivable . . . . .	9,472	—
Short-term trade accounts payable . . . . .	8,211	6,136
Long-term loans . . . . .	21,214	—
<b>Associates' balances</b>		
Short-term trade accounts receivable . . . . .	2,403	—
Short-term trade accounts payable . . . . .	5,465	—
Long-term loans . . . . .	9,375	21,804
<b>Other related party balances</b>		
Cash and cash equivalents at related party bank and pension fund . . . . .	321,066	335,539
Short-term deposits with related party bank and pension fund . . . . .	18,635	26,803
Accounts receivable from other related parties:		
Trade accounts receivable . . . . .	2,219	12,560
Advances paid . . . . .	3,900	10,606
Other accounts receivable . . . . .	2,189	3,550
Short-term loans . . . . .	4,377	12,697
Short-term promissory notes . . . . .	3,101	4,940
Long-term loans . . . . .	—	3,563
Available-for-sale securities . . . . .	8,019	—
	<u>23,805</u>	<u>47,916</u>
Short-term trade accounts payable to other related parties:		
Trade accounts payable . . . . .	2,119	8,572
Other accounts payable . . . . .	1,828	1,948
	<u>3,947</u>	<u>10,520</u>
Debt finance includes the following balances with other related parties:		
Short-term debt finance . . . . .	5,717	1,344
	<u>5,717</u>	<u>1,344</u>

The amounts outstanding are expected to be settled in cash. The Group did not hold any collateral for amounts owed by related parties.

**7. Debt finance**

In February 2009, the Group repaid its US\$ 325 million Eurobonds—2009, upon maturity.

In February 2010, the Group issued US\$ 525 million bonds denominated in US dollars 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. The proceeds from the bonds issuance were used to refinance outstanding debt obligations originally incurred to finance construction at Severstal Columbus LLC.

In February 2010, the Group issued US\$ 498 million bonds denominated in Russian rubles 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. The proceeds from the bonds issuance are used for optimization of the credit portfolio and refinancing of short-term loan facilities.

**OAo Severstal and subsidiaries**  
**Notes to the consolidated interim condensed financial statements**  
**Six months ended June 30, 2010 and 2009**  
(Amounts expressed in thousands of US dollars)

**8. Acquisitions and disposals**

*Acquisitions of non-controlling interests*

In June 2009, the Group acquired all newly issued shares in High River Gold Mines Ltd., resulting in a 3.5% stake increase up to 57.3%.

In June 2009, the Group completed the acquisition of a 100% stake in Columbus by acquiring the remaining 8.2% stake in the company from the former management for a total consideration of US\$ 14.9 million.

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 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%.

*Investments in associates and other equity investments*

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. CGC owns and operates a gold mining project in Guinea, West Africa.

In May 2010, the Group acquired a 16.5% stake in Core Mining Limited ("CML") for a total consideration of US\$ 15 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.

*Transaction with Majority Shareholder*

In June 2010, the Group sold a 50.8% stake in Lucchini S.p.A. for a total consideration of € 1 (US\$ 1.2 at the transaction date exchange rate). The Group continues 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. At the transaction date the Lucchini segment's net assets were assessed at fair value less costs to sell as disclosed in Note 3.

*Disposal of subsidiaries*

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

A summary of assets and liabilities disposed during the six months ended June 30, 2010 is presented below:

	<b>Six months ended June 30, 2010</b>
Assets held for sale . . . . .	(158,936)
Liabilities held for sale . . . . .	40,289
Net identifiable assets . . . . .	(118,647)
Non-controlling interests . . . . .	—
Sub-total . . . . .	(118,647)
Consideration in cash . . . . .	118,647
Net gain on disposal . . . . .	—
Net change in cash and cash equivalents . . . . .	<u>118,647</u>



**OA O Severstal and subsidiaries**  
**Notes to the consolidated interim condensed financial statements**  
**Six months ended June 30, 2010 and 2009**  
**(Amounts expressed in thousands of US dollars)**

**9. Segment information**

The Group has four reportable segments: Severstal Resource, Russian Steel, Severstal North America and Lucchini (discontinued, see Note 3).

Severstal Resource has its extraction facilities in Russia, Kazakhstan, USA, Burkina Faso and Lyberia producing iron ore, coal and gold.

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

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

Lucchini comprises several plants and service centers, located in Western Europe, primarily in Italy and France. It produces special and high quality steel and quality and specialty long products. This segment also includes its distribution network companies, which are located primarily in Western Europe.

The following is an analysis of the Group's sales and profit/(loss) before financing and taxation by segment (the discontinued operation is excluded):

	Six months ended June 30,		Three months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
<b>Sales</b>				
Severstal Resource . . . . .	1,463,687	779,723	869,328	414,981
Russian Steel . . . . .	4,078,827	2,496,784	2,414,805	1,339,674
Severstal North America . . . . .	2,616,320	1,883,748	1,446,559	911,677
Intersegment transactions . . . . .	(771,675)	(350,592)	(485,306)	(199,305)
	<u>7,387,159</u>	<u>4,809,663</u>	<u>4,245,386</u>	<u>2,467,027</u>
<b>Profit/(loss) before financing and taxation</b>				
Severstal Resource . . . . .	432,028	(21,139)	324,661	22,315
Russian Steel . . . . .	761,190	186,992	437,956	167,774
Severstal North America . . . . .	(187,296)	(631,149)	10,514	(299,772)
Intersegment transactions . . . . .	(60,208)	(8,839)	(51,112)	(6,063)
	<u>945,714</u>	<u>(474,135)</u>	<u>722,019</u>	<u>(115,746)</u>

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

	June 30, 2010 (unaudited)	December 31, 2009
<b>Total segment assets</b>		
Severstal Resource . . . . .	3,704,349	3,305,156
Russian Steel . . . . .	14,968,167	14,206,573
Severstal North America . . . . .	5,367,143	5,249,649
Lucchini (discontinued) . . . . .	2,860,423	3,185,267
Intersegment balances . . . . .	(8,129,148)	(6,302,759)
	<u>18,770,934</u>	<u>19,643,886</u>

**OA O Severstal and subsidiaries**  
**Notes to the consolidated interim condensed financial statements**  
**Six months ended June 30, 2010 and 2009**  
**(Amounts expressed in thousands of US dollars)**

**10. Capital commitments**

As of June 30, 2010 the Group had capital commitments of US\$ 1,467 million (December 31, 2009: US\$ 1,142 million).

**11. Subsequent events**

During July 2010, the Group acquired an additional 23.6% stake in Crew Gold Corporation for a total consideration of US\$ 155.4 million, increasing its ownership interest up to 50.2%.

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%.

# **OA O Severstal and subsidiaries**

Consolidated financial statements  
for the years ended December 31, 2009, 2008 and 2007

**OAo Severstal and subsidiaries**  
**Consolidated financial statements**  
**for the years ended December 31, 2009, 2008 and 2007**

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## **Independent Auditors' Report**

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 2009, 2008 and 2007, and the related consolidated income statements and consolidated statements of comprehensive income, consolidated statements of changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

### *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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audits to obtain reasonable assurance whether the consolidated financial statements are free of 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, 2008 and 2007, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*ZAO KPMG*

ZAO KPMG  
1 March 2010

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

**OAO Severstal and subsidiaries**  
**Consolidated income statements**  
**Years ended December 31, 2009, 2008 and 2007**  
(Amounts expressed in thousands of US dollars, except as otherwise stated)

		Year ended December 31,		
	Note	2009	2008*	2007
<b>Sales</b>				
Sales—external . . . . .		12,951,669	22,138,418	15,352,404
Sales—to related parties . . . . .	11	102,830	254,299	150,984
	4	13,054,499	22,392,717	15,503,388
Cost of sales . . . . .		(11,356,293)	(16,499,914)	(10,821,582)
<b>Gross profit</b> . . . . .		1,698,206	5,892,803	4,681,806
General and administrative expenses . . . . .		(735,561)	(1,026,790)	(766,890)
Distribution expenses . . . . .		(864,225)	(1,117,776)	(942,533)
Other taxes and contributions . . . . .		(171,601)	(178,886)	(154,070)
Share of associates' profit/(loss) . . . . .		11,488	(3,400)	6,240
Net (loss)/gain from securities operations . . . . .	6	(15,304)	(96,812)	25,564
Loss on disposal of property, plant and equipment . . . . .		(32,001)	(43,278)	(35,525)
Net other operating (expenses)/income . . . . .	7	(36,329)	790,580	(7,266)
<b>(Loss)/profit from operations</b> . . . . .		(145,327)	4,216,441	2,807,326
Impairment of non-current assets . . . . .	8	(219,019)	(1,540,263)	(28,895)
Negative goodwill . . . . .	29	—	292,326	12,223
Net other non-operating (expenses)/income . . . . .	9	(34,441)	238,945	(58,676)
<b>(Loss)/profit before financing and taxation</b> . . . . .		(398,787)	3,207,449	2,731,978
Interest income . . . . .		103,822	155,232	166,639
Interest expense . . . . .		(601,244)	(508,369)	(325,580)
Foreign exchange difference . . . . .		(205,028)	(274,920)	3,206
<b>(Loss)/profit before income tax</b> . . . . .		(1,101,237)	2,579,392	2,576,243
Income tax expense . . . . .	10	(17,858)	(517,466)	(700,153)
<b>(Loss)/profit from continuing operations</b> . . . . .		(1,119,095)	2,061,926	1,876,090
Profit from discontinued operations . . . . .	28	—	—	433
<b>(Loss)/profit for the year</b> . . . . .		(1,119,095)	2,061,926	1,876,523
Attributable to:				
shareholders of OAO Severstal . . . . .		(1,037,240)	2,028,972	1,849,531
non-controlling interests . . . . .		(81,855)	32,954	26,992
Weighted average number of shares outstanding during the period (millions of shares) . . . . .		1,005.2	1,007.2	1,007.7
Basic and diluted (loss)/earnings per share (US dollars)		(1.03)	2.01	1.84

\* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29).

These consolidated financial statements were approved by the Board of Directors on March 1, 2010.

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, 2009, 2008 and 2007**  
**(Amounts expressed in thousands of US dollars)**

	Year ended December 31,		
	2009	2008*	2007
<b>(Loss)/profit for the year</b> . . . . .	(1,119,095)	2,061,926	1,876,523
<b>Other comprehensive (loss)/income</b>			
Foreign exchange difference . . . . .	(114,714)	(1,097,365)	665,133
Changes in fair value of cash flow hedges . . . . .	(2,860)	(13,428)	—
Deferred tax on changes in fair value of cash flow hedges . . . . .	809	3,691	—
Revaluation of available-for-sale investments . . . . .	40,466	4,864	—
Deferred tax on revaluation of available-for-sale investments . . . . .	(4,398)	(2,511)	—
Fair value adjustment upon acquisition of subsidiary to previously held interest . . . . .	—	33,020	—
<b>Other comprehensive (loss)/income for the year, net of tax</b> . . . . .	<u>(80,697)</u>	<u>(1,071,729)</u>	<u>665,133</u>
<b>Total comprehensive (loss)/income for the year</b> . . . . .	<u>(1,199,792)</u>	<u>990,197</u>	<u>2,541,656</u>
Attributable to:			
shareholders of OAO Severstal . . . . .	(1,158,706)	996,061	2,457,955
non-controlling interests . . . . .	<u>(41,086)</u>	<u>(5,864)</u>	<u>83,701</u>

\* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29).

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

**OAO Severstal and subsidiaries**  
**Consolidated statements of financial position**  
**December 31, 2009, 2008 and 2007**  
(Amounts expressed in thousands of US dollars)

	Note	December 31, 2009	December 31, 2008*	December 31, 2007
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	13	2,853,376	2,652,888	1,622,542
Short-term bank deposits	14	95,533	818,545	666,327
Short-term financial investments	15	73,129	112,782	215,494
Trade accounts receivable	16	1,457,651	1,941,876	1,769,038
Accounts receivable from related parties	12	26,716	63,831	47,193
Inventories	17	2,974,227	4,271,886	2,720,634
VAT recoverable		288,032	361,542	284,122
Income tax recoverable		106,019	172,947	81,963
Other current assets	18	285,453	279,707	318,961
Assets held for sale	28	24,415	8,872	465,341
<b>Total current assets</b>		<u>8,184,551</u>	<u>10,684,876</u>	<u>8,191,615</u>
<b>Non-current assets:</b>				
Long-term financial investments	19	128,616	70,342	112,959
Investments in associates and joint ventures	20	143,857	110,907	202,987
Property, plant and equipment	21	9,485,480	9,827,392	8,289,116
Intangible assets	22	1,369,204	1,510,658	687,067
Restricted cash		17,541	21,703	13,810
Deferred tax assets	10	239,835	246,541	64,185
Other non-current assets		74,802	41,507	39,084
<b>Total non-current assets</b>		<u>11,459,335</u>	<u>11,829,050</u>	<u>9,409,208</u>
<b>Total assets</b>		<u>19,643,886</u>	<u>22,513,926</u>	<u>17,600,823</u>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities:</b>				
Trade accounts payable		1,378,300	1,528,453	1,211,373
Accounts payable to related parties	12	16,656	71,960	91,547
Short-term debt finance	23	1,478,301	2,038,693	1,129,216
Income taxes payable		34,150	46,131	41,323
Other taxes and social security payable		209,084	213,315	199,349
Dividends payable		5,704	128,715	107,485
Other current liabilities	24	693,844	811,178	620,369
Liabilities related to assets held for sale	28	11,979	4	91,750
<b>Total current liabilities</b>		<u>3,828,018</u>	<u>4,838,449</u>	<u>3,492,412</u>
<b>Non-current liabilities:</b>				
Long-term debt finance	23	5,748,559	6,227,225	2,813,166
Deferred tax liabilities	10	394,990	496,379	509,409
Retirement benefit liabilities	25	787,714	779,296	387,398
Other non-current liabilities	26	508,266	619,961	324,652
<b>Total non-current liabilities</b>		<u>7,439,529</u>	<u>8,122,861</u>	<u>4,034,625</u>
<b>Equity:</b>				
Share capital	27	3,311,288	3,311,288	3,311,288
Treasury shares		(26,303)	(26,303)	—
Additional capital		1,165,530	1,165,530	1,165,530
Foreign exchange differences		(52,478)	84,987	1,145,499
Retained earnings		3,436,270	4,488,396	3,951,116
Other reserves		43,600	27,601	—
<b>Total equity attributable to shareholders of parent</b>		<u>7,877,907</u>	<u>9,051,499</u>	<u>9,573,433</u>
<b>Non-controlling interests</b>		<u>498,432</u>	<u>501,117</u>	<u>500,353</u>
<b>Total equity</b>		<u>8,376,339</u>	<u>9,552,616</u>	<u>10,073,786</u>
<b>Total equity and liabilities</b>		<u>19,643,886</u>	<u>22,513,926</u>	<u>17,600,823</u>

\* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29).

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

**OA Severstal and subsidiaries**  
**Consolidated statements of cash flows**  
**Years ended December 31, 2009, 2008 and 2007**  
**(Amounts expressed in thousands of US dollars)**

	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2008*</b>	<b>2007</b>
<b>Operating activities:</b>			
(Loss)/profit before financing and taxation . . . . .	(398,787)	3,207,449	2,731,978
Adjustments to reconcile profit to cash generated from operations:			
Depreciation and amortization (Notes 21 and 22) . . . . .	957,164	1,087,421	846,262
Impairment of non-current assets (Note 8) . . . . .	219,019	1,540,263	28,895
Movements in provision for inventories, receivables and other provisions . . .	(319,940)	537,466	53,603
Negative goodwill . . . . .	—	(292,326)	(12,223)
Loss on disposal of property, plant and equipment . . . . .	32,001	43,278	35,525
Gain on disposal of subsidiaries and associates (Note 29) . . . . .	—	(314,435)	(31,507)
Loss/(gain) on remeasurement and disposal of financial investments . . . . .	15,304	96,812	(25,564)
Share of associates' results less dividends from associates . . . . .	(11,488)	3,400	(6,240)
Changes in operating assets and liabilities:			
Trade accounts receivable . . . . .	472,283	79,654	(357,090)
Amounts receivable from related parties . . . . .	32,708	(39,695)	2,110
VAT recoverable . . . . .	80,076	(109,020)	110,677
Inventories . . . . .	1,588,070	(945,707)	(235,891)
Trade accounts payable . . . . .	(93,496)	(157,717)	107,116
Amounts payable to related parties . . . . .	(37,446)	11,781	79,656
Other taxes and social security payables . . . . .	(6,926)	7,673	(63,422)
Other non-current liabilities . . . . .	(192,941)	(34,919)	(101,158)
Assets held for sale . . . . .	(422)	38,609	(1,856)
Net other changes in operating assets and liabilities . . . . .	(119,819)	131,140	123,815
<b>Cash generated from operations</b> . . . . .	<b>2,215,360</b>	<b>4,891,127</b>	<b>3,284,686</b>
Interest paid (excluding banking operations) . . . . .	(551,826)	(362,789)	(244,324)
Income tax paid . . . . .	(52,345)	(1,094,472)	(804,223)
<b>Net cash from operating activities</b> . . . . .	<b>1,611,189</b>	<b>3,433,866</b>	<b>2,236,139</b>
<b>Investing activities:</b>			
Additions to property, plant and equipment . . . . .	(945,898)	(2,030,531)	(1,997,285)
Additions to intangible assets . . . . .	(69,363)	(83,939)	(27,194)
Net decrease/(increase) in short-term bank deposits . . . . .	668,121	(259,880)	580,706
Additions to financial investments and associates . . . . .	(267,637)	(878,472)	(889,595)
Acquisition of non-controlling interests and entities under common control .	(23,387)	(219,588)	(316,862)
Net cash outflow on acquisitions of subsidiaries (Note 29) . . . . .	—	(3,068,693)	(643,279)
Net cash inflow on disposals of subsidiaries (Note 29) . . . . .	5,010	671,717	235,978
Proceeds from disposal of property, plant and equipment . . . . .	34,151	42,853	34,150
Proceeds from disposal of financial investments . . . . .	224,374	860,549	773,090
Interest received (excluding banking operations) . . . . .	120,606	155,233	150,583
<b>Cash from investing activities</b> . . . . .	<b>(254,023)</b>	<b>(4,810,751)</b>	<b>(2,099,708)</b>
<b>Financing activities:</b>			
Proceeds from debt finance . . . . .	4,354,767	7,542,083	3,677,480
Proceeds from grants . . . . .	—	—	72
Repurchase of issued shares . . . . .	—	(26,303)	—
Repayment of debt finance . . . . .	(5,420,782)	(3,685,787)	(3,277,251)
Repayments under lease obligations . . . . .	(30,652)	(24,994)	(3,915)
Dividends paid . . . . .	(116,106)	(1,346,535)	(736,156)
Contributions of non-controlling interests . . . . .	54,319	—	—
Dividend to the Majority shareholder paid by acquired entity under common control . . . . .	—	(34,036)	—
<b>Cash from financing activities</b> . . . . .	<b>(1,158,454)</b>	<b>2,424,428</b>	<b>(339,770)</b>
Effect of exchange rates on cash and cash equivalents . . . . .	1,776	(17,197)	82,486
<b>Net increase/(decrease) in cash and cash equivalents</b> . . . . .	<b>200,488</b>	<b>1,030,346</b>	<b>(120,853)</b>
<b>Cash and cash equivalents at beginning of the year</b> . . . . .	<b>2,652,888</b>	<b>1,622,542</b>	<b>1,743,395</b>
<b>Cash and cash equivalents at end of the year (Note 13)</b> . . . . .	<b>2,853,376</b>	<b>2,652,888</b>	<b>1,622,542</b>

\* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29).

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, 2009, 2008 and 2007**  
**(Amounts expressed in thousands of US dollars)**

Attributable to the shareholders of OAO Severstal								
	Share capital	Treasury shares	Additional capital	Foreign exchange differences	Retained earnings	Other reserves	Total	Non- controlling interests
Balances at December 31, 2006 . . . . .	3,311,288	—	1,165,530	537,075	2,939,334	—	7,953,227	573,083
Dividends . . . . .	—	—	—	—	(801,462)	—	(801,462)	(12,028)
Effect of acquisitions and disposals . . . . .	—	—	—	—	(36,287)	—	(36,287)	(144,403)
Total comprehensive income for the period . . . . .	—	—	—	608,424	1,849,531	—	2,457,955	83,701
Balances at December 31, 2007 . . . . .	3,311,288	—	1,165,530	1,145,499	3,951,116	—	9,573,433	500,353
Dividends . . . . .	—	—	—	—	(1,378,510)	—	(1,378,510)	(8,126)
Dividend to the Majority Shareholder paid by acquired entity under common control . . . . .	—	—	—	—	(34,036)	—	(34,036)	—
Repurchase of issued shares . . . . .	—	(26,303)	—	—	—	—	(26,303)	—
Effect of acquisitions and disposals* . . . . .	—	—	—	—	(79,146)	—	(79,146)	14,754
Total comprehensive income for the period* . . . . .	—	—	—	(1,060,512)	2,028,972	27,601	996,061	(5,864)
Balances at December 31, 2008* . . . . .	3,311,288	(26,303)	1,165,530	84,987	4,488,396	27,601	9,051,499	501,117
Dividends . . . . .	—	—	—	—	—	—	—	(3,501)
Effect of acquisitions and disposals . . . . .	—	—	—	—	(14,886)	—	(14,886)	41,902
Total comprehensive income for the period . . . . .	—	—	—	(137,465)	(1,037,240)	15,999	(1,158,706)	(41,086)
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

\* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29).

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

**OAo Severstal and subsidiaries**  
**Notes to the consolidated financial statements**  
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(Amounts expressed in thousands of US dollars, except as stated otherwise)

**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 29.

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") has purchased shares in Severstal such that as at December 31, 2009, 2008 and 2007 he controlled, directly or indirectly, 82.37% of Severstal's share capital.

Severstal's global depositary receipts (GDRs) have been quoted on the London Stock Exchange since November 2006. Severstal's shares are quoted on the Russian Trading System ('RTS') and on the Moscow Interbank Currency Exchange ('MICEX'). Severstal's registered office is located at Ul Mira 30, Cherepovets, Russia.

The Group comprises the following segments:

- *Severstal Resource* (formerly the Mining segment)—this segment comprises two iron ore complexes, Karelsky Okatysh and Olkon in northwest Russia, and two coal mining complexes, Vorkutaugol in northwest Russia and PBS Coals Ltd, located in the USA, as well as gold mining assets in the eastern part of Russia, in Africa and in Kazakhstan.
- *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 (previously reported within the former IPM segment), all in northwest Russia, metalware plants located in Russia, Ukraine, the United Kingdom and Italy (previously reported within the former Metalware segment), a ferrous scrap metal recycling business operating in northwest and central Russia, as well as various worldwide supporting functions for trading, maintenance and transportation.
- *Lucchini*—this segment comprises 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 are combined into Piombino and Ascometal business units based on geographical location (Italy and France respectively). Products of the segment include rails, wire rod, special and high quality bars and commercial slabs. The segment also includes a distribution network serving both business units from locations primarily in Western Europe and the engineering research center located in France.
- *Severstal North America*—this segment consists of four integrated iron and steel mills: Severstal Dearborn in the Midwest region, Sparrows Point in the South Atlantic located on the East Coast of the USA, Severstal Wheeling (formerly the Esmark group of companies) in the Midwest region of the USA, Severstal Warren Inc. (formerly WCI Steel Inc.) in the Midwest region of the USA, a mini-mill, Severstal Columbus LLC in the southeast 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.
- *Financing segment*—this segment operated a retail bank until November 2007 when the bank was disposed of. This transaction was accounted for as a discontinued operation. The transaction is further discussed in Note 28 to these consolidated financial statements.

A segmental analysis of the consolidated statements of financial position and consolidated income statements is given in Note 30.

***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.

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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 the minimum prices issued quarterly by the US Department of Commerce and annual quotas.
- Exports of hot-rolled plates from Russia to the USA are subject to the 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.
- The European Union ('EU') market is protected by quotas. During the last few years quotas have been raised consistently after adjusting for the effects of EU enlargements, equaling 3.107 million tons in 2009. Severstal traditionally gets approximately 35% of the total Russian quota and strives to utilize it fully because the EU market is a key market for the Group.

## **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.

### ***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.



**OA O Severstal and subsidiaries**  
**Notes to the consolidated financial statements**  
**for the years ended December 31, 2009, 2008 and 2007**  
**(Amounts expressed in thousands of US dollars, except as stated otherwise)**

*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, expected rate of return on plan assets, etc.).

**OA O Severstal and subsidiaries**  
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*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 all 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 new and revised IFRS*

A number of new Standards, amendments to Standards and Interpretations were adopted for the year ended December 31, 2009, and have been applied in these consolidated financial statements.

The adoption of the pronouncements did not have a significant impact on the Group's consolidated financial statements except for those discussed below.

The Group implemented IFRS 8 "Operating segments" which requires segment disclosure based on the internal reporting system. The comparative information has been presented as if the implementation was adopted at the beginning of the earliest comparative period presented.

**OAQ Severstal and subsidiaries**  
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The Group applied revised IAS 1 Presentation of Financial Statements (2007), which became effective as at 1 January 2009. The revised standard requires all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

***New accounting pronouncements***

A number of new Standards, amendments to Standards and Interpretations were not yet effective for the year ended December 31, 2009, and have not been applied in these consolidated financial statements.

<u>Standards and Interpretations</u>	<u>Effective for annual periods beginning on or after</u>
IAS 1 (Amended) "Presentation of Financial Statements" . . . . .	July 1, 2009 and January 1, 2010
IAS 7 (Amended) "Statement of cash flows" . . . . .	July 1, 2009 and January 1, 2010
IAS 12 (Amended) "Income taxes" . . . . .	July 1, 2009
IAS 16 (Amended) "Property, Plant and Equipment" . . . . .	July 1, 2009
IAS 17 (Amended) "Leases" . . . . .	January 1, 2010
IAS 21 (Amended) "The effects of changes in foreign exchange rates" . . . . .	July 1, 2009
IAS 24 (Revised) "Related party disclosure" . . . . .	January 1, 2011
IAS 27 (Amended) "Consolidated and Separate Financial Statements" . . . . .	July 1, 2009
IAS 28 (Amended) "Investments in Associates" . . . . .	July 1, 2009
IAS 31 (Amended) "Interests in Joint Ventures" . . . . .	July 1, 2009
IAS 32 (Amended) "Financial instruments: Presentation" . . . . .	July 1, 2009 and February 1, 2010
IAS 34 (Amended) "Interim financial reporting" . . . . .	July 1, 2009
IAS 36 (Amended) "Impairment of Assets" . . . . .	July 1, 2009 and January 1, 2010
IAS 38 (Amended) "Intangible Assets" . . . . .	July 1, 2009
IAS 39 (Amended) "Financial Instruments: Recognition and Measurement" . . . . .	July 1, 2009 and January 1, 2010
IFRS 1 (Revised, amended) "First-time Adoption of International Financial Reporting Standards" . . . . .	July 1, 2009, January 1, 2010 and July 1, 2010
IFRS 2 (Amended) "Share-based Payment" . . . . .	July 1, 2009 and January 1, 2010
IFRS 3 (Revised) "Business Combinations" . . . . .	July 1, 2009
IFRS 5 (Amended) "Non-current Assets Held for Sale and Discontinued Operations" . . . . .	July 1, 2009 and January 1, 2010
IFRS 7 (Amended) "Financial instruments: disclosures" . . . . .	July 1, 2009
IFRS 8 (Amended) "Operating Segments" . . . . .	January 1, 2010
IFRS 9 "Financial instruments" . . . . .	January 1, 2013
IFRIC 9 "Reassessment of Embedded Derivatives" . . . . .	July 1, 2009
IFRIC 14 "Prepayments of a Minimum Funding Requirement" . . . . .	January 1, 2011
IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" . . . . .	July 1, 2009
IFRIC 17 "Distributions of Non-cash Assets to Owners" . . . . .	July 1, 2009
IFRIC 18 "Transfers of assets from customers" . . . . .	July 1, 2009
IFRIC 19 "Extinguishing financial liabilities with equity" . . . . .	July 1, 2010

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.

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Revised IFRS 3 *Business Combinations* incorporates the following changes that are likely to be relevant to the Group's operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
- Any non-controlling interest will be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3 becomes mandatory for the Group's 2010 annual consolidated financial statements and will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010.

The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. 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 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.

Revised IAS 24 *Related party disclosure* provides a revised definition of a related party which includes new relationships and will likely lead to the increased number of related parties of the Group.

Revised IAS 24 becomes mandatory for the Group's 2011 annual consolidated financial statements and requires retrospective application. Management has not yet decided on the initial application date.

#### ***Restatement***

As discussed in Note 29, these consolidated financial statements have been adjusted on the effects of the final purchase price allocation.

#### ***Change in an accounting estimate***

During 2009 the Group revised the useful lives of its property, plant and equipment. The effect of the change in accounting estimate was a decrease in depreciation expense of US\$ 55 million.

### **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

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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, liabilities and contingent liabilities and the cost of acquisition. 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 negative goodwill 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 the cost of investment is recognized directly in equity.

***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.

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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 arising on the acquisition of a subsidiary, associate or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or jointly controlled entity recognized at the date of acquisition. 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.

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.

Negative goodwill represents the excess of the Group's share in the fair value of acquired identifiable assets, liabilities and contingent liabilities over the cost of an acquisition. It is recognized in the income statement at the date of the acquisition.

**b. Foreign currency transactions**

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



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

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

- acquisition of rights to explore;
- 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.

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 them 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 a 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 gross margin.

**e. 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.

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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

**f. 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.

**g. 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 caption "Cost of sales" in the consolidated income statement.

**h. 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.

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***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 sale 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.

**i. 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.

**j. 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 on 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.

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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.

**k. Financial liabilities**

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

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***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.

***l. 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.

***m. Dividends payable***

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

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**n. 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.

**o. 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 benefit 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.

**p. 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 calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually by management using the projected unit credit method. In accordance with this method, the Group's net obligation is calculated separately for each defined benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that



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benefit is discounted to its present value and the fair value of any plan assets is deducted. The discount rate used is the yield at the reporting date on high quality corporate bonds for a respective country that have maturity dates approximating the terms of the Group's obligations. Any actuarial gain or loss arising from the calculation of the retirement benefit obligation is fully recognized in the current year's income statement.

Other long-term employee benefits include various compensations, non-monetary benefits and 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 unwinding of the decommissioning liability is included in the consolidated income statement as 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.

**q. 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.

**r. 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.

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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.

**s. 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.

**t. 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.

**u. Interest expense**

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

**v. Net income from securities operations**

Net income from securities operations comprises dividend income (except for dividends from equity associates), 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.

**w. 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.

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**x. 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.

**y. 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 the intersegment elimination and are measured on the same basis as those in the consolidated financial statements, except for non-monetary investments in subsidiaries reported within long-term financial investments, which are translated into the presentation currency at the historic exchange rate.

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.

**z. 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.

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**4. Sales**

Sales by product were as follows:

	Year ended December 31,		
	2009	2008	2007
Hot-rolled strip and plate . . . . .	3,003,808	5,952,558	3,797,586
Galvanized and other metallic coated sheet . . . . .	1,920,051	2,350,259	1,323,406
Cold-rolled sheet . . . . .	1,606,311	2,314,440	1,285,218
Long products . . . . .	1,301,247	3,793,931	3,150,114
Metalware products . . . . .	853,777	1,384,637	1,009,999
Large diameter pipes . . . . .	777,303	819,727	530,726
Shipping and handling costs billed to customers . . . . .	613,710	808,695	662,447
Semi-finished products . . . . .	582,094	1,667,294	1,101,800
Gold . . . . .	512,335	190,415	—
Color-coated sheet . . . . .	316,300	388,160	289,687
Coal and coking coal concentrate . . . . .	272,176	257,463	264,753
Others tubes and pipes, formed shapes . . . . .	255,103	485,467	411,690
Pellets and iron ore . . . . .	217,194	453,069	304,825
Scrap . . . . .	58,303	321,317	290,752
Others . . . . .	764,787	1,205,285	1,080,385
	<u>13,054,499</u>	<u>22,392,717</u>	<u>15,503,388</u>

Sales by delivery destination were as follows:

	Year ended December 31,		
	2009	2008	2007
North America . . . . .	4,254,246	5,410,115	2,002,852
Russian Federation . . . . .	3,955,953	8,878,900	6,879,437
Europe . . . . .	2,834,052	6,336,431	5,317,895
China and Central Asia . . . . .	698,635	399,029	353,916
The Middle East . . . . .	554,478	556,413	450,360
South-East Asia . . . . .	330,513	381,929	291,052
Africa . . . . .	254,252	109,411	56,595
Central and South America . . . . .	172,370	320,489	151,281
	<u>13,054,499</u>	<u>22,392,717</u>	<u>15,503,388</u>

**5. Staff costs**

Employment costs were as follows:

	Year ended December 31,		
	2009	2008	2007
Wages and salaries . . . . .	(1,803,163)	(2,078,521)	(1,534,443)
Social security costs . . . . .	(331,416)	(450,812)	(418,031)
Retirement benefit costs (Note 25) . . . . .	(19,869)	(28,647)	(7,719)
	(2,154,448)	(2,557,980)	(1,960,193)
Actuarial (losses)/gains recognized (Note 25) . . . . .	(18,888)	(33,141)	37,056
Staff costs . . . . .	<u>(2,173,336)</u>	<u>(2,591,121)</u>	<u>(1,923,137)</u>

For the year ended December 31, 2009, key management's remuneration totalled US\$ 20.8 million (2008: US\$ 43.9 million; 2007: US\$ 57.2 million).

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**6. Net (loss)/gain from securities operations**

	Year ended December 31,		
	2009	2008	2007
<b>Held-for-trading securities</b>			
Profit on disposal . . . . .	742	3,037	—
Remeasurement to fair value . . . . .	(8,842)	(106,058)	3,864
<b>Held-to-maturity securities and loans</b>			
Remeasurement to fair value (discounting) . . . . .	(3,782)	(2,308)	19,438
<b>Available-for-sale securities</b>			
Net gain on disposal transferred from equity . . . . .	(5,565)	3,997	—
Dividends received . . . . .	2,143	4,520	2,262
	<u>(15,304)</u>	<u>(96,812)</u>	<u>25,564</u>

**7. Net other operating (expenses)/income**

	Year ended December 31,		
	2009	2008	2007
Insurance proceeds . . . . .	—	430,000	—
Compensation for damages . . . . .	—	267,000	—
Gain on termination of a supply contract . . . . .	—	177,000	—
Other . . . . .	(36,329)	(83,420)	(7,266)
	<u>(36,329)</u>	<u>790,580</u>	<u>(7,266)</u>

In January 2008, an explosion occurred on one of Severstal Dearborn's furnaces, blast furnace "B". Following the accident, Severstal Dearborn ceased blast furnace "B" operation. Severstal Dearborn is insured against property damage and business interruption with a combined gross coverage of US\$ 500.0 million, subject to customary deductibles. The business interruption insurance covers fixed costs and loss of profits. The entire amount of the insurance coverage of US\$ 430.0 million was received in 2008.

In February 2008, a long term electricity supply contract between Severstal Dearborn and Dearborn Industrial Generation ("DIG") was terminated with a lump sum payment from DIG to compensate Severstal Dearborn for the differential between the contract price and the price Severstal Dearborn will have to pay another electricity supplier for the duration of the original contract. This lump sum payment amounted to US\$ 177.0 million.

In December 2008, a court decision was announced to award the Group the compensation of damages of US\$ 267.0 million from A.T. Massey Coal Co. in connection with a breach of a contract for coal supply during the years 2004-2006.

Insurance proceeds, compensation for damages and gain on termination of supply contract relate to Severstal North America segment.

**8. Impairment of non-current assets**

	Year ended December 31,		
	2009	2008	2007
Impairment of property, plant and equipment (Note 21) . . . . .	(176,243)	(1,079,124)	(28,895)
Impairment of intangible assets (Note 22) . . . . .	(42,776)	—	—
Impairment of goodwill (Note 22) . . . . .	—	(461,139)	—
	<u>(219,019)</u>	<u>(1,540,263)</u>	<u>(28,895)</u>

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For the purpose of impairment testing, the recoverable amount of each cash-generating unit has been determined based on value in use calculations, except for Severstal Warren Inc. where the recoverable amount has been determined based on fair market value less costs to sell. The value in use calculation uses cash flow projections based on actual operating results and 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 Resource 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 Severstal Resource 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,	
	2009	2008
Russia . . . . .	6.2-8.2	12
USA . . . . .	1.4-2.8	1.8-2.0
Italy . . . . .	0.9-1.6	1.9-2.0
France . . . . .	0.7-1.9	1.6-2.0
Kazakhstan . . . . .	6.5-8.3	12
UK . . . . .	n/a	2.3-2.0

- 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,	
	2009	2008
Severstal Resource:		
Russia* . . . . .	16.4	18.5-21.4
Kazakhstan* . . . . .	17.0	23.6
USA . . . . .	16.5	16.4
Russian Steel:		
Russia* . . . . .	15.6	20.1-22.5
Italy* . . . . .	17.0	10.5
Lucchini . . . . .	11.0	12.6-13.1
Severstal North America . . . . .	18.5-23.7	17.7-18.9

\* 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.



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**Impairment**

For the following cash generating units an impairment loss was identified:

*Severstal Resource segment*

*Vorkutaugol*

**2008**

An impairment loss was recognised in 2008 in the amount of US\$ 128.8 million and was allocated to property, plant and equipment.

The following specific assumptions were used in the impairment test:

- the forecast extraction volumes grow on average at 5% p.a. during the five year period ending 2013 and remain constant thereafter;
- the forecast has the following growth rates for coking coal prices: an average decline of 16% p.a. in 2009 to 2011; an average growth of 29% p.a. during the next two years and constant at 80% of 2013 prices thereafter;
- the forecast has the following growth rates for steam coal prices: an average decline of 16% p.a. in 2009 to 2010; an average growth of 10% p.a. during the next three years and constant at 89% of 2013 prices thereafter;
- operating costs are forecast to decrease by 27% in 2009 compared to 2008 and then increase on average by 9% p.a. during the next four years; thereafter costs remain constant at the 2013 level;
- pre-tax discount rate of 18.5% (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\$ 21.3 million;
- a 10% decrease in future planned revenues increases the impairment loss by US\$ 341.8 million.

**2009**

An impairment loss was recognised in 2009 in the amount of US\$ 3.7 million in relation to specific items of property, plant and equipment.

*PBS Coals Limited*

**2008**

An impairment loss was recognised in 2008 in the amount of US\$ 361.1 million and was allocated fully to goodwill.

The carrying amount of goodwill allocated to the cash generating unit before the impairment loss was US\$ 477.2 million as of December 31, 2008.

The following specific assumptions were used in the impairment test:

- the forecast extraction volumes increase by 22% in 2009, then increase by 10% in 2010 and remain constant at the 2010 level thereafter;
- the forecast coking coal prices increase by 1.1% p.a. during the five year forecast period and remain constant thereafter;
- the forecast steam coal prices increase on average by 2.5% p.a. during the five year forecast period and remain constant at the 2013 level thereafter;
- operating costs are forecast to increase by 9% in 2009 and then increase on average by 1% p.a. during the next four years; thereafter costs are assumed to be constant at the 2013 level;
- pre-tax discount rate of 16.4%.

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The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US\$ 44.7 million;
- a 10% decrease in future planned revenues increases the impairment loss by US\$ 222.8 million.

**2009**

As a result of value in use calculation no impairment loss was recognised in 2009.

The carrying amount of goodwill allocated to the cash generating unit was US\$ 111 million as of December 31, 2009.

The following assumptions were used in the impairment test:

- the forecast extraction volumes increase by 30% p.a. in 2010, decrease on average by 2% in 2011 to 2012, increase on average by 26% in 2013 to 2014 and remain constant at the 2014 level thereafter;
- the forecast coking coal concentrate prices increase on average by 4% p.a. in 2010 to 2014 and remain constant at the 2014 level thereafter;
- the forecast steam coal prices increase on average by 2% p.a. during the five year forecast period and remain constant at the 2014 level thereafter;
- operating costs are forecast to increase by 23% in 2010, decrease on average by 2% p.a. in 2011 to 2012, increase on average by 22% p.a. in 2013 to 2014; thereafter costs are assumed to be constant at the 2014 level;
- pre-tax discount rate of 16.5% (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\$ 34.5 million;
- a 10% decrease in future planned revenues increases the impairment loss by US\$ 258.7 million.

Specific impairment loss in the amount of US\$ 35 million was recognized in 2009 and was allocated to intangible assets.

*Other units*

**2009**

The impairment loss was recognised in 2009 in the amount of US\$ 1.2 million in relation to specific items of property, plant and equipment.

***Russian Steel segment***

*Neva-Metall*

**2008**

An impairment loss was recognized in 2008 in the amount of US\$ 29 million and was allocated fully to goodwill.

The carrying amount of goodwill allocated to the cash generating unit before the impairment loss was US\$ 40 million as of December 31, 2008.

The following specific assumptions were used in the impairment test:

- cash flow projections are based on financial forecasts approved by management covering a four year period;
- volumes are assumed to be constant during the forecast period and thereafter;

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- the forecast sales prices increase by 1% in 2009, increase by 7% p.a. in 2010 to 2012 and remain constant at the 2012 level thereafter;
- operating costs are forecast to increase on average by 11% p.a. in 2009 to 2012 and remain constant at the 2012 level thereafter;
- pre-tax discount rate of 22.1% (US\$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US\$ 3.0 million;
- a 10% decrease in future planned revenues increases the impairment loss by US\$ 17.0 million.

**2009**

No impairment loss was recognized in 2009.

*Scrap processing companies*

**2008**

No impairment loss was recognized in 2008.

**2009**

An impairment loss was recognized in 2009 in the amount of US\$ 33.8 million and was allocated to property, plant and equipment in the amount of US\$ 26 million and to intangible assets in the amount of US\$ 7.8 million.

The following specific assumptions were used in the impairment test:

- the forecast sales volumes increase by 53% in 2010, increase on average by 5% p.a. in 2011 to 2014 and remain constant at the average level of the forecast period thereafter;
- the forecast scrap prices increase by 30% in 2010, increase on average by 2% p.a. in 2011 to 2014 and remain constant at the average level of the forecast period thereafter as above;
- operating costs are forecast to increase by 76% in 2010, increase on average by 8% p.a. in 2011 to 2014 and remain constant at the average level of the forecast period thereafter as above;
- pre-tax discount rate of 15.6% (US\$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US\$ 3.5 million;
- a 10% decrease in future planned revenues increases the impairment loss by US\$ 31.7 million.

*Other units*

**2008**

An impairment loss related to other cash generating units within the segment was recognized in the amount of US\$ 13.1 million in 2008 and was allocated to specific items of property, plant and equipment.

**2009**

An impairment loss related to other cash generating units within the segment was recognized in the amount of US\$ 5.7 million in 2009 and was allocated to specific items of property, plant and equipment.

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***Lucchini segment***

***Ascometal***

**2008**

No impairment loss was recognized in 2008.

**2009**

An impairment loss was recognised in 2009 in the amount of US\$ 86.5 million and was allocated to property, plant and equipment.

The following specific assumptions were used in impairment test:

- the forecast sales volumes increase on average by 20% in 2010 to 2012, increase by 6% p.a. in 2013 and remain constant at the 2013 level thereafter;
- the forecast sales prices remain stable in 2010 to 2014 and thereafter;
- operating costs are forecast to increase on average by 14% in 2010 to 2012, decrease by 2% p.a. in 2013 and remain constant at the 2013 level thereafter;
- pre-tax discount rate of 11%.

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US\$ 91.2 million;
- a 10% decrease in future planned revenues increases the impairment loss by US\$ 547.2 million.

Additionally an impairment loss was recognised in 2009 in the amount of US\$ 18.1 million in relation to specific items of property, plant and equipment.

***Other units***

**2008**

An impairment loss was recognised in 2008 in the amount of US\$ 3.8 million in relation to specific items of property, plant and equipment.

**2009**

No impairment loss was recognised in 2009.

***Severstal North America segment***

***Severstal Wheeling Holding Company***

**2008**

An impairment loss was recognised in 2008 of US\$ 621.8 million and was allocated to property, plant and equipment in the amount of US\$ 557.4 million and to goodwill in the amount of US\$ 64.4 million.

The carrying amount of goodwill allocated to the cash generating unit before the impairment loss was US\$ 64.4 million as of December 31, 2008.

The following specific assumptions were used in impairment test:

- the forecast sales volumes decline by 49% in 2009, increase by 54% in 2010 and increase on average by 5% p.a. in 2011 to 2013; thereafter sales volumes remain constant at the average level of the forecast period;
- the forecast steel prices increase by 8% in 2009; decline by 2% in 2010 and remain stable till 2013; thereafter sales prices remain constant at the weighted average level of the forecast period;

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- operating costs are forecast to decrease by 33% in 2009, increase by 32% in 2010 and then increase on average by 5% p.a. during the next three years; thereafter operating costs remain constant at the average level of the forecast period;
- pre-tax discount rate of 18.9%.

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US\$ 21.1 million;
- a 10% decrease in future planned revenues increases the impairment loss by US\$ 113.4 million.

**2009**

No impairment loss was recognised in 2009.

*Severstal Warren Inc.*

**2008**

The recoverable amount was determined as fair market value less costs to sell as of December 31, 2008.

An impairment loss was recognised in 2008 of US\$ 382.6 million and was allocated to property, plant and equipment in the amount of US\$ 376 million and to goodwill in the amount of US\$ 6.6 million.

The carrying amount of goodwill allocated to the cash generating unit before the impairment loss was US\$ 6.6 million as of December 31, 2008.

The following assumptions were used for the calculation of fair market value less cost to sell:

- the market value of the major production equipment is determined based on the most recent valuation performed by an independent appraiser when finalising the purchase price allocation (Note 29);
- the value of other items of property, plant and equipment is determined on current prices for scrap, adjusted for decommissioning costs;
- the fair value calculation includes site restoration and other related environmental expenditures based on the requirements of applicable regulation.

Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount of the cash generating unit to exceed its recoverable amount.

**2009**

The recoverable amount was determined as fair market value less costs to sell as of December 31, 2009.

An additional impairment loss was recognized in 2009 in the amount of US\$ 26.5 million and was allocated to property, plant and equipment.

Management believes that any reasonable possible change in any of these key assumptions would not cause the carrying amount of the cash generating unit to exceed its recoverable amount.

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**Results of Goodwill impairment testing**

The goodwill allocated to the following cash generating units has been tested for impairment and no impairment loss was recognised as the result of those tests:

*Severstal Resource segment*

*Neryungri Metallik and Mine Aprelkovo*

**2008**

The carrying amount of goodwill allocated to the cash generating unit was US\$ 54.5 million as of December 31, 2008.

The following assumptions were used in the impairment test:

- the forecast extraction volumes grow on average at 22% p.a. during 2009 to 2012 and remain constant thereafter;
- the forecast has the following growth rates for gold prices: decline of 16% in 2009; average growth of 12% p.a. in 2010 to 2013; average decline of 4% p.a. during the remaining contractual term of the respective licenses;
- operating costs are forecast to increase on average by 9% p.a. in 2009 to 2013 and to grow on average by 1% p.a. during the remaining contractual term of the respective licenses;
- pre-tax discount rate of 21% (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\$ 52.2 million.

**2009**

The carrying amount of goodwill allocated to the cash generating unit was US\$ 52.3 million as of December 31, 2009.

The following assumptions were used in the impairment test:

- the forecast extraction volumes grow on average by 43% p.a. during 2010 to 2012, increase by 2% in 2013 and remain constant thereafter;
- the forecast has the following growth rates for gold prices: average growth of 2% p.a. in 2010 to 2014; average decline of 5% p.a. during the remaining contractual term of the respective licenses;
- operating costs are forecast to increase on average by 29% p.a. in 2010 to 2012, increase on average by 8% p.a. in 2013 to 2014 and remain constant during the remaining contractual term of the respective licenses;
- pre-tax discount rates of 16.4%.

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\$ 62.4 million.

*Celtic Resources Holdings Plc*

**2008**

The carrying amount of goodwill allocated to the cash generating unit was US\$ 37.8 million as of December 31, 2008.



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The following assumptions were used in the impairment test:

- the forecast extraction volumes increase on average by 54% p.a. in 2009 to 2010, decline on average by 10% in 2011 to 2012 and remain constant thereafter;
- the forecast has the following growth rates for gold prices: decline of 17% in 2009; average growth of 12% p.a. in 2010 to 2013; average decline of 5% p.a. during the remaining contractual term of the respective licenses;
- operating costs are forecast to increase on average by 39% p.a. in 2009 to 2010, further grow on average by 5% p.a. in 2011 to 2012 and remain constant during the remaining contractual term of the respective licenses;
- pre-tax discount rate of 23.6% (in US\$ terms).

Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount of the cash generating unit to exceed its recoverable amount.

**2009**

The carrying amount of goodwill allocated to the cash generating unit was US\$ 30.4 million as of December 31, 2009.

The following assumptions were used in the impairment test:

- the forecast extraction volumes increase by 21% in 2010, increase on average by 2% p.a. in 2011 to 2014 and remain constant at the 2014 level thereafter;
- the forecast has the following growth rates for gold prices: remain stable in 2010; average growth of 5% p.a. in 2011 to 2013; average decline of 4% p.a. in 2014 to 2016 and remain constant during the remaining contractual term of the respective licenses;
- operating costs are forecast to increase by 44% in 2010, grow on average by 8% p.a. in 2011 to 2014, further increase on average by 4% in 2015 and during the remaining contractual term of the respective licenses;
- pre-tax discount rate of 17.0% (in US\$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate gives an impairment loss of US\$ 3.6 million;
- a 10% decrease in future planned revenues causes the carrying amount of the cash generating unit to exceed its recoverable amount by US\$ 70.6 million.

An impairment loss was recognised in 2009 in the amount of US\$ 8.5 million in relation to specific items of property, plant and equipment.

***Russian Steel segment***

*Redaeli Techna S.p.A.*

**2008**

The carrying amount of goodwill allocated to the cash generating unit was US\$ 36.6 million.

The following specific assumptions were used in the impairment test:

- sales volumes are assumed to be stable during the forecast period and thereafter, except for 2010 where an increase of 3% is assumed;
- forecasted sales prices decrease by 22% in 2009 and then increase by 5% p.a. in 2009 to 2013; thereafter prices remain constant at the 2013 level;

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- operating costs are forecast to increase on average by 7% p.a. in the forecast period and remain constant at the 2013 level thereafter;
- pre-tax discount rate of 10.5%.

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\$ 16.7 million.

## 2009

The carrying amount of goodwill allocated to the cash generating unit was US\$ 33.9 million as of December 31, 2009.

The following assumptions were used in the impairment test:

- the forecast sales volumes increase on average by 19% p.a. in 2010 to 2011 and remain constant thereafter;
- forecasted sales prices increase on average by 4% p.a. in 2010 to 2014 and remain constant at the 2014 level thereafter;
- operating costs are forecast to increase by 23% p.a. in 2010, increase on average by 7% p.a. in 2011 to 2014 and remain constant 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\$ 77.9 million.

## 9. Net other non-operating (expenses)/income

	Year ended December 31,		
	2009	2008	2007
Social expenditure . . . . .	(17,803)	(43,664)	(42,566)
Charitable donations . . . . .	(14,239)	(32,277)	(41,276)
Depreciation of infrastructure assets . . . . .	(2,496)	(4,293)	(6,341)
Gain on disposal of subsidiaries and associates (Note 29) . . . . .	—	314,435	31,507
Other . . . . .	97	4,744	—
	<u>(34,441)</u>	<u>238,945</u>	<u>(58,676)</u>

## 10. Taxation

The following is an analysis of the income tax expense:

	Year ended December 31,		
	2009	2008	2007
Current tax charge . . . . .	(111,025)	(1,010,253)	(784,658)
Corrections to prior year's current tax charge . . . . .	14,544	21,892	15,416
Deferred tax benefit . . . . .	78,623	424,618	69,089
Effect of change in statutory tax rate . . . . .	—	46,277	—
Income tax expense . . . . .	<u>(17,858)</u>	<u>(517,466)</u>	<u>(700,153)</u>

In 2008, the Russian Government enacted a change in the Russian statutory tax rate from 24% to 20%. The new rate became effective beginning January 1, 2009.

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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% (24%: 2008 and 2007) to reported profit before income tax.

	Year ended December 31,		
	2009	2008	2007
(Loss)/profit before income tax . . . . .	(1,101,237)	2,579,392	2,576,243
Tax charge at Russian statutory rate . . . . .	220,247	(619,054)	(618,298)
Profits taxed at different rates . . . . .	298,850	88,567	(19,305)
Corrections to prior years's current tax charge . . . . .	14,544	21,892	15,416
Non-tax deductible expenses, net . . . . .	(28,272)	(58,447)	(39,216)
Tax-loss carry forwards expired . . . . .	(10,662)	(12,901)	(18,494)
Changes in non-recognized deferred tax assets . . . . .	(522,456)	28,939	(20,256)
Reassessment of deferred tax liabilities . . . . .	9,891	(12,739)	—
Effect of change in statutory tax rate . . . . .	—	46,277	—
Income tax expense . . . . .	<u>(17,858)</u>	<u>(517,466)</u>	<u>(700,153)</u>

The income tax charge for the year ended December 31, 2009 includes tax expense of nil (2008: nil, 2007: US\$ 1.3 million) related to profits from discontinued operations (Note 28) and tax expense of nil related to gains on disposals of discontinued operations (2008: nil, 2007: US\$ 9.0 million).

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:

	Year ended December 31,		
	2009	2008	2007
Deferred tax assets:			
Tax-loss carry forwards . . . . .	426,618	317,872	33,587
Property, plant and equipment . . . . .	23,368	55,284	30,406
Intangible assets . . . . .	12,401	15,515	3,867
Inventory . . . . .	54,268	82,644	81,360
Accounts receivable . . . . .	26,306	28,271	14,911
Provisions . . . . .	372,907	349,782	128,493
Financial investments . . . . .	28,292	53,387	5,173
Other . . . . .	165,234	88,907	22,748
Gross deferred tax assets . . . . .	<u>1,109,394</u>	<u>991,662</u>	<u>320,545</u>
Less offsetting with deferred tax liabilities . . . . .	<u>(869,559)</u>	<u>(745,121)</u>	<u>(256,360)</u>
Recognised deferred tax assets . . . . .	<u>239,835</u>	<u>246,541</u>	<u>64,185</u>

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	Year ended December 31,		
	2009	2008	2007
Deferred tax liabilities:			
Property, plant and equipment . . . . .	(756,112)	(680,148)	(544,628)
Provisions . . . . .	(4,635)	(1,560)	(5,868)
Intangible assets . . . . .	(239,353)	(288,120)	(112,655)
Inventory . . . . .	(97,032)	(103,213)	(43,510)
Investments in joint ventures . . . . .	(75,096)	(79,714)	(25,012)
Accounts receivable . . . . .	—	(275)	(2,949)
Financial liabilities . . . . .	(19,050)	(43,669)	—
Other . . . . .	(73,271)	(44,801)	(31,147)
Gross deferred tax liabilities . . . . .	(1,264,549)	(1,241,500)	(765,769)
Less offsetting with deferred tax assets . . . . .	869,559	745,121	256,360
Recognised deferred tax liabilities . . . . .	(394,990)	(496,379)	(509,409)
Net deferred tax liability . . . . .	(155,155)	(249,838)	(445,224)

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

	Year ended December 31,		
	2009	2008	2007
Opening balance . . . . .	(249,838)	(445,224)	(363,953)
Recognized in income statement . . . . .	78,623	470,895	69,089
Recognized in other comprehensive income . . . . .	(3,589)	1,180	—
Business combinations . . . . .	—	(350,816)	(111,276)
Business de-combinations . . . . .	—	27	8,491
Reclassified to assets held for sale . . . . .	—	—	(24,913)
Foreign exchange difference . . . . .	19,649	74,100	(22,662)
Closing balance . . . . .	(155,155)	(249,838)	(445,224)

The Group has recognized US\$161 million of deferred tax assets at December 31, 2009 related to certain Group entities in the Severstal North America and Lucchini segments, which have a history of recent losses. Management believes that it is probable that these entities will have sufficient taxable profits against which deferred tax assets can be utilized.

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):

	Year ended December 31,		
	2009	2008	2007
In the following year . . . . .	2.1	—	44.4
Between one and five years . . . . .	125.5	—	—
Between five and ten years . . . . .	30.5	24.2	—
Between ten and twenty years . . . . .	1,177.0	—	—
No expiry . . . . .	109.6	105.1	84.2
	1,444.8	129.3	128.6

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\$ 825.2 million at December 31, 2009 (December 31, 2008: US\$ 897 million; December 31, 2007: US\$ 1,689.2 million).

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**11. Related party transactions**

	Year ended December 31,		
	2009	2008	2007
Sales to related parties:			
Sales to associates . . . . .	3,866	10,420	3,473
Sales to joint ventures . . . . .	50,084	77,517	—
Sales to other related parties . . . . .	48,880	166,362	147,511
Interest income . . . . .	17,909	18,082	13,931
	<u>120,739</u>	<u>272,381</u>	<u>164,915</u>
Purchases from related parties:			
Purchases from associates:			
Non-capital expenditures . . . . .	54,550	71,206	1,810
Purchases from joint ventures:			
Non-capital expenditures . . . . .	57,529	149,151	218,912
Purchases from other related parties:			
Non-capital expenditures . . . . .	60,443	145,956	666,137
Capital expenditures . . . . .	20,782	5,215	8,572
Interest expense . . . . .	1,775	5,019	3,370
	<u>195,079</u>	<u>376,547</u>	<u>898,801</u>

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**12. Related party balances**

	December 31,		
	2009	2008	2007
<b>Joint ventures' balances</b>			
Short-term trade accounts payable . . . . .	6,136	5,267	16,353
<b>Associates' balances</b>			
Long-term loans to associates . . . . .	21,804	3,886	3,740
<b>Other related party balances</b>			
Cash and cash equivalents at related party bank and pension fund . . . .	335,539	322,865	239,909
Short-term deposits with related party bank and pension fund . . . . .	26,803	115,488	18,985
Accounts receivable from other related parties:			
Trade accounts receivable . . . . .	12,560	27,796	12,659
Advances paid . . . . .	10,606	4,812	6,546
Other receivables . . . . .	3,550	31,223	27,988
Short-term loans . . . . .	12,697	2,952	20,322
Short-term promissory notes . . . . .	4,940	18,951	7,457
Long-term loans . . . . .	3,563	15,269	13,707
Held-to-maturity securities and deposits . . . . .	—	1,485	62,759
	47,916	102,488	151,438
Short-term trade accounts payable to other related parties:			
Trade accounts payable . . . . .	7,972	38,644	36,886
Advances received . . . . .	600	1,353	3,843
Short-term payables for acquisition of subsidiaries . . . . .	—	10,211	32,592
Other accounts payable . . . . .	1,948	16,485	1,873
	10,520	66,693	75,194
Debt financing includes the following balances with other related parties:			
Short-term debt financing . . . . .	1,324	32,186	57,956
Long-term debt financing . . . . .	20	1,675	21,685
	1,344	33,861	79,641

The amounts outstanding are expected to be settled in cash. 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 15% per annum, and were given to finance working capital and investments.

**13. Cash and cash equivalents**

	December 31,		
	2009	2008	2007
Petty cash . . . . .	386	552	780
Cash at bank . . . . .	1,810,790	2,044,048	1,251,782
Restricted cash accounts . . . . .	30,065	119,487	82
Short-term deposits with maturity of less than 3 months . . . . .	1,012,135	488,801	369,898
	2,853,376	2,652,888	1,622,542



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**14. Short-term bank deposits**

Short-term bank deposits totaled US\$ 95.5 million at December 31, 2009 (December 31, 2008: US\$ 818.5 million, December 31, 2007: US\$ 666.3 million) and consisted of deposits with an original maturity of more than three months but remaining period to maturity of less than one year. The majority of such deposits have an original maturity of less than 6 months, and such deposits are used by the Group to earn investment income, while preserving a high liquidity position. Substantially all such deposits can be withdrawn, in case of necessity, prior to the maturity date with no loss in principal but reduced interest income.

**15. Short-term financial investments**

	December 31,		
	2009	2008	2007
<b>Held-for-trading securities:</b>			
Promissory notes and bonds . . . . .	25,505	27,982	44,035
Quoted equity securities . . . . .	—	44,489	56,003
Other securities . . . . .	—	—	56,270
<b>Loans . . . . .</b>	<b>30,893</b>	<b>24,712</b>	<b>58,368</b>
<b>Available-for-sale securities . . . . .</b>	<b>567</b>	<b>6,254</b>	<b>818</b>
<b>Held-to-maturity securities . . . . .</b>	<b>16,164</b>	<b>9,345</b>	<b>—</b>
	<u>73,129</u>	<u>112,782</u>	<u>215,494</u>

**16. Trade accounts receivable**

	December 31,		
	2009	2008	2007
Customers . . . . .	1,540,787	2,032,399	1,806,775
Allowance for doubtful debts . . . . .	(83,136)	(90,523)	(37,737)
	<u>1,457,651</u>	<u>1,941,876</u>	<u>1,769,038</u>

**17. Inventories**

	December 31,		
	2009	2008	2007
Raw materials and supplies . . . . .	1,472,724	2,377,183	1,382,607
Work-in-progress . . . . .	540,942	731,591	479,358
Finished goods . . . . .	960,561	1,163,112	858,669
	<u>2,974,227</u>	<u>4,271,886</u>	<u>2,720,634</u>

Of the above amounts US\$ 434.3 million (December 31, 2008: US\$ 1,987.4 million, December 31, 2007: US\$ 264.4 million) are stated at net realizable value.

During the year ended December 31, 2009, the Group recognized a US\$ 383.6 million release and a US\$ 19.6 million allowance to reduce the carrying amount to a net realizable value (December 31, 2008: US\$ 25.0 million and US\$ 432.8 million respectively; December 31, 2007: US\$ 24.9 million and US\$ 25.5 million respectively).

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**18. Other current assets**

	December 31,		
	2009	2008	2007
Advances paid and prepayments . . . . .	193,564	188,484	236,778
Other taxes and social security prepaid . . . . .	23,774	17,346	16,414
Other assets . . . . .	68,115	73,877	65,769
	<u>285,453</u>	<u>279,707</u>	<u>318,961</u>

**19. Long-term financial investments**

	December 31,		
	2009	2008	2007
Available-for-sale securities . . . . .	88,778	48,958	22,448
Loans . . . . .	26,184	19,545	27,752
Held-to-maturity securities and deposits . . . . .	13,654	1,839	62,759
	<u>128,616</u>	<u>70,342</u>	<u>112,959</u>

**20. Investments in associates and joint ventures**

The Group's investments in associated and joint ventures companies are described in the tables below. The Group structure and certain additional information on investments in associated and joint ventures, including ownership percentages, is presented in Note 29.

	December 31,		
	2009	2008	2007
<b>Associates</b>			
OOO Gestamp-Severstal-Kaluga . . . . .	16,267	—	—
Stadco OOO . . . . .	14,015	—	—
Air Liquide Severstal . . . . .	6,117	6,297	7,537
Todlem S.L. . . . .	2,773	—	—
Others . . . . .	11,730	6,018	1,276
<b>Joint ventures</b>			
Spartan Steel Coating LLC . . . . .	49,082	51,552	53,978
Ohio Coatings Company . . . . .	17,762	16,595	—
Double Eagle Steel Coating Company . . . . .	15,623	19,354	22,936
Prognoz Srebro LLC . . . . .	6,572	6,765	—
Bethlehem Roll Technologies, LLC . . . . .	3,916	4,326	—
Mountain State Carbon LLC . . . . .	—	—	117,260
	<u>143,857</u>	<u>110,907</u>	<u>202,987</u>

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

	December 31,		
	2009	2008	2007
Current assets . . . . .	136,432	87,144	171,647
Non-current assets . . . . .	463,945	312,282	428,917
Short-term liabilities . . . . .	89,184	70,658	87,477
Long-term liabilities . . . . .	163,050	99,852	93,167
Equity . . . . .	348,143	228,916	419,920
	Year ended December 31,		
	2009	2008	2007
Revenues . . . . .	274,673	305,991	326,700
Net income . . . . .	20,982	21,512	16,211

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**21. Property, plant and equipment**

The movements in property, plant and equipment are as follows:

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction- in-progress	Total assets
<b>Cost:</b>						
December 31, 2006 . . . . .	2,137,374	5,684,772	267,619	82,005	1,200,673	9,372,443
Reclassifications . . . . .	9,840	(25,979)	6,669	9,470	—	—
Additions . . . . .	—	—	—	—	2,096,695	2,096,695
Business combinations . . . . .	83,389	83,429	6,053	711	21,412	194,994
Disposals . . . . .	(11,418)	(186,230)	(12,028)	(14,613)	(6,618)	(230,907)
Business de-combinations . . . . .	(53,885)	(154,917)	(4,262)	(2,277)	(4,981)	(220,322)
Reclassified to assets held for sale . . . . .	(182,171)	(166,972)	(13,863)	(152)	(56,508)	(419,666)
Transfer to other assets . . . . .	—	(7,793)	—	—	(23,729)	(31,522)
Transfers . . . . .	347,794	1,806,315	75,453	26,683	(2,256,245)	—
Foreign exchange difference . . . . .	168,957	452,825	25,021	7,584	61,088	715,475
December 31, 2007 . . . . .	2,499,880	7,485,450	350,662	109,411	1,031,787	11,477,190
Reclassifications . . . . .	(3,513)	(27,901)	23,677	7,737	—	—
Additions . . . . .	—	—	—	—	2,057,876	2,057,876
Business combinations . . . . .	449,623	2,064,508	75,259	141	78,561	2,668,092
Disposals . . . . .	(14,207)	(156,022)	(9,353)	(1,355)	(28,490)	(209,427)
Business de-combinations . . . . .	(3,827)	(5,056)	(344)	(336)	(2,178)	(11,741)
Reclassified to assets held for sale . . . . .	—	(2,976)	(9)	—	(15)	(3,000)
Transfer to other assets . . . . .	—	—	—	—	(22,343)	(22,343)
Transfers . . . . .	228,441	965,953	95,916	7,766	(1,298,076)	—
Foreign exchange difference . . . . .	(345,503)	(913,674)	(67,424)	(19,553)	(157,064)	(1,503,218)
December 31, 2008 . . . . .	2,810,894	9,410,282	468,384	103,811	1,660,058	14,453,429
Reclassifications . . . . .	(1,902)	(41,591)	17,917	742	24,834	—
Additions . . . . .	—	—	—	—	904,775	904,775
Offsetting with government grant . . . . .	(29,717)	—	—	—	—	(29,717)
Disposals . . . . .	(37,954)	(125,201)	(16,137)	(12,880)	(17,865)	(210,037)
Reclassified to assets held for sale . . . . .	(20,566)	(8,592)	—	—	—	(29,158)
Reclassified from assets held for sale . . . . .	—	2,976	—	—	—	2,976
Transfer to other assets . . . . .	—	—	—	—	(16,401)	(16,401)
Transfers . . . . .	164,600	571,352	57,128	17,295	(810,375)	—
Foreign exchange difference . . . . .	(43,523)	(100,916)	(8,314)	(2,184)	(7,234)	(162,171)
December 31, 2009 . . . . .	<u>2,841,832</u>	<u>9,708,310</u>	<u>518,978</u>	<u>106,784</u>	<u>1,737,792</u>	<u>14,913,696</u>

Of the above amounts of additions to construction-in-progress US\$ 23.6 million (2008: US\$ 11.6 million, 2007: US\$ 18.7 million) is interest capitalized.

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	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction- in-progress	Total assets
<b>Depreciation and impairment:</b>						
December 31, 2006 . . . . .	402,164	1,741,534	114,142	55,530	88,208	2,401,578
Reclassifications . . . . .	1,583	(4,650)	565	2,502	—	—
Depreciation expense . . . . .	143,124	652,555	34,132	6,341	—	836,152
Business combinations . . . . .	1,938	7,191	803	8	—	9,940
Disposals . . . . .	(2,689)	(147,110)	(9,280)	(1,309)	(1,186)	(161,574)
Business de-combinations . . . . .	(6,806)	(51,376)	(1,312)	(1,869)	(69)	(61,432)
Reclassified to assets held for sale . . . . .	(22,223)	(63,321)	(5,190)	(17)	(6,043)	(96,794)
Transfers . . . . .	3,215	304	58	4,956	(8,533)	—
Impairment of assets . . . . .	2,112	15,012	(36)	2,441	9,366	28,895
Foreign exchange difference . . . .	40,517	167,105	11,081	4,751	7,855	231,309
December 31, 2007 . . . . .	562,935	2,317,244	144,963	73,334	89,598	3,188,074
Reclassifications . . . . .	8,411	(20,891)	10,163	2,317	—	—
Depreciation expense . . . . .	163,024	805,799	62,193	4,293	—	1,035,309
Disposals . . . . .	(21)	(95,570)	(5,866)	(570)	(15,997)	(118,024)
Business de-combinations . . . . .	(1,497)	(1,768)	(341)	(436)	—	(4,042)
Reclassified to assets held for sale . . . . .	—	(1,096)	(9)	—	—	(1,105)
Transfers . . . . .	—	(10)	(1)	1,941	(1,930)	—
Impairment of assets . . . . .	146,625	876,020	11,914	3,702	40,863	1,079,124
Foreign exchange difference . . . .	(110,021)	(389,958)	(28,062)	(13,710)	(11,548)	(553,299)
December 31, 2008 . . . . .	769,456	3,489,770	194,954	70,871	100,986	4,626,037
Reclassifications . . . . .	50	(7,435)	7,117	268	—	—
Depreciation expense . . . . .	108,753	657,139	73,352	2,496	—	841,740
Disposals . . . . .	(18,050)	(87,905)	(12,476)	(8,516)	(11,585)	(138,532)
Reclassified to assets held for sale . . . . .	(14,150)	(5,678)	—	—	—	(19,828)
Transfers . . . . .	1,510	7,495	199	119	(9,323)	—
Impairment of assets . . . . .	89,019	57,356	837	469	28,562	176,243
Foreign exchange difference . . . .	(16,404)	(33,665)	(2,103)	(2,395)	(2,877)	(57,444)
December 31, 2009 . . . . .	<u>920,184</u>	<u>4,077,077</u>	<u>261,880</u>	<u>63,312</u>	<u>105,763</u>	<u>5,428,216</u>
<b>Net book values:</b>						
December 31, 2007 . . . . .	<u>1,936,945</u>	<u>5,168,206</u>	<u>205,699</u>	<u>36,077</u>	<u>942,189</u>	<u>8,289,116</u>
December 31, 2008 . . . . .	<u>2,041,438</u>	<u>5,920,512</u>	<u>273,430</u>	<u>32,940</u>	<u>1,559,072</u>	<u>9,827,392</u>
December 31, 2009 . . . . .	<u>1,921,648</u>	<u>5,631,233</u>	<u>257,098</u>	<u>43,472</u>	<u>1,632,029</u>	<u>9,485,480</u>

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

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**22. Intangible assets**

	Goodwill	Mineral rights	Software	Evaluation and exploration assets	Other intangible assets	Total
<b>Cost:</b>						
December 31, 2006 . . . . .	1,440	36,885	32,504	—	9,297	80,126
Additions . . . . .	—	916	13,927	11,202	5,391	31,436
Business combinations . . . . .	150,702	245,653	—	156,582	72,274	625,211
Disposals . . . . .	—	—	(6,161)	—	(966)	(7,127)
Reclassified to assets held for sale . . .	—	(34,254)	—	—	—	(34,254)
Business de-combinations . . . . .	—	—	(6,224)	—	(4,728)	(10,952)
Foreign exchange difference . . . . .	4,804	3,280	2,701	1,137	3,157	15,079
December 31, 2007 . . . . .	156,946	252,480	36,747	168,921	84,425	699,519
Additions . . . . .	—	3,005	28,058	33,650	28,149	92,862
Business combinations . . . . .	588,351	418,935	604	113,853	206,844	1,328,587
Disposals . . . . .	—	(168)	(1,014)	(121)	(13,270)	(14,573)
Business de-combinations . . . . .	(3,621)	—	—	—	—	(3,621)
Foreign exchange difference . . . . .	(20,747)	(4,809)	(1,580)	(30,502)	(12,754)	(70,392)
December 31, 2008 . . . . .	720,929	669,443	62,815	285,801	293,394	2,032,382
Additions . . . . .	—	4,326	28,530	36,485	3,567	72,908
Disposals . . . . .	—	(407)	—	(3,630)	(979)	(5,016)
Foreign exchange difference . . . . .	(17,790)	(30,936)	312	(9,712)	2,936	(55,190)
December 31, 2009 . . . . .	<u>703,139</u>	<u>642,426</u>	<u>91,657</u>	<u>308,944</u>	<u>298,918</u>	<u>2,045,084</u>
<b>Amortization and impairment:</b>						
December 31, 2006 . . . . .	22	1,763	10,426	—	6,249	18,460
Amortization expense . . . . .	—	3,046	3,756	—	3,308	10,110
Disposals . . . . .	—	—	(6,161)	—	(396)	(6,557)
Reclassified to assets held for sale . . .	—	(3,602)	—	—	—	(3,602)
Business de-combinations . . . . .	—	—	(3,924)	—	(3,923)	(7,847)
Foreign exchange difference . . . . .	2	215	844	—	827	1,888
December 31, 2007 . . . . .	24	1,422	4,941	—	6,065	12,452
Amortization expense . . . . .	—	28,864	5,905	—	17,343	52,112
Impairment . . . . .	461,139	—	—	—	—	461,139
Disposals . . . . .	—	(172)	(367)	—	(981)	(1,520)
Foreign exchange difference . . . . .	(4)	(1,165)	(489)	—	(801)	(2,459)
December 31, 2008 . . . . .	461,159	28,949	9,990	—	21,626	521,724
Amortization expense . . . . .	—	44,165	8,849	—	62,410	115,424
Impairment . . . . .	—	—	—	—	42,776	42,776
Disposals . . . . .	—	—	—	—	(113)	(113)
Foreign exchange difference . . . . .	(848)	(3,316)	228	—	5	(3,931)
December 31, 2009 . . . . .	<u>460,311</u>	<u>69,798</u>	<u>19,067</u>	<u>—</u>	<u>126,704</u>	<u>675,880</u>
<b>Net book values:</b>						
December 31, 2007 . . . . .	<u>156,922</u>	<u>251,058</u>	<u>31,806</u>	<u>168,921</u>	<u>78,360</u>	<u>687,067</u>
December 31, 2008 . . . . .	<u>259,770</u>	<u>640,494</u>	<u>52,825</u>	<u>285,801</u>	<u>271,768</u>	<u>1,510,658</u>
December 31, 2009 . . . . .	<u>242,828</u>	<u>572,628</u>	<u>72,590</u>	<u>308,944</u>	<u>172,214</u>	<u>1,369,204</u>

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**23. Debt finance**

	December 31,		
	2009	2008	2007
Eurobonds 2009 . . . . .	—	325,000	325,000
Eurobonds 2013 . . . . .	1,250,000	1,250,000	—
Eurobonds 2014 . . . . .	375,000	375,000	375,000
Ruble bonds . . . . .	495,963	—	—
Other issued notes and bonds . . . . .	31,780	14,150	—
Bank financing . . . . .	4,960,512	5,957,041	2,932,570
Factoring of receivables . . . . .	71,592	191,623	201,909
Other financing . . . . .	53,549	144,912	119,361
Accrued interest . . . . .	102,232	104,449	41,807
Unamortized balance of transaction costs . . . . .	(113,768)	(96,257)	(53,265)
	<u>7,226,860</u>	<u>8,265,918</u>	<u>3,942,382</u>
Total debt is denominated in the following currencies:			
US Dollars . . . . .	4,389,704	4,967,699	1,960,275
Euro . . . . .	2,152,251	2,616,523	1,432,490
Rubles . . . . .	669,616	653,339	547,866
Other currencies . . . . .	15,289	28,357	1,751
	<u>7,226,860</u>	<u>8,265,918</u>	<u>3,942,382</u>
Total debt is contractually repayable after the balance sheet date as follows:			
Less than one year . . . . .	1,478,301	2,038,693	1,129,216
Between one and five years . . . . .	5,602,895	5,342,449	1,923,336
After more than five years . . . . .	145,664	884,776	889,830
	<u>7,226,860</u>	<u>8,265,918</u>	<u>3,942,382</u>

Debt finance arising from banks and unused long term credit lines are secured by the following charges:

- US\$ 2,081 million (December 31, 2008: US\$ 2,837 million; December 31, 2007: US\$ 1,142 million) of the net book value of plant and equipment;
- US\$ 1,267 million (December 31, 2008: US\$ 2,303.6 million; December 31, 2007: US\$ 679.1 million) of current assets and revenues from export contracts;
- all Group's ownership in Berezitovy Rudnik LLC, Societe Des Mines de Taparko, 99.56% of Group's ownership in OJSC Buryatzoloto, 50% of Group's ownership in Mountain State Carbon, 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, 2009;
- all Group's ownership in Berezitovy Rudnik LLC, Societe Des Mines de Taparko, 99.56% of Group's ownership in OJSC Buryatzoloto, 50% of Group's ownership in Mountain State Carbon and 50% ownership in IPM, the Group's subsidiaries, and investments in other associates and joint ventures in the Severstal North America segment at December 31, 2008 and December 31, 2007.

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, 2008 and 2007. During the year ended December 31, 2009, the Group had no instances of non-compliance with debt covenants, which had not been duly rectified before the reporting date.

At the reporting date the Group had US\$ 537 million (December 31, 2008: US\$ 950.6 million; December 31, 2007: US\$ 1,082.7 million) of unused long term credit lines available to it.



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**24. Other current liabilities**

	December 31,		
	2009	2008	2007
Amounts payable to employees . . . . .	273,832	396,578	248,231
Advances received . . . . .	172,855	105,611	221,612
Provisions (Note 26) . . . . .	101,919	80,918	43,974
Accrued expenses . . . . .	31,778	63,718	34,166
Derivative financial liabilities . . . . .	22,448	19,110	—
Onerous contracts . . . . .	20,415	71,509	—
Decommissioning liability (Note 26) . . . . .	17,123	5,308	—
Lease liabilities . . . . .	12,896	23,280	9,753
Deferred income . . . . .	5,227	3,321	—
Payable for acquisition of subsidiaries . . . . .	—	7,320	—
Other liabilities . . . . .	35,351	34,505	62,633
	<u>693,844</u>	<u>811,178</u>	<u>620,369</u>

**25. 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 following assumptions have been used to calculate the retirement benefit liability:

	December 31,		
	2009	2008	2007
Discount rates:			
Russia . . . . .	8.5% to 8.7%	8.5% to 10.6%	6.5%
USA . . . . .	5.3% to 6.1%	5.3% to 6.5%	5.3%
UK . . . . .	5.7%	6.7%	3.1%
Italy and France . . . . .	4.7%	4.4% to 5.3%	5.1% to 5.6%
Future rates of benefit increase:			
Russia . . . . .	6.6% to 7.4%	6.3% to 8.2%	5.8% to 6.2%
USA . . . . .	Fixed at 0% or 3.5% to 10.0%	Fixed at 0% or 4.0% to 10.0%	Fixed at 0% or 9.0%
UK . . . . .	2.7%	2.7%	3.4%
Italy and France . . . . .	2.5%	3.0% to 6.0%	2.0% to 3.0%

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,				
	2009	2008	2007	2006	2005
Present value of the defined benefit obligation . .	1,008,654	987,418	495,713	549,009	387,657
Fair value of the plan assets . . . . .	(220,940)	(208,122)	(108,315)	(106,055)	(49,171)
Retirement benefit liability . . . . .	<u>787,714</u>	<u>779,296</u>	<u>387,398</u>	<u>442,954</u>	<u>338,486</u>

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The movements in the defined benefit obligation are as follows:

	Year ended December 31,		
	2009	2008	2007
Opening balance	987,418	495,713	549,009
Business combinations/(de-combinations)	—	526,630	(33,612)
Reclassified to assets held for sale	—	—	(9,260)
Benefits paid	(69,282)	(60,698)	(55,238)
Interest cost	56,496	33,065	27,589
Service cost (Note 5)	35,867	27,602	18,640
Curtailment	(12,010)	—	—
Actuarial loss/(gain) (Note 5)	13,701	25,889	(37,497)
Foreign exchange (gain)/loss	(3,536)	(60,783)	36,082
Closing balance	<u>1,008,654</u>	<u>987,418</u>	<u>495,713</u>

The movements in the plan assets are as follows:

	Year ended December 31,		
	2009	2008	2007
Opening balance	208,122	108,315	106,055
Business combinations/(de-combinations)	—	117,215	(10,122)
Contributions made during the year	40,711	38,637	11,534
Benefits paid	(39,053)	(28,232)	(14,852)
Return on assets (Note 5)	15,998	(1,045)	10,921
Actuarial loss (Note 5)	(5,187)	(7,252)	(441)
Foreign exchange (loss)/gain	349	(19,516)	5,220
Closing balance	<u>220,940</u>	<u>208,122</u>	<u>108,315</u>

The defined benefit obligation analysis is as follows:

	December 31,		
	2009	2008	2007
Wholly unfunded	361,101	497,129	258,926
Partly funded	647,553	490,289	236,787
Total	<u>1,008,654</u>	<u>987,418</u>	<u>495,713</u>

The plan assets analysis is as follows:

	December 31,		
	2009	2008	2007
Equity instruments	55,160	38,161	44,448
Deposits	8,953	14,946	3,037
Shares in mutual funds	14,760	34,531	—
Cash	54,260	75,565	1,170
Government bonds	30,264	11,557	28,548
Corporate bonds	55,607	14,335	14,964
Other investments	1,936	19,027	16,148
Total	<u>220,940</u>	<u>208,122</u>	<u>108,315</u>

The Group's best estimate of contributions expected to be paid to the plan in 2010 is US\$ 70 million.

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The overall expected rate of return on pension plan assets is calculated based on the expected long-term investment returns for each category of assets that forms the portfolio. The assessment of expected returns is based on historical returns and predictions of the market for each category of assets in the portfolio in the next twelve months. Expected and actual rates of return on plan assets is presented in the table below:

	2009		2008		2007	
	Actual	Expected	Actual	Expected	Actual	Expected
Russia . . . . .	3.7% to 5.5%	4.0% to 9.6%	4.0%	16.0%	16.1%	17.0%
USA . . . . .	7.5% to 13.1%	7.5% to 7.8%	– 10.0% to 0%	0% to 3.0%	n/a	n/a
UK . . . . .	3.6%	3.6%	– 15.0%	3.6%	5.0%	5.0%

The retirement benefit expenses recognized in the income statement are contained in the caption: ‘Cost of sales’, ‘General and administrative expenses’ allocated proportionally to related salary expenses, except for the interest cost, which is recognized in the caption ‘Interest expense’.

**26. Other non-current liabilities**

	December 31,		
	2009	2008	2007
Decommissioning liability . . . . .	262,303	254,740	108,961
Provisions . . . . .	101,119	139,445	66,902
Amounts payable to employees . . . . .	45,755	66,479	—
Lease liabilities . . . . .	38,211	53,174	14,515
Other liabilities . . . . .	28,651	62,591	79,636
Derivative financial liabilities . . . . .	26,508	11,183	—
Deferred income . . . . .	3,908	31,591	29,660
Restructured tax liabilities . . . . .	1,811	758	24,978
	<u>508,266</u>	<u>619,961</u>	<u>324,652</u>

***Decommissioning liability***

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of its mines and production facilities. These costs are expected to be incurred between 2010-2050. 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, %		
	2009	2008	2007
Severstal Resource:			
Russia . . . . .	0.1-2.4	2.0-2.8	2.0
Kazakhstan . . . . .	0.2-0.4	1.0	n/a
USA . . . . .	1.7-2.9	2.4-6.8	n/a
Severstal North America . . . . .	1.7-2.9	1.8	n/a

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The movements in the decommissioning liability are as follows:

	Year ended December 31,		
	2009	2008	2007
Opening balance . . . . .	260,048	108,961	128,209
Additional accrual . . . . .	25,666	—	—
Change in assumptions . . . . .	—	(3,841)	—
Interest cost . . . . .	9,998	18,173	19,062
Business combinations . . . . .	—	160,775	14,927
Usage of decommissioning liability . . . . .	(12,157)	(4,709)	—
Reclassified to assets held for sale . . . . .	—	—	(63,314)
Foreign exchange difference . . . . .	(4,129)	(19,311)	10,077
Closing balance . . . . .	<u>279,426</u>	<u>260,048</u>	<u>108,961</u>
	December 31,		
	2009	2008	2007
Current portion . . . . .	17,123	5,308	—
Non-current portion . . . . .	262,303	254,740	108,961
	<u>279,426</u>	<u>260,048</u>	<u>108,961</u>

**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,		
	2009	2008	2007
Environmental claims . . . . .	36,708	42,730	24,459
Restructuring . . . . .	43,671	12,664	8,284
Social security claims . . . . .	36,713	32,421	30,259
Other employee related . . . . .	28,013	22,089	16,075
Legal claims . . . . .	18,633	40,034	27,423
Other . . . . .	39,300	70,425	4,376
	<u>203,038</u>	<u>220,363</u>	<u>110,876</u>
	December 31,		
	2009	2008	2007
Current portion . . . . .	101,919	80,918	43,974
Non-current portion . . . . .	101,119	139,445	66,902
	<u>203,038</u>	<u>220,363</u>	<u>110,876</u>

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.

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The movements in the provisions are as follows:

	Year ended December 31,		
	2009	2008	2007
Opening balance . . . . .	220,363	110,876	79,150
Charge to the income statement . . . . .	58,764	95,875	32,907
Business combinations . . . . .	—	49,114	781
Usage of provisions . . . . .	(72,705)	(27,648)	(5,821)
Business de-combinations . . . . .	—	—	(6,321)
Foreign exchange difference . . . . .	(3,384)	(7,854)	10,180
Closing balance . . . . .	<u>203,038</u>	<u>220,363</u>	<u>110,876</u>

## 27. Share capital

The Parent Company's share capital consists of ordinary shares with a nominal value of RUR 0.01 each. Authorized share capital of Severstal at December 31, 2009, 2008 and 2007 comprised 1,007,701,355 issued and fully paid shares.

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 comprises:

	Number of shares, thsd.	US\$'000
Share capital at December 31, 2007 . . . . .	<u>1,007,701</u>	<u>3,311,288</u>
Share capital at December 31, 2008 . . . . .	<u>1,007,701</u>	<u>3,311,288</u>
Share capital at December 31, 2009 . . . . .	<u>1,007,701</u>	<u>3,311,288</u>

All shares carry equal voting and distribution rights.

During 2008, the Parent Company repurchased 2,499 thousand of issued shares for a total consideration of US\$ 26.3 million.

### *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 assets ratio which is defined as profit from operations divided by total assets (averaged over the measurement period) 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. As at the reporting date, reserves available for distribution of US\$ 5,443.9 million, were not yet approved by the Board of Directors (December 31, 2008: US\$ 6,744.0 million; December 31, 2007: US\$ 5,894.9 million).

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On June 15, 2007 a Meeting of Shareholders approved the annual dividend of 5.0 rubles (US\$ 0.2 at June 15, 2007 exchange rate) per share and per GDR in respect of 2006.

On June 29, 2007 a Meeting of Shareholders approved an interim dividend of 2.6 rubles (US\$ 0.1 at June 29, 2007 exchange rate) per share and per GDR for the first quarter of 2007.

On September 28, 2007 a Meeting of Shareholders approved an interim dividend of 10.0 rubles (US\$ 0.4 at September 28, 2007 exchange rate) per share and per GDR for the first half of 2007.

On December 20, 2007 a Meeting of Shareholders approved an interim dividend of 2.5 rubles (US\$ 0.1 at December 20, 2007 exchange rate) per share and per GDR for the third quarter of 2007.

On June 27, 2008 a Meeting of Shareholders approved the annual dividend of 4.0 rubles (US\$ 0.2 at June 27, 2008 exchange rate) per share and per GDR in respect of 2007.

On June 27, 2008 a Meeting of Shareholders approved an interim dividend of 5.2 rubles (US\$ 0.2 at June 27, 2008 exchange rate) per share and per GDR for the first quarter of 2008.

On September 30, 2008 a Meeting of Shareholders approved an interim dividend of 18.35 rubles (US\$ 0.7 at September 30, 2008 exchange rate) per share and per GDR for the first half of 2008.

On December 26, 2008 a Meeting of Shareholders approved an interim dividend of 7.17 rubles (US\$ 0.2 at December 26, 2008 exchange rate) per share and per GDR for the third quarter of 2008.

On June 15, 2009, a Meeting of Shareholders approved the decision not to pay the annual dividend in respect of 2008.

## **28. Discontinued operations and assets held for sale**

The Group's discontinued operations consisted of OAO Metallurgical Commercial Bank (representing the Group's Financing segment) which was disposed of in November 2007, and Lucchini companies which were classified as held for sale as at December 31, 2007. The post-tax loss on the disposal of OAO Metallurgical Commercial Bank amounted to US\$ 10.2 million.

The results of discontinued operations and net cash flows were as follows:

	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Revenue . . . . .	—	—	831
Expenses . . . . .	—	—	(2,914)
Other income . . . . .	—	—	3,821
<b>Profit before income tax . . . . .</b>	<b>—</b>	<b>—</b>	<b>1,738</b>
Income tax expense . . . . .	—	—	(1,305)
<b>Profit for the year . . . . .</b>	<b>—</b>	<b>—</b>	<b>433</b>
Net cash from operating activities . . . . .	—	—	(64,446)
Net cash from financing activities . . . . .	—	—	—

The Group's assets held for sale as at December 31, 2007 were primarily the Kuzbass coal mines, a group of subsidiaries, which the Group disposed of in the first half of 2008, and the Lucchini and Metalware segments' companies.



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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, 2009, 2008 and 2007 were as follows:

	December 31,		
	2009	2008	2007
<b>Current assets:</b>			
Cash and cash equivalents . . . . .	1,267	46	6,199
Short-term financial investments . . . . .	—	—	18,550
Trade accounts receivable . . . . .	5,868	—	2,365
Accounts receivable from related parties . . . . .	—	—	2,732
Inventories . . . . .	1,617	5,525	9,182
VAT recoverable . . . . .	263	1,406	1,808
Income tax recoverable . . . . .	—	—	422
Other current assets . . . . .	1,627	—	5,160
<b>Total current assets . . . . .</b>	<u>10,642</u>	<u>6,977</u>	<u>46,418</u>
<b>Non-current assets:</b>			
Long-term financial investments . . . . .	—	—	2,540
Investments in associates . . . . .	—	—	1
Property, plant and equipment . . . . .	13,773	1,895	332,632
Intangible assets . . . . .	—	—	30,710
Deferred tax assets . . . . .	—	—	24,913
Other non-current assets . . . . .	—	—	28,127
<b>Total non-current assets . . . . .</b>	<u>13,773</u>	<u>1,895</u>	<u>418,923</u>
<b>Total assets . . . . .</b>	<u>24,415</u>	<u>8,872</u>	<u>465,341</u>
<b>Current liabilities:</b>			
Trade accounts payable . . . . .	2,870	—	7,938
Other taxes and social security payable . . . . .	111	4	3,862
Other current liabilities . . . . .	8,360	—	6,980
<b>Total current liabilities . . . . .</b>	<u>11,341</u>	<u>4</u>	<u>18,780</u>
<b>Non-current liabilities:</b>			
Retirement benefit liabilities . . . . .	—	—	9,260
Other non-current liabilities . . . . .	638	—	63,710
<b>Total non-current liabilities . . . . .</b>	<u>638</u>	<u>—</u>	<u>72,970</u>
<b>Total liabilities . . . . .</b>	<u>11,979</u>	<u>4</u>	<u>91,750</u>

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**29. 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:

	December 31,				
Company	2009	2008	2007	Location	Activity
<b>Russian Steel segment:</b>					
<i>Subsidiaries:</i>					
ZAO Severgal . . . . .	100.0%	100.0%	100.0%	Russia	Hot dip galvanizing
ZAO Severstal SMZ-Kolpino . . . . .	100.0%	100.0%	100.0%	Russia	Steel constructions
ZAO Severstal TPZ-Sheksna . . . . .	100.0%	100.0%	100.0%	Russia	Steel constructions
ZAO Severstal Steel Solutions . . . . .	100.0%	100.0%	100.0%	Russia	Steel constructions
OOO SSM-Tyazhmash . . . . .	100.0%	100.0%	100.0%	Russia	Repairs & construction
OAO Domnaremont . . . . .	82.7%	82.7%	82.7%	Russia	Repairs & construction
ZAO Firma Stoik . . . . .	99.9%	99.9%	100.0%	Russia	Repairs & construction
OAO Metallurgremont . . . . .	n/a	n/a	79.8%	Russia	Repairs & construction
OOO Energoremont . . . . .	100.0%	100.0%	100.0%	Russia	Repairs & construction
OOO Electroremont . . . . .	100.0%	100.0%	93.3%	Russia	Repairs & construction
Victory Industries, Inc. . . . .	99.9%	100.0%	100.0%	USA	Repairs & construction
OOO AviaCompany Severstal . . . . .	100.0%	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH . . . . .	99.8%	100.0%	100.0%	Switzerland*	Steel sales
AS Severstallat . . . . .	84.2%	50.5%	50.5%	Latvia*	Steel sales
Latvijas Metals . . . . .	84.2%	50.5%	50.5%	Latvia*	Steel sales
ZAO SeverStalBel . . . . .	100.0%	100.0%	80.6%	Belarus*	Steel sales
Severstal-Ukraine LLC. . . . .	51.0%	51.0%	51.0%	Ukraine*	Steel sales
Armaturu Servisa Centrs SIA . . . . .	84.2%	50.5%	25.2%	Latvia*	Steel service center
ZAO Neva-Metall Trans . . . . .	n/a	n/a	100.0%	Russia	Shipping operations
ZAO Neva-Metall . . . . .	100.0%	100.0%	100.0%	Russia	Shipping operations
Upcroft Limited . . . . .	100.0%	100.0%	100.0%	Cyprus*	Holding company**
Varndell Limited . . . . .	100.0%	100.0%	100.0%	Cyprus*	Holding company**
ZAO Vtorchermet . . . . .	71.2%	85.6%	84.8%	Russia	Processing scrap
ZAO Rospromresursy . . . . .	100.0%	100.0%	100.0%	Russia	Processing scrap
OAO Murmanskvtormet . . . . .	50.9%	75.1%	75.1%	Russia	Processing scrap
OAO Arhangelskii vtormet . . . . .	50.0%	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%	99.0%	99.0%	Russia	Leasing
OAO Rostovmetall . . . . .	94.6%	87.0%	87.0%	Russia	Leasing
ZAO PPTK-1 . . . . .	100.0%	99.0%	99.0%	Russia	Leasing
ZAO Izhora Pipe Mill . . . . .	100.0%	100.0%	100.0%	Russia	Wide pipes
OAO Severstal-Metiz . . . . .	100.0%	100.0%	97.0%	Russia	Steel machining
OAO Dneprometiz . . . . .	98.7%	96.8%	58.2%	Ukraine	Steel machining
Carrington Wire Ltd . . . . .	n/a	100.0%	97.0%	UK	Steel machining
Redaelli Tecna S.p.A. . . . .	100.0%	100.0%	n/a	Italy	Steel machining
OOO UniFence . . . . .	100.0%	100.0%	97.0%	Russia	Steel machining
OOO ChSPZ MKR (UniSpring) . . . . .	100.0%	100.0%	97.0%	Russia	Mattress springs
OOO “Severstal-metiz: welding consumables” . . . . .	100.0%	n/a	n/a	Russia	Welding consumables
<i>Associates:</i>					
Air Liquide Severstal . . . . .	25.0%	25.0%	25.0%	Russia	Production liquid oxygen
Todlem S.L. . . . .	25.0%	n/a	n/a	Spain	Holding company
OOO Gestamp-Severstal-Kaluga . . . . .	25.0%	n/a	n/a	Russia	Production car body components
Stadco OOO . . . . .	22.5%	n/a	n/a	Russia	Production car body components

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

(\*\*) Upcroft is holding 29.0% of Lucchini SpA and Varndell is holding 50.8% of Lucchini SpA.

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Company	December 31,			Location	Activity
	2009	2008	2007		
<b>Severstal North America segment:</b>					
<i>Subsidiaries:</i>					
Severstal US Holdings LLC . . . . .	100.0%	100.0%	100.0%	USA	Holding company
Baracom Limited . . . . .	100.0%	100.0%	100.0%	Cyprus	Holding company
Severstal Dearborn, Inc . . . . .	100.0%	100.0%	100.0%	USA	Iron & steel mill
Severstal Columbus LLC . . . . .	100.0%	91.8%	74.2%	USA	Steel mill
Severstal Warren Inc . . . . .	100.0%	100.0%	n/a	USA	Steel mill
Severstal Wheeling Holding Company . . . . .	100.0%	100.0%	n/a	USA	Steel mill
Severstal Sparrows Point LLC . . . . .	100.0%	100.0%	n/a	USA	Steel mill
Mountain State Carbon LLC . . . . .	100.0%	100.0%	50.0%	USA	Coking coal
Northern Steel Group Inc . . . . .	100.0%	100.0%	n/a	USA	Steel service center
<i>Associates:</i>					
Delaco Processing LLC . . . . .	49.0%	49.0%	49.0%	USA	Steel slitting
<i>Joint ventures:</i>					
Spartan Steel Coating LLC . . . . .	48.0%	48.0%	48.0%	USA	Hot dip galvanizing
Double Eagle Steel Coating company . . . . .	50.0%	50.0%	50.0%	USA	Electro-galvanizing
Bethlehem Roll Technologies LLC . . . . .	50.0%	50.0%	n/a	USA	Grinding steel mill rolls
Ohio Coatings Company . . . . .	50.0%	50.0%	n/a	USA	Tin plate steel
<b>Lucchini segment:</b>					
<i>Subsidiaries:</i>					
Lucchini SpA . . . . .	79.8%	79.8%	79.8%	France	Holding company
Ascometal SAS . . . . .	79.8%	79.8%	79.8%	France	Steel manufacturing
Ascometal GmbH . . . . .	79.8%	79.8%	79.8%	Germany	Sales
Bari Fonderie Meridionali SpA . . . . .	79.8%	79.8%	79.8%	Italy	Forgings
Bi-Mec Srl . . . . .	n/a	n/a	79.8%	Italy	Maintenance
GSI Lucchini SpA . . . . .	55.3%	55.3%	55.3%	Italy	Steel spheres
Lucchini Asia Pacific Pte Ltd . . . . .	79.8%	79.8%	79.8%	Singapore	Sales
Lucchini Holland BV . . . . .	79.8%	79.8%	79.8%	The Netherlands	Investment holding
Lucchini Iberia SI . . . . .	79.8%	79.8%	79.8%	Spain	Sales
Lucchini Servizi Srl . . . . .	79.8%	79.8%	79.8%	Italy	Dormant
Lucchini Siderprodukte AG . . . . .	n/a	51.9%	51.9%	Switzerland	Sales
Luchini USA Inc . . . . .	79.8%	79.8%	79.8%	USA	Sales
Servola SpA . . . . .	79.8%	79.8%	79.8%	Italy	Asset holding
Sideris Steel SAS . . . . .	79.8%	79.8%	79.8%	France	Investment holding
Simmofos Sarl . . . . .	n/a	n/a	79.8%	France	Asset holding
Vertek Srl . . . . .	n/a	n/a	79.8%	Italy	Steel finishing
Siderco SpA . . . . .	n/a	n/a	79.8%	Italy	Slag processor
<i>Associates:</i>					
ESPRA SAS . . . . .	27.9%	27.9%	27.9%	France	Steel scrap
Logistica Servola Srl . . . . .	39.9%	39.9%	39.9%	Italy	Dormant
Tecnologie Ambientali Pulite Srl . . . . .	19.9%	19.9%	19.9%	Italy	Enviromental services
GICA SA . . . . .	19.9%	19.9%	19.9%	Switzerland	Carbon dioxide trading
<i>Companies classified as held for sale:</i>					
Relco Spzoo . . . . .	n/a	n/a	79.8%	Poland	Land holding
Coimpex Spzoo . . . . .	n/a	n/a	31.9%	Poland	Land holding

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Company	December 31,			Location	Activity
	2009	2008	2007		
Severstal Resource segment:					
Subsidiaries:					
OAo Karelsky Okatysh . . . . .	100.0%	100.0%	94.8%	Russia	Iron ore pellets
OAo Olkon . . . . .	100.0%	100.0%	92.7%	Russia	Iron ore concentrate
Severstal Liberia Iron Ore Ltd . . . . .	61.5%	61.5%	n/a	Liberia	Iron ore
OAo Vorkutaugol . . . . .	94.0%	94.0%	93.1%	Russia	Coking coal concentrate
OAo Mine Vorgashorskaya . . . . .	75.0%	75.0%	75.0%	Russia	Coking coal concentrate
PBS Coals Limited . . . . .	100.0%	100.0%	n/a	Canada	Coking coal concentrate
OAo Mine Pervomaiskaya . . . . .	n/a	n/a	99.4%	Russia	Coking coal concentrate
OAo Mine Berezovskaya . . . . .	n/a	n/a	97.5%	Russia	Coking coal concentrate
OAo SShEMK . . . . .	n/a	n/a	75.6%	Russia	Engineering
OAo Severokuzbasskoe PTU . . . . .	n/a	n/a	87.3%	Russia	Transportation
OAo Anzhero-Sudzhenskoe PTU . . . . .	n/a	n/a	94.4%	Russia	Transportation
OOO Neryungri Metallic . . . . .	100.0%	100.0%	100.0%	Russia	Gold mining
ZAO Mine Aprelkovo . . . . .	100.0%	100.0%	100.0%	Russia	Gold mining
Celtic Resources Holdings Ltd . . . . .	100.0%	100.0%	86.3%	Ireland	Holding company
JSC FIC Alal . . . . .	100.0%	100.0%	86.3%	Kazakhstan	Gold mining
Zherek LLP . . . . .	100.0%	100.0%	86.3%	Kazakhstan	Gold mining
High River Gold Mines Ltd . . . . .	50.1%	53.8%	n/a	Canada	Holding company
OJSC Buryatzoloto . . . . .	42.6%	45.7%	n/a	Russia	Gold mining
Berezitovy Rudnik LLC . . . . .	49.6%	53.3%	n/a	Russia	Gold mining
Societe Des Mines de Taparko . . . . .	45.1%	48.4%	n/a	Burkina Faso	Gold mining
Semgeo LLP . . . . .	100.0%	100.0%	n/a	Kazakhstan	Gold mining
OIO SPB-Giproshakht . . . . .	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%	n/a	The Netherlands	Holding company
7029740 Canada Limited . . . . .	100.0%	100.0%	n/a	Canada	Holding company
Severstal Gold N.V. . . . .	100.0%	n/a	n/a	The Netherlands	Holding company
Altcom Limited . . . . .	100.0%	n/a	n/a	The Netherlands	Holding company
Joint ventures:					
Prognoz Serebro LLC . . . . .	50.0%	50.0%	n/a	Russia	Silver project

In addition, at the reporting date, a further 45 (December 31, 2008: 42; December 31, 2007: 46) subsidiaries and associates, 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 associated companies is disclosed in Note 20 of these consolidated financial statements.

***Acquisitions from Majority Shareholder***

During 2008 and 2007, Severstal completed acquisitions of controlling stakes in a number of companies previously controlled by Severstal's Majority Shareholder. These consolidated financial statements take account of such acquisitions as if they had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the common controlling shareholder.

In July 2007, the Group acquired a 100.0% stake in each of the companies OOO Petrovtormet and OOO Severstalskrap-Komi, for a total consideration of US\$ 0.02 million and US\$ 0.2 million, respectively, and a 75.01% and a 75.1% stake in OAo Arhangel'skii vtormet and in OAo Murmanskvtormet, for a total consideration of US\$ 2.2 million and US\$ 2.9 million, respectively.

In January 2008, the Group completed the acquisition of a 100% stake in Baracom Limited for a total consideration of US\$ 84.4 million. Baracom Limited owns 79.9% of the voting stock of the holding structure which controls 74.2% of Severstal Columbus, LLC (former SeverCorr, LLC). Severstal Columbus is a mini-mill which produces high quality steel for motor-car, construction, pipe and engineering industries.

In December 2008, the Group completed the acquisition of a 100.0% stake of a trading company, ZAO Trade House Severstal-Invest, for a total consideration of US\$ 27.4 million. ZAO Trade House Severstal-Invest owns a 99.0% stake in OOO North Steel Company, a 87.0% stake in OAo Rostovmetall, and a 99.0% in ZAO PPTK-1.

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*Acquisitions of subsidiaries from third and other related parties*

*Acquisitions in 2007*

In January 2007, the Group completed the acquisition of 84.8% of the share capital of ZAO Vtorchermet and its wholly-owned subsidiaries and certain related companies for a total consideration of US\$ 45.4 million. ZAO Vtorchermet is a scrap processing and wholesale company, and the majority of its operations are located in Saint Petersburg.

In March 2007, the Group purchased 100.0% of the share capital of Siderco SpA from the Lucchini family for € 1.4 million (US\$ 1.8 million at the transaction date exchange rate).

In May 2007, the Group completed the acquisition of a 100.0% stake in a stevedore company, ZAO Neva-Metall, for US\$ 98.7 million and 100.0% of the shipping agency ZAO Neva-Metall Trans for US\$ 1.3 million from a related party. The majority of their operations are located in Saint Petersburg.

In July 2007, the Group acquired a 100.0% stake in each of the companies OOO Georesurs, OOO Severstal-Vtormet, and OO SPB-Giproshakht for a total consideration of US\$ 2.1 million, US\$ 24.9 million, and US\$ 6.3 million, respectively.

In October 2007, the Group acquired a 100.0% stake in OOO Nerengri-Metallik and a 100.0% stake in ZAO Mine Aprelkovo for a total consideration of US\$ 105.0 million and US\$ 153.0 million, respectively. OOO Nerengri-Metallik mines gold from the Tabornoye deposit in the Sakha-Yakutiya Republic, ZAO Mine Aprelkovo mines from the Pogromnoye gold deposit in the Chita Region. Both deposits are operated as open-pit mines with gold extracted utilizing heap leaching technology.

The acquirees' profits since the acquisition dates included in the Group's profit for 2007, as well as the revenue and profit of the acquired entities from the beginning of the period to the dates of acquisition, individually and in the aggregate, are insignificant to the Group's revenue and profit for 2007.

During August—December 2007, the Group acquired an 86.3% stake in Celtic Resources Holdings Plc. for a total consideration of US\$ 264.6 million. Celtic Resources Holdings is a mining company based in Dublin, Ireland. CRH owns and operates gold mines, including the Suzdal Mine (JSC FIK Alel) and Zherek Mine (Zherek LLP) in Kazakhstan.

The acquirees' profit since the acquisition dates included in the Group's profit for 2007, is insignificant to the Group's profit for the period. The acquirees' revenue and profit from the beginning of the period to the dates of acquisition comprised US\$ 62.0 million and US\$ 7.0 million respectively.

*Acquisitions in 2008*

In January 2008, the Group acquired a 91.6% stake in OAO StalMag for a total consideration of US\$ 17.6 million. OAO StalMag is a ferroniobium producer whose production will be used by the Group's entities.

The acquiree's profit since the acquisition date included in the Group's profit for 2008, as well as the revenue and profit of the acquired entity from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for 2008.

In May 2008, the Group acquired a 100% stake in Severstal Sparrows Point, LLC ("Sparrows Point"), for a total consideration of US\$ 818 million, subject to certain adjustments of US\$ 48 million, resulting in a final consideration paid of US\$ 770 million. Sparrows Point is an integrated steel plant on the East Coast of USA with its own deep water port and rail connection to the main East Coast rail networks.

The acquiree's loss from the beginning of the period to the date of acquisition is insignificant to the Group's profit for 2008. The loss since the acquisition date included in the Group's profit for 2008 amounted to US\$ 130.8 million. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US\$ 766.1 million.



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In July 2008, the Group acquired a 100% stake in WCI Steel Inc. (re-named to Severstal Warren Inc.) for a total consideration of US\$ 443.1 million. WCI Steel Inc. operates a steel mill in Warren, Ohio, and is an integrated producer of flat-rolled steel products, including high carbon, alloy, ultra high strength, and heavy-gauge galvanized steel.

The acquiree's loss from the beginning of the period to the date of acquisition is insignificant to the Group's profit for 2008. The loss since the acquisition date included in the Group's profit for 2008 amounted to US\$ 41.7 million. In addition an impairment loss of US\$ 382.6 million has been recognized and was allocated to property, plant and equipment in the amount of US\$ 376.0 million and to goodwill in the amount of US\$ 6.6 million, as discussed in Note 8. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US\$ 498 million.

In July 2008, the Group acquired a 100% stake in Redaelli Tecna SpA for an approximate total consideration of € 35 million (US\$ 54.8 million at the transaction date exchange rate). Redaelli Tecna SpA is a manufacturer of high performance wire ropes for industrial hoisting, mining, cableways, material transportation, etc.

The acquiree's profit since the acquisition date included in the Group's profit for 2008, as well as the revenue and profit from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for 2008.

In August 2008, the Group acquired a 100% stake in Esmark (re-named to Severstal Wheeling Inc.) for a total consideration of US\$ 977.8 million. Esmark was a manufacturer and distributor of flat-rolled and other steel products in the United States. The Group acquired all of Esmark's business, including the remaining 50% stake in Mountain State Carbon LLC previously accounted for under the equity method.

The acquiree's profit from the beginning of the period to the date of acquisition comprised US\$ 29.6 million. The profit since the acquisition date included in the Group's profit for 2008 amounted to US\$ 166.9 million. In addition an impairment loss of US\$ 621.8 million has been recognized and was allocated to property, plant and equipment in the amount of US\$ 557.4 million and to goodwill in the amount of US\$ 64.4 million, as discussed in Note 8. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US\$ 1,629.0 million.

In August 2008, the Group acquired a 100% stake in Semgeo LLP, operating a gold mine Balazhal in East Kazakhstan for a total consideration of US\$ 38.9 million. Management determined that the fair value of the net identifiable assets and liabilities acquired was substantially the same as the book value.

The acquiree's profit since the acquisition date included in the Group's profit for 2008, as well as the revenue and profit from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for 2008.

In November 2008, the Group acquired a 100.0% stake in PBS Coals Ltd, a U.S. coal mining company, for a total cash consideration of US\$ 876.8 million.

The acquiree's profit from the beginning of the period to the date of acquisition comprised US\$ 8.4 million. The loss since the acquisition date included in the Group's profit for 2008 amounted to US\$ 4.1 million. In addition an impairment loss of US\$ 361.1 million has been recognized and was allocated fully to goodwill, as discussed in Note 8. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US\$ 184.9 million.

In November 2008, the Group acquired a 53.8% stake in High River Gold Mines Ltd. for a total cash consideration of US\$ 62.5 million. High River is a gold company with interests in producing mines, mines under development and advanced exploration projects in Burkina Faso and Russia. Two producing mines, Zun-Holba and Irokinda (OJSC "Buryatzoloto"), are situated in the Lake Baikal region of Russia. Two new open pit gold mines, Taparko-Bouroum (Societe Des Mines de Taparko) in Burkina Faso, and Berezitovy (Berezitovy Rudnik LLC) in Russia, were put into full production in 2008.



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The acquiree's loss from the beginning of the period to the date of acquisition comprised US\$ 38.9 million. The loss since the acquisition date included in the Group's profit for 2008 amounted to US\$ 5.8 million. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US\$ 177.0 million.

In December 2008, the Group acquired a 61.5% stake in African Iron Ore Group Ltd (re-named to Severstal Liberia Iron Ore Ltd) for a total cash consideration of US\$ 32.0 million. Severstal Liberia Iron Ore Ltd. is performing geological survey and exploration of the iron ore deposits in Putu Range, Liberia. Management determined that the fair value of the net identifiable assets and liabilities acquired was substantially the same as the book value.

The acquiree's profit since the acquisition date included in the Group's profit for 2008, as well as the revenue and profit from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for 2008.

A summary of assets and liabilities acquired from third and other related parties excluding acquisitions from the Majority Shareholder during 2008 and 2007 is presented below:

	<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Cash and cash equivalents . . . . .	180,048	26,480
Trade accounts receivable . . . . .	579,804	19,772
Inventories . . . . .	1,397,780	64,296
Deferred tax assets . . . . .	33,364	11,208
Property, plant and equipment . . . . .	2,668,092	185,054
Intangible assets . . . . .	740,236	474,509
Assets held for sale . . . . .	—	18,789
Other current assets . . . . .	147,887	76,162
Other non-current assets . . . . .	60,521	—
Trade accounts payable . . . . .	(585,642)	(16,213)
Other taxes and social security payable . . . . .	(2,929)	(5,466)
Deferred tax liabilities . . . . .	(384,180)	(122,484)
Retirement benefit liability . . . . .	(410,532)	—
Debt finance . . . . .	(579,822)	(63,223)
Other current liabilities . . . . .	(296,792)	(41,906)
Other non-current liabilities . . . . .	(271,639)	(16,715)
Net identifiable assets and liabilities acquired . . . . .	3,276,196	610,263
Non-controlling interests . . . . .	(152,821)	(45,662)
Severstal's share of net identifiable assets and liabilities acquired . . . . .	3,123,375	564,601
Investments in Mountain State Carbon at equity . . . . .	(112,809)	—
Fair value adjustment upon acquisition of subsidiary to previously held interest . . . . .	(33,020)	—
Consideration:		
Consideration in cash . . . . .	(3,255,971)	(669,759)
Consideration of other financial assets . . . . .	(17,600)	(33,321)
Consideration payable . . . . .	7,230	—
Positive goodwill on acquisition of subsidiaries . . . . .	(588,351)	(150,702)
Negative goodwill on acquisition of subsidiaries . . . . .	292,326	12,223
Net change in cash and cash equivalents . . . . .	(3,068,693)	(643,279)

Included in negative goodwill is US\$ 197 million which is the difference between the purchase price and fair market value of the acquired net assets of Sparrows Point LLC. This difference arose primarily due to Severstal's competitive position in negotiations based on exclusive USW's (United Steelworkers of America) support in bidding and time restrictions in the administered sales process.

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Also included in negative goodwill is US\$ 78 million which is the difference between the purchase price and fair value of the acquired consolidated net assets of High River Gold Mines Ltd. This difference arose primarily due to a lack of High River's and its prior shareholders' ability to service its debt.

***Final purchase price allocation***

During the year ended December 31, 2009, management completed the purchase price allocation of PBS Coals Limited, Redaelli Tecna S.p.A., High River Gold Mines Ltd acquired during July—December 2008. The effect of the final purchase price allocation on these consolidated financial statements is the following:

	<b>Increase/(decrease) compared to the provisional purchase price allocation at December 31, 2008 US\$, thousand</b>
Cash and cash equivalents . . . . .	(854)
Trade accounts receivable . . . . .	(392)
Inventories . . . . .	(6,668)
VAT recoverable . . . . .	703
Other current assets . . . . .	(375)
Long-term financial investments . . . . .	360
Investment in associates and joint ventures . . . . .	6,765
Property, plant and equipment . . . . .	(40,913)
Intangible assets . . . . .	56,172
Deferred tax assets . . . . .	19,049
Other non-current assets . . . . .	(108)
Trade accounts payable . . . . .	1,635
Short-term debt finance . . . . .	61,180
Income taxes payable . . . . .	(827)
Other taxes and social security payable . . . . .	2,323
Other current liabilities . . . . .	5,559
Long-term debt finance . . . . .	(50,779)
Deferred tax liabilities . . . . .	(12,948)
Other non-current liabilities . . . . .	28,671
Foreign exchange differences . . . . .	1,175
Retained earnings . . . . .	(7,063)
Other reserves . . . . .	9,104
Non-controlling interests . . . . .	(4,291)

The comparative information at December 31, 2008, has been restated as if the accounting for the business combination had been completed at the acquisition date.

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

In March 2007, the Group acquired a 2.01%, a 0.04%, and a 0.05% stake in OAO Karelsky Okatysh, OAO Olkon, and in OAO Vorkutaugol for a total consideration of US\$ 35.4 million, US\$ 0.1 million, and US\$ 0.4 million, respectively.

In May 2007, the Group acquired an additional 9.0% stake in Lucchini SpA from a Lucchini family company for a total consideration of € 85.2 million (US\$ 114.8 million at the transaction date exchange rate). After the acquisition, the Group's share in the capital of Lucchini SpA was 79.8%.

In May 2007, the Group completed the acquisition of a 100.0% stake in ZAO Severgal by acquiring the remaining 25.01% stake for a total consideration of US\$ 20 million.

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In June 2007, the Group acquired a 1.9%, a 0.6%, a 3.6%, a 1.2%, and a 1.0% stake in OAO Karelsky Okatysh, OAO Olkon, OAO Vorkutaugol, OAO Mine Vorgashorskaya, and in OAO Mine Berezovskaya for a total consideration of US\$ 23.5 million, US\$ 1.9 million, US\$ 29.3 million, US\$ 0.6 million, and US\$ 0.7 million, respectively.

In January 2008, the Group completed the acquisition of a 100% stake in Celtic Resources Holdings Plc. by acquiring the remaining 13.7% stake in the company for a total consideration of US\$ 44 million. Celtic Resources Holdings is a mining company based in Dublin, Ireland, which owns and operates gold mines, including the Suzdal Mine (JSC FIC Alel) and Zherek Mine (Zherek LLP) in Kazakhstan.

In April 2008, the Group acquired an additional 9.4% stake in Columbus from the former management and a 34.6% stake in OAO Dneprometiz from third parties for a total consideration of US\$ 40 million.

In August 2008, the Group acquired an additional 4.1% stake in Columbus from the former management for a total consideration of US\$ 16 million.

In August—September 2008, the Group acquired a 0.9% stake in OAO Vorkutaugol for a total consideration of US\$ 5.3 million.

In August—October 2008, the Group completed the acquisition of 100% stakes in OAO Karelsky Okatysh, OAO Olkon and in OAO Severstal-Metiz by acquiring the remaining 5.2%, 7.3% and 3.0% stakes in entities for a total consideration of US\$ 70.6 million, US\$ 32.7 million and US\$ 9.7 million, respectively.

In June 2009, the Group acquired all newly issued shares in High River Gold Mines, Ltd. resulting in a 3.5% stake increase. Furthermore, in August 2009, the Group acquired an additional 4.5% stake in High River Gold Mines, Ltd. from non-controlling shareholders for a total consideration of US\$ 8 million.

In June 2009, the Group completed the acquisition of a 100% stake in Columbus by acquiring the remaining 8.2% stake in the company from the former management for a total consideration of US\$ 14.9 million.

***Disposals of subsidiaries***

In June 2007, the Group sold 100.0% (effective ownership was 79.8%) of Lucchini Sidermeccanica SpA and its wholly owned subsidiaries (Lucchini UK Ltd, Lucchini Sweden AB and Lucchini Poland Spzoo) to members of the founding Lucchini family for a total consideration of € 127.8 million (US\$ 172.5 million at the transaction date exchange rate).

In July 2007, the Group sold 100.0% (effective ownership was 79.8%) of Nitruvid SAS to a third-party for a total consideration of € 6.5 million (US\$ 8.9 million at the transaction date exchange rate).

In October 2007, the Group sold 100.0% (effective ownership was 79.8%) participation in Ascoforge Safe SAS to a third-party for a total consideration of one Euro (US\$ 1.3 at the transaction date exchange rate).

In November 2007, the Group sold its 73.1% participation in OAO Metallurgical Commercial Bank to a company controlled by Severstal's Majority Shareholder for a total consideration of US\$ 43.0 million.

In December 2007, the Group sold 100.0% of OOO URALMASH-Metallurgicheskoe Oborudovanie to a third-party for a total consideration of US\$ 14.9 million.

As part of the realization of the disposal plan identified in 2003, in August, 2005 the Group sold its interest in Huta LW Spzoo and its subsidiaries to Arcelor. The proceeds comprised an immediate cash payment and a deferred consideration of € 61.4 million (US\$ 73.0 million at December 31, 2005 exchange rate). In August 2007, the Group received a payment in the amount of US\$ 83.8 million.

In February 2008, the Group sold 100.0% of OOO Georesurs to a third-party for a total consideration of RUR 100,000 (US\$ 4 thousands at the transaction date exchange rate).

In April 2008, the Group sold its 97.9%, 99.5% and 100.0% participation in OAO Mine Berezovskaya, OAO Mine Pervomaiskaya and ZAO Zhernovskaya-3 respectively to ArcelorMittal for a total consideration of US\$ 652 million.

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In June 2008, the Group sold its 100% and 40.0% participation in Relco Spzoo and Coimpex Spzoo respectively for a total consideration of € 12 million (US\$ 18 million at the transaction date exchange rate).

In December 2008, the Group sold its 59.4% participation in OA0 Metallurgremont to a company controlled by Severstal's Majority Shareholder for a total consideration of RUR 75.9 million (US\$ 2.7 million at the transaction date exchange rate).

A summary of assets and liabilities disposed during 2008 and 2007 is presented below:

	<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Cash and cash equivalents . . . . .	(1,498)	(235,220)
Trade accounts receivable . . . . .	(3,885)	(151,658)
Inventories . . . . .	(7,725)	(108,238)
Financial investments . . . . .	(551)	(237,408)
Other assets . . . . .	(13,470)	(30,537)
Property, plant and equipment . . . . .	(7,699)	(158,890)
Intangible assets . . . . .	(3,621)	(3,105)
Deferred tax assets . . . . .	—	(759)
Assets held for sale . . . . .	(443,021)	—
Trade accounts payable . . . . .	4,833	205,171
Bank customer accounts . . . . .	—	345,753
Income tax payable . . . . .	—	9,375
Other taxes and social security payable . . . . .	945	13,369
Deferred tax liabilities . . . . .	27	9,250
Retirement benefit liability . . . . .	1,117	23,490
Debt finance . . . . .	3,150	66,108
Liabilities held for sale . . . . .	88,942	—
Other liabilities . . . . .	21,634	30,743
Net identifiable assets . . . . .	(360,822)	(222,556)
Non-controlling interests . . . . .	2,042	16,315
Sub-total . . . . .	(358,780)	(206,241)
Consideration in cash . . . . .	673,215	239,308
Selling costs . . . . .	—	(1,560)
Net gain on disposal . . . . .	314,435	31,507
Deferred consideration received . . . . .	—	83,842
Group's cash and cash equivalents in Metcombank . . . . .	—	149,608
Net change in cash and cash equivalents . . . . .	671,717	235,978

***Dilution of Group ownership***

In December 2009, Group's share in High River Gold Mines Ltd decreased from 61.7% to 50.1% as a result of a private placement of 150 million common shares to a third-party for a total consideration of US\$ 54.3 million.

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**30. Segment information**

Segmental statements of financial position as at December 31, 2009:

	<u>Severstal Resource</u>	<u>Russian Steel</u>	<u>Lucchini</u>	<u>Severstal North America</u>	<u>Inter segment balances</u>	<u>Consolidated</u>
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents . . . . .	126,550	2,063,808	473,765	189,253	—	2,853,376
Short-term bank deposits . . . . .	136	89,597	—	5,800	—	95,533
Short-term financial investments . . . . .	19,318	315,927	567	—	(262,683)	73,129
Trade accounts receivable . . . . .	80,993	670,978	411,831	293,849	—	1,457,651
Amounts receivable from related parties . . .	84,284	28,875	3,726	3,063	(93,232)	26,716
Inventories . . . . .	258,952	1,129,755	600,883	996,344	(11,707)	2,974,227
VAT recoverable . . . . .	52,179	172,336	63,517	—	—	288,032
Income tax recoverable . . . . .	9,491	18,440	5,594	72,494	—	106,019
Other current assets . . . . .	57,588	127,102	18,180	82,583	—	285,453
Assets held for sale . . . . .	—	23,115	—	1,300	—	24,415
<b>Total current assets . . . . .</b>	<u>689,491</u>	<u>4,639,933</u>	<u>1,578,063</u>	<u>1,644,686</u>	<u>(367,622)</u>	<u>8,184,551</u>
<b>Non-current assets:</b>						
Long-term financial investments . . . . .	70,830	5,942,956	8,438	11,752	(5,905,360)	128,616
Investment in associates and joint ventures . .	6,572	48,738	2,164	86,383	—	143,857
Property, plant and equipment . . . . .	1,379,835	3,391,735	1,481,522	3,262,165	(29,777)	9,485,480
Intangible assets . . . . .	1,109,294	113,576	37,197	109,137	—	1,369,204
Restricted cash . . . . .	17,541	—	—	—	—	17,541
Deferred tax assets . . . . .	30,321	45,563	73,951	90,000	—	239,835
Other non-current assets . . . . .	1,272	24,072	3,932	45,526	—	74,802
<b>Total non-current assets . . . . .</b>	<u>2,615,665</u>	<u>9,566,640</u>	<u>1,607,204</u>	<u>3,604,963</u>	<u>(5,935,137)</u>	<u>11,459,335</u>
<b>Total assets . . . . .</b>	<u>3,305,156</u>	<u>14,206,573</u>	<u>3,185,267</u>	<u>5,249,649</u>	<u>(6,302,759)</u>	<u>19,643,886</u>
<b>Liabilities</b>						
<b>Current liabilities:</b>						
Trade accounts payable . . . . .	116,088	326,088	423,598	512,526	—	1,378,300
Amounts payable to related parties . . . . .	7,355	92,792	233	9,756	(93,480)	16,656
Short-term debt finance . . . . .	240,224	648,419	156,672	560,015	(127,029)	1,478,301
Income taxes payable . . . . .	2,603	25,454	4,786	1,307	—	34,150
Other taxes and social security payable . . . .	56,116	75,490	57,004	20,474	—	209,084
Dividends payable . . . . .	32	5,672	—	—	—	5,704
Other current liabilities . . . . .	106,984	258,123	126,880	201,857	—	693,844
Liabilities related to assets held for sale . . .	—	11,979	—	—	—	11,979
<b>Total current liabilities . . . . .</b>	<u>529,402</u>	<u>1,444,017</u>	<u>769,173</u>	<u>1,305,935</u>	<u>(220,509)</u>	<u>3,828,018</u>
<b>Non-current liabilities:</b>						
Long-term debt finance . . . . .	674,419	4,198,250	1,009,304	1,097,674	(1,231,088)	5,748,559
Deferred tax liabilities . . . . .	251,004	143,053	3,143	—	(2,210)	394,990
Retirement benefit liabilities . . . . .	24,572	122,679	127,165	513,298	—	787,714
Other non-current liabilities . . . . .	187,625	25,242	75,910	219,489	—	508,266
<b>Total non-current liabilities . . . . .</b>	<u>1,137,620</u>	<u>4,489,224</u>	<u>1,215,522</u>	<u>1,830,461</u>	<u>(1,233,298)</u>	<u>7,439,529</u>
<b>Equity . . . . .</b>	<u>1,638,134</u>	<u>8,273,332</u>	<u>1,200,572</u>	<u>2,113,253</u>	<u>(4,848,952)</u>	<u>8,376,339</u>
<b>Total equity and liabilities . . . . .</b>	<u>3,305,156</u>	<u>14,206,573</u>	<u>3,185,267</u>	<u>5,249,649</u>	<u>(6,302,759)</u>	<u>19,643,886</u>

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Segmental statements of financial position as at December 31, 2008:

	<u>Severstal Resource</u>	<u>Russian Steel</u>	<u>Lucchini</u>	<u>Severstal North America</u>	<u>Inter segment balances</u>	<u>Conso- lidated</u>
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents . . . . .	151,122	1,543,215	663,171	295,380	—	2,652,888
Short-term bank deposits . . . . .	147	812,598	—	5,800	—	818,545
Short-term financial investments . . . . .	4,476	260,303	6,163	—	(158,160)	112,782
Trade accounts receivable . . . . .	89,221	809,718	695,522	347,415	—	1,941,876
Amounts receivable from related parties . . . . .	62,978	70,190	8,286	7,041	(84,664)	63,831
Inventories . . . . .	261,145	1,436,198	893,736	1,696,077	(15,270)	4,271,886
VAT recoverable . . . . .	51,336	233,164	77,042	—	—	361,542
Income tax recoverable . . . . .	16,489	137,558	7,508	11,392	—	172,947
Other current assets . . . . .	45,154	132,463	19,099	82,991	—	279,707
Assets held for sale . . . . .	—	8,872	—	—	—	8,872
<b>Total current assets . . . . .</b>	<u>682,068</u>	<u>5,444,279</u>	<u>2,370,527</u>	<u>2,446,096</u>	<u>(258,094)</u>	<u>10,684,876</u>
<b>Non-current assets:</b>						
Long-term financial investments . . . . .	27,401	5,010,356	10,993	—	(4,978,408)	70,342
Investment in associates and joint ventures . . . . .	6,765	10,223	2,112	91,807	—	110,907
Property, plant and equipment . . . . .	1,467,180	3,475,931	1,597,947	3,313,302	(26,968)	9,827,392
Intangible assets . . . . .	1,237,963	114,121	25,744	132,830	—	1,510,658
Restricted cash . . . . .	12,734	—	—	8,969	—	21,703
Deferred tax assets . . . . .	44,802	25,837	29,369	146,533	—	246,541
Other non-current assets . . . . .	(41)	18,444	3,521	19,583	—	41,507
<b>Total non-current assets . . . . .</b>	<u>2,796,804</u>	<u>8,654,912</u>	<u>1,669,686</u>	<u>3,713,024</u>	<u>(5,005,376)</u>	<u>11,829,050</u>
<b>Total assets . . . . .</b>	<u>3,478,872</u>	<u>14,099,191</u>	<u>4,040,213</u>	<u>6,159,120</u>	<u>(5,263,470)</u>	<u>22,513,926</u>
<b>Liabilities</b>						
<b>Current liabilities:</b>						
Trade accounts payable . . . . .	126,672	365,282	529,653	506,846	—	1,528,453
Amounts payable to related parties . . . . .	3,921	132,194	4,875	16,120	(85,150)	71,960
Short-term debt finance . . . . .	288,693	1,221,740	247,014	438,663	(157,417)	2,038,693
Income taxes payable . . . . .	12,121	9,656	24,354	—	—	46,131
Other taxes and social security payable . . . . .	58,272	63,838	74,890	16,315	—	213,315
Dividends payable . . . . .	33	128,682	—	—	—	128,715
Other current liabilities . . . . .	96,856	279,925	141,279	293,118	—	811,178
Liabilities related to assets held for sale . . . . .	—	4	—	—	—	4
<b>Total current liabilities . . . . .</b>	<u>586,568</u>	<u>2,201,321</u>	<u>1,022,065</u>	<u>1,271,062</u>	<u>(242,567)</u>	<u>4,838,449</u>
<b>Non-current liabilities:</b>						
Long-term debt finance . . . . .	801,189	3,900,255	1,069,548	1,452,437	(996,204)	6,227,225
Deferred tax liabilities . . . . .	320,404	103,856	75,514	—	(3,395)	496,379
Retirement benefit liabilities . . . . .	50,504	122,959	132,246	473,587	—	779,296
Other non-current liabilities . . . . .	182,436	8,029	125,543	303,953	—	619,961
<b>Total non-current liabilities . . . . .</b>	<u>1,354,533</u>	<u>4,135,099</u>	<u>1,402,851</u>	<u>2,229,977</u>	<u>(999,599)</u>	<u>8,122,861</u>
<b>Equity . . . . .</b>	<u>1,537,771</u>	<u>7,762,771</u>	<u>1,615,297</u>	<u>2,658,081</u>	<u>(4,021,304)</u>	<u>9,552,616</u>
<b>Total equity and liabilities . . . . .</b>	<u>3,478,872</u>	<u>14,099,191</u>	<u>4,040,213</u>	<u>6,159,120</u>	<u>(5,263,470)</u>	<u>22,513,926</u>



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Segmental statements of financial position as at December 31, 2007:

	<u>Severstal Resource</u>	<u>Russian Steel</u>	<u>Lucchini</u>	<u>Severstal North America</u>	<u>Inter segment balances</u>	<u>Consolidated</u>
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents . . . . .	142,063	899,774	507,714	72,991	—	1,622,542
Short-term bank deposits . . . . .	350	665,977	—	—	—	666,327
Short-term financial investments . . . . .	126,403	689,422	23,127	—	(623,458)	215,494
Trade accounts receivable . . . . .	57,383	745,196	813,534	152,925	—	1,769,038
Amounts receivable from related parties . . . . .	91,523	53,136	2,836	2,831	(103,133)	47,193
Inventories . . . . .	162,682	1,393,250	694,939	530,016	(60,253)	2,720,634
VAT recoverable . . . . .	36,643	215,095	32,384	—	—	284,122
Income tax recoverable . . . . .	17,066	40,148	12,245	12,504	—	81,963
Other current assets . . . . .	57,958	202,441	35,169	23,393	—	318,961
Assets held for sale . . . . .	440,686	6,937	17,718	—	—	465,341
<b>Total current assets . . . . .</b>	<u>1,132,757</u>	<u>4,911,376</u>	<u>2,139,666</u>	<u>794,660</u>	<u>(786,844)</u>	<u>8,191,615</u>
<b>Non-current assets:</b>						
Long-term financial investments . . . . .	2,772	2,167,879	21,656	—	(2,079,348)	112,959
Investment in associates and joint ventures . . . . .	—	7,530	1,278	194,179	—	202,987
Property, plant and equipment . . . . .	1,319,991	3,946,484	1,495,614	1,551,552	(24,525)	8,289,116
Intangible assets . . . . .	526,378	135,159	19,045	6,485	—	687,067
Restricted cash . . . . .	—	—	—	13,810	—	13,810
Deferred tax assets . . . . .	16,048	10,194	37,943	—	—	64,185
Other non-current assets . . . . .	1,008	17,418	2,948	17,710	—	39,084
<b>Total non-current assets . . . . .</b>	<u>1,866,197</u>	<u>6,284,664</u>	<u>1,578,484</u>	<u>1,783,736</u>	<u>(2,103,873)</u>	<u>9,409,208</u>
<b>Total assets . . . . .</b>	<u>2,998,954</u>	<u>11,196,040</u>	<u>3,718,150</u>	<u>2,578,396</u>	<u>(2,890,717)</u>	<u>17,600,823</u>
<b>Liabilities</b>						
<b>Current liabilities:</b>						
Trade accounts payable . . . . .	52,242	246,018	610,982	302,131	—	1,211,373
Amounts payable to related parties . . . . .	2,788	172,935	5,766	18,395	(108,337)	91,547
Short-term debt finance . . . . .	707,900	645,518	328,391	16,293	(568,886)	1,129,216
Income taxes payable . . . . .	8,729	17,529	15,065	—	—	41,323
Other taxes and social security payable . . . . .	57,798	52,818	87,071	1,662	—	199,349
Dividends payable . . . . .	—	107,485	—	—	—	107,485
Other current liabilities . . . . .	79,440	379,901	130,020	30,379	629	620,369
Liabilities related to assets held for sale . . . . .	91,599	—	151	—	—	91,750
<b>Total current liabilities . . . . .</b>	<u>1,000,496</u>	<u>1,622,204</u>	<u>1,177,446</u>	<u>368,860</u>	<u>(676,594)</u>	<u>3,492,412</u>
<b>Non-current liabilities:</b>						
Long-term debt finance . . . . .	391,878	1,139,557	650,105	843,495	(211,869)	2,813,166
Deferred tax liabilities . . . . .	160,629	215,459	85,194	60,843	(12,716)	509,409
Retirement benefit liabilities . . . . .	71,821	128,472	138,504	48,601	—	387,398
Other non-current liabilities . . . . .	140,319	1,674	79,471	103,188	—	324,652
<b>Total non-current liabilities . . . . .</b>	<u>764,647</u>	<u>1,485,162</u>	<u>953,274</u>	<u>1,056,127</u>	<u>(224,585)</u>	<u>4,034,625</u>
<b>Equity . . . . .</b>	<u>1,233,811</u>	<u>8,088,674</u>	<u>1,587,430</u>	<u>1,153,409</u>	<u>(1,989,538)</u>	<u>10,073,786</u>
<b>Total equity and liabilities . . . . .</b>	<u>2,998,954</u>	<u>11,196,040</u>	<u>3,718,150</u>	<u>2,578,396</u>	<u>(2,890,717)</u>	<u>17,600,823</u>

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Segmental income statements for the year ended December 31, 2009:

	<b>Severstal Resource</b>	<b>Russian Steel</b>	<b>Lucchini</b>	<b>Severstal North America</b>	<b>Inter segment transactions</b>	<b>Consolidated</b>
<b>Sales</b>						
Sales—external . . . . .	1,146,856	6,081,434	1,750,029	3,973,350	—	12,951,669
Sales—to related parties . . . . .	723,931	97,706	7,105	49,712	(775,624)	102,830
	<u>1,870,787</u>	<u>6,179,140</u>	<u>1,757,134</u>	<u>4,023,062</u>	<u>(775,624)</u>	<u>13,054,499</u>
<b>Cost of sales</b> . . . . .	<u>(1,405,604)</u>	<u>(4,081,420)</u>	<u>(1,948,050)</u>	<u>(4,697,487)</u>	<u>776,268</u>	<u>(11,356,293)</u>
<b>Gross profit/(loss)</b> . . . . .	465,183	2,097,720	(190,916)	(674,425)	644	1,698,206
General and administrative expenses . . .	(107,560)	(340,902)	(128,195)	(162,106)	3,202	(735,561)
Distribution expenses . . . . .	(141,936)	(638,735)	(72,720)	(13,470)	2,636	(864,225)
Other taxes and contributions . . . . .	(85,827)	(64,011)	(13,573)	(8,190)	—	(171,601)
Share of associates' (loss)/profit . . . . .	(2)	5,084	(372)	6,778	—	11,488
Net (loss)/gain from securities operations	(2,045)	3,592	(3,144)	—	(13,707)	(15,304)
(Loss)/gain on disposal of property, plant and equipment . . . . .	(19,955)	(10,906)	(1,159)	40	(21)	(32,001)
Net other operating (expenses)/income . .	(16,755)	(16,114)	48,136	(48,929)	(2,667)	(36,329)
<b>Profit/(loss) from operations</b> . . . . .	91,103	1,035,728	(361,943)	(900,302)	(9,913)	(145,327)
Impairment of non-current assets . . . . .	(48,691)	(39,364)	(104,489)	(26,475)	—	(219,019)
Net other non-operating expenses . . . . .	(7,978)	(26,591)	(2,651)	—	2,779	(34,441)
<b>Profit/(loss) before financing and taxation</b> .	34,434	969,773	(469,083)	(926,777)	(7,134)	(398,787)
Interest income . . . . .	1,259	303,507	8,342	4,547	(213,833)	103,822
Interest expense . . . . .	(226,492)	(346,705)	(61,710)	(177,592)	211,255	(601,244)
Foreign exchange difference . . . . .	(52,047)	(152,324)	(657)	—	—	(205,028)
<b>(Loss)/profit before income tax</b> . . . . .	(242,846)	774,251	(523,108)	(1,099,822)	(9,712)	(1,101,237)
Income tax benefit/(expense) . . . . .	25,896	(169,672)	111,603	15,501	(1,186)	(17,858)
<b>(Loss)/profit from continuing operations</b> . .	(216,950)	604,579	(411,505)	(1,084,321)	(10,898)	(1,119,095)
<b>(Loss)/profit for the year</b> . . . . .	<u>(216,950)</u>	<u>604,579</u>	<u>(411,505)</u>	<u>(1,084,321)</u>	<u>(10,898)</u>	<u>(1,119,095)</u>
<b>Additional information:</b>						
depreciation and amortization expense . .	282,506	272,726	158,002	246,113	(2,183)	957,164
capital expenditures . . . . .	242,325	368,627	133,247	238,476	(4,992)	977,683
intersegment sales (incl. in sales to related parties) . . . . .	723,925	44,595	7,105	(1)	(775,624)	—

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Segmental income statements for the year ended December 31, 2008:

	<b>Severstal Resource</b>	<b>Russian Steel</b>	<b>Lucchini</b>	<b>Severstal North America</b>	<b>Inter segment transactions</b>	<b>Consolidated</b>
<b>Sales</b>						
Sales—external . . . . .	1,069,261	11,850,733	3,975,893	5,242,531	—	22,138,418
Sales—to related parties . . . . .	1,383,443	213,051	13,599	76,912	(1,432,706)	254,299
	<u>2,452,704</u>	<u>12,063,784</u>	<u>3,989,492</u>	<u>5,319,443</u>	<u>(1,432,706)</u>	<u>22,392,717</u>
<b>Cost of sales</b> . . . . .	<u>(1,376,371)</u>	<u>(7,388,040)</u>	<u>(3,372,444)</u>	<u>(5,841,559)</u>	<u>1,478,500</u>	<u>(16,499,914)</u>
<b>Gross profit/(loss)</b> . . . . .	1,076,333	4,675,744	617,048	(522,116)	45,794	5,892,803
General and administrative expenses . . .	(173,906)	(506,222)	(176,477)	(173,810)	3,625	(1,026,790)
Distribution expenses . . . . .	(180,911)	(798,564)	(122,044)	(16,401)	144	(1,117,776)
Other taxes and contributions . . . . .	(78,850)	(74,221)	(25,815)	—	—	(178,886)
Share of associates' profit/(loss) . . . . .	—	3,632	(713)	(6,319)	—	(3,400)
Net gain/(loss) from securities operations	2,548	(82,223)	3,064	—	(20,201)	(96,812)
(Loss)/gain on disposal of property, plant and equipment . . . . .	(7,608)	(29,836)	484	(6,453)	135	(43,278)
Net other operating (expenses)/income . .	<u>(31,906)</u>	<u>(10,165)</u>	<u>(27,283)</u>	<u>870,443</u>	<u>(10,509)</u>	<u>790,580</u>
<b>Profit from operations</b> . . . . .	605,700	3,178,145	268,264	145,344	18,988	4,216,441
Impairment of non-current assets . . . . .	(489,874)	(42,101)	(3,870)	(1,004,418)	—	(1,540,263)
Negative goodwill . . . . .	79,862	—	—	212,464	—	292,326
Net other non-operating income/ (expenses) . . . . .	<u>293,797</u>	<u>(59,504)</u>	<u>—</u>	<u>—</u>	<u>4,652</u>	<u>238,945</u>
<b>Profit/(loss) before financing and taxation</b> .	489,485	3,076,540	264,394	(646,610)	23,640	3,207,449
Interest income . . . . .	16,318	187,104	25,244	6,287	(79,721)	155,232
Interest expense . . . . .	(105,084)	(282,058)	(73,046)	(122,900)	74,719	(508,369)
Foreign exchange difference . . . . .	<u>97,073</u>	<u>(359,847)</u>	<u>(12,151)</u>	<u>5</u>	<u>—</u>	<u>(274,920)</u>
<b>Profit/(loss) before income tax</b> . . . . .	497,792	2,621,739	204,441	(763,218)	18,638	2,579,392
Income tax (expense)/benefit . . . . .	<u>(183,557)</u>	<u>(642,141)</u>	<u>(72,634)</u>	<u>390,211</u>	<u>(9,345)</u>	<u>(517,466)</u>
<b>Profit/(loss) from continuing operations</b> . .	314,235	1,979,598	131,807	(373,007)	9,293	2,061,926
Profit from discontinued operations . . . .	<u>—</u>	<u>—</u>	<u>4,652</u>	<u>—</u>	<u>(4,652)</u>	<u>—</u>
<b>Profit/(loss) for the year</b> . . . . .	<u>314,235</u>	<u>1,979,598</u>	<u>136,459</u>	<u>(373,007)</u>	<u>4,641</u>	<u>2,061,926</u>
Additional information:						
depreciation and amortization expense . .	232,943	467,129	162,056	225,293	—	1,087,421
capital expenditures . . . . .	413,074	709,199	337,828	693,926	(3,289)	2,150,738
intersegment sales (incl. in sales to related parties) . . . . .	1,379,629	39,478	13,599	—	(1,432,706)	—

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Segmental income statements for the year ended December 31, 2007:

	Severstal Resource	Russian Steel	Lucchini	Severstal North America	Financing segment	Inter segment transactions	Consolidated
<b>Sales</b>							
Sales—external . . . . .	732,620	9,189,481	3,624,913	1,805,390	—	—	15,352,404
Sales—to related parties . . . . .	1,116,448	155,100	131,595	53	—	(1,252,212)	150,984
	1,849,068	9,344,581	3,756,508	1,805,443	—	(1,252,212)	15,503,388
<b>Cost of sales</b> . . . . .	(1,182,055)	(5,781,511)	(3,194,377)	(1,848,282)	—	1,184,643	(10,821,582)
<b>Gross profit/(loss)</b> . . . . .	667,013	3,563,070	562,131	(42,839)	—	(67,569)	4,681,806
General and administrative expenses . . .	(136,810)	(373,590)	(188,016)	(70,808)	—	2,334	(766,890)
Distribution expenses . . . . .	(163,673)	(662,175)	(117,998)	(2,152)	—	3,465	(942,533)
Other taxes and contributions . . . . .	(64,617)	(57,265)	(32,188)	—	—	—	(154,070)
Share of associates' profit/(loss) . . . . .	—	1,450	(548)	5,338	—	—	6,240
Net gain from securities operations . . .	33	21,186	10,827	—	—	(6,482)	25,564
Loss on disposal of property, plant and equipment . . . . .	(12,118)	(19,928)	(508)	(3,485)	—	514	(35,525)
Net other operating (expenses)/income .	(7,833)	14,786	(17,343)	2,556	—	568	(7,266)
<b>Profit/(loss) from operations</b> . . . . .	281,995	2,487,534	216,357	(111,390)	—	(67,170)	2,807,326
Impairment of non-current assets . . . .	(3,059)	(9,941)	(15,895)	—	—	—	(28,895)
Negative goodwill . . . . .	—	117	507	—	—	11,599	12,223
Net other non-operating (expenses)/ income . . . . .	(20,492)	(42,240)	24,374	—	—	(20,318)	(58,676)
<b>Profit/(loss) before financing and taxation</b>	258,444	2,435,470	225,343	(111,390)	—	(75,889)	2,731,978
Interest income . . . . .	14,530	170,041	21,978	4,811	—	(44,721)	166,639
Interest expense . . . . .	(69,026)	(163,720)	(72,793)	(37,500)	—	17,459	(325,580)
Foreign exchange difference . . . . .	(3,089)	6,551	(535)	(5)	—	284	3,206
<b>Profit/(loss) before income tax</b> . . . . .	200,859	2,448,342	173,993	(144,084)	—	(102,867)	2,576,243
Income tax (expense)/benefit . . . . .	(47,050)	(610,480)	(64,808)	9,470	—	12,715	(700,153)
<b>Profit/(loss) from continuing operations</b> . .	153,809	1,837,862	109,185	(134,614)	—	(90,152)	1,876,090
(Loss)/profit from discontinued operations . . . . .	—	—	(15,660)	—	16,093	—	433
<b>Profit/(loss) for the year</b> . . . . .	153,809	1,837,862	93,525	(134,614)	16,093	(90,152)	1,876,523
<b>Additional information:</b>							
depreciation and amortization expense .	207,093	382,473	199,155	57,541	—	—	846,262
capital expenditures . . . . .	384,281	566,635	199,267	977,948	—	—	2,128,131
intersegment sales (incl. in sales to related parties) . . . . .	1,098,011	22,606	131,595	—	—	(1,252,212)	—

The following is a summary of non-current assets other than financial instruments and deferred tax assets by location:

	December 31,		
	2009	2008	2007
Russian Federation . . . . .	4,830,744	4,960,427	5,545,850
North America . . . . .	3,978,452	4,139,364	1,565,702
Europe . . . . .	1,618,873	1,775,158	1,637,308
Africa . . . . .	262,206	246,720	—
The Middle East . . . . .	256,752	279,591	280,217
	10,947,027	11,401,260	9,029,077

The locations are primarily represented by the following countries: Italy and France in Europe, the USA in North America, Burkina Faso in Africa, and Kazakhstan in the Middle East.

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**31. 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 Resource 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 Russian Steel, Severstal North America and Lucchini segments of derivatives to hedge their interest rates, commodity inputs and foreign exchange rate exposures were not material to these consolidated financial statements.

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

<b>December 31, 2009</b>			
	<u>Market value</u>	<u>Book value</u>	<u>Difference</u>
Ruble bonds . . . . .	518,331	495,963	22,368
Eurobonds 2013 . . . . .	1,265,663	1,250,000	15,663
Eurobonds 2014 . . . . .	377,858	375,000	2,858
	<u>2,161,852</u>	<u>2,120,963</u>	<u>40,889</u>

<b>December 31, 2008</b>			
	<u>Market value</u>	<u>Book value</u>	<u>Difference</u>
Eurobonds 2009 . . . . .	325,858	325,000	858
Eurobonds 2013 . . . . .	689,584	1,250,000	(560,416)
Eurobonds 2014 . . . . .	197,048	375,000	(177,952)
Bank financing . . . . .	5,448,072	5,809,349	(361,277)
	<u>6,660,562</u>	<u>7,759,349</u>	<u>(1,098,787)</u>

<b>December 31, 2007</b>			
	<u>Market value</u>	<u>Book value</u>	<u>Difference</u>
Eurobonds 2009 . . . . .	330,513	325,000	5,513
Eurobonds 2014 . . . . .	398,781	375,000	23,781
	<u>729,294</u>	<u>700,000</u>	<u>29,294</u>

The above amounts exclude accrued interest.

The market value of the Group's Eurobonds was determined based on London Stock Exchange quotations. The market value of the Group's Ruble bonds was determined based on Moscow Interbank Currency Exchange.

***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 (see note 32e). The Group has developed policies and procedures for the management of credit exposures, including the establishment of credit committees that actively monitors credit risk.

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

	December 31,		
	2009	2008	2007
Cash and cash equivalents . . . . .	2,853,376	2,652,888	1,622,542
Loans and receivables . . . . .	1,653,386	2,158,186	1,982,931
Held-to-maturity securities and deposits . . . . .	125,351	829,729	729,086
Available-for-sale financial assets . . . . .	89,345	55,212	23,266
Held-for-trading securities . . . . .	25,505	72,471	156,308
Restricted cash . . . . .	17,541	21,703	13,810
	<u>4,764,504</u>	<u>5,790,189</u>	<u>4,527,943</u>

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

	December 31,		
	2009	2008	2007
Europe . . . . .	568,448	878,778	981,178
Russian Federation . . . . .	404,500	601,362	520,922
North America . . . . .	324,492	395,736	173,021
China and Central Asia . . . . .	99,159	32,564	19,018
Africa . . . . .	28,062	24,178	34,343
The Middle East . . . . .	25,943	27,040	38,397
Central and South America . . . . .	16,065	7,879	1,604
South-East Asia . . . . .	9,245	3,353	13,214
	<u>1,475,914</u>	<u>1,970,890</u>	<u>1,781,697</u>

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

	December 31,		
	2009	2008	2007
Industrial consumers . . . . .	1,253,325	1,633,117	1,442,890
Wholesale customers . . . . .	159,040	296,016	294,720
Retail customers . . . . .	39,956	5,813	1,289
Other customers . . . . .	23,593	35,944	42,798
	<u>1,475,914</u>	<u>1,970,890</u>	<u>1,781,697</u>

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.



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***Impairment losses***

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

	December 31,					
	2009		2008		2007	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
Not past due . . . . .	1,178,117	(6,432)	1,302,128	(2,238)	1,070,031	(2,731)
Past due 0-30 days . . . . .	143,154	(484)	376,301	(2,854)	549,362	(4,758)
Past due 31-90 days . . . . .	55,568	(3,023)	247,305	(36,976)	131,164	(3,507)
Past due 91-180 days . . . . .	89,670	(3,118)	84,930	(12,650)	34,701	(20,908)
Past due 180-365 days . . . . .	30,394	(19,284)	11,310	(2,275)	13,844	(1,811)
More than one year . . . . .	64,660	(53,308)	50,280	(44,371)	29,565	(13,255)
	<u>1,561,563</u>	<u>(85,649)</u>	<u>2,072,254</u>	<u>(101,364)</u>	<u>1,828,667</u>	<u>(46,970)</u>

The impairment allowance at December 31, 2009 included the impairment allowance in respect of trade receivables from related parties for the total amount of US\$ 2 million (December 31, 2008: US\$ 10.8 million; December 31, 2007: US\$ 9.2 million).

At December 31, 2009 trade receivables included accounts in the amount of US\$ 4.5 million (December 31, 2008: US\$ 170.2 million; December 31, 2007: nil) whose terms of settlements were renegotiated during 2009. Management of the Group believes that receivables will be repaid in full, thus no impairment loss was recognized as at December 31, 2009.

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,		
	2009	2008	2007
Balance at 1 January . . . . .	(101,364)	(46,970)	(35,222)
Impairment loss recognised . . . . .	(36,333)	(72,802)	(15,033)
Impairment loss reversed . . . . .	51,023	23,654	1,352
Foreign exchange difference . . . . .	1,025	(5,246)	1,933
Balance at 31 December . . . . .	<u>(85,649)</u>	<u>(101,364)</u>	<u>(46,970)</u>

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

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

No impairment allowance was recognized by the Group in respect of other financial assets.

***Concentration of credit risk***

The Group has a concentration of cash and short-term bank deposits with a related party commercial bank that at December 31, 2009 represented US\$ 306.9 million (December 31, 2008: US\$ 384.0 million, December 31, 2007: US\$ 258.9 million) of total cash and bank deposit balance. The Group has a concentration of cash and short-term bank deposits with bank AB Russia and OAO Bank VTB that at December 31, 2009 represented US\$ 363 million and US\$ 454.7 million accordingly. The Group has a concentration of cash and short-term bank deposits with bank AB Russia that at December 31, 2008 represented US\$ 449 million.

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The Group has a concentration of short-term loans with a related party commercial bank that at December 31, 2009 represented US\$ 10.6 million and with Titan Service Limited that at December 31, 2009 represented US\$ 10 million. The Group has a concentration of held-for-trading securities with OAO MVC Severstal that at December 31, 2009 represented US\$ 35.1 million.

The Group has a concentration of long-term financial investments with OOO Gestamp-Severstal-Kaluga and with OOO Stadco that at December 31, 2009 represented US\$ 10.6 million and US\$ 7 million accordingly. The Group has a concentration of long-term bank deposits with a related party non-state pension fund that at December 31, 2007 represented US\$ 62.4 million of total long-term financial investments.

**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, excluding estimated interest payments and excluding the impact of netting agreements:

**December 31, 2009**

	Carrying amount*	Contractual cash flows*	Less than 1 year	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>						
Debt finance . . . . .	7,124,628	(7,128,681)	(1,385,105)	(1,060,172)	(4,537,740)	(145,664)
Lease liabilities . . . . .	51,107	(51,107)	(12,896)	(16,687)	(15,160)	(6,364)
Trade and other payables . . . . .	1,454,830	(1,454,830)	(1,435,411)	(18,635)	(741)	(43)
<b>Derivative financial liabilities . . . . .</b>	<b>48,956</b>	<b>(48,956)</b>	<b>(22,448)</b>	<b>(6,262)</b>	<b>(20,246)</b>	<b>—</b>
	<u>8,679,521</u>	<u>(8,683,574)</u>	<u>(2,855,860)</u>	<u>(1,101,756)</u>	<u>(4,573,887)</u>	<u>(152,071)</u>

**December 31, 2008**

	Carrying amount*	Contractual cash flows*	less than 1 year	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>						
Debt finance . . . . .	8,161,469	(8,174,018)	(1,899,434)	(1,004,455)	(4,385,353)	(884,776)
Lease liabilities . . . . .	76,454	(76,454)	(23,280)	(11,893)	(40,086)	(1,195)
Trade and other payables . . . . .	1,813,473	(1,813,473)	(1,771,444)	(5,156)	(34,999)	(1,874)
<b>Derivative financial liabilities . . . . .</b>	<b>30,293</b>	<b>(30,293)</b>	<b>(19,110)</b>	<b>(4,473)</b>	<b>(6,710)</b>	<b>—</b>
	<u>10,081,689</u>	<u>(10,094,238)</u>	<u>(3,713,268)</u>	<u>(1,025,977)</u>	<u>(4,467,148)</u>	<u>(887,845)</u>

**December 31, 2007**

	Carrying amount*	Contractual cash flows*	less than 1 year	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>						
Debt finance . . . . .	3,900,575	(3,900,575)	(1,093,511)	(815,776)	(1,102,844)	(888,444)
Lease liabilities . . . . .	24,268	(24,268)	(9,753)	(8,765)	(4,042)	(1,708)
Trade and other payables . . . . .	1,548,831	(1,548,831)	(1,469,195)	(79,636)	—	—
	<u>5,473,674</u>	<u>(5,473,674)</u>	<u>(2,572,459)</u>	<u>(904,177)</u>	<u>(1,106,886)</u>	<u>(890,152)</u>

\* The above amounts exclude accrued interest.

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At December 31, 2009, the Group has a concentration of bank financing with Deutsche Bank AG of US\$ 1,201.2 million and with European Bank for Reconstruction and Development of US\$ 803.8 million. In 2008 the Group had a concentration of bank financing with Deutsche Bank AG of US\$ 1,201.5 million and with European Bank for Reconstruction and Development of US\$ 848.5 million. There was no significant concentration of risk in relation to bank financing in 2007.

**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, 2009						
	Euro	USD	GBP	CHF	CAD	Other
Available-for-sale financial assets . . . . .	22	—	—	—	—	—
Held-to-maturity securities and deposits . . . . .	57,898	9,356	—	—	—	—
Loans and receivables . . . . .	158,922	148,275	1,926	2,858	2,300	4,879
Cash and cash equivalents . . . . .	325,831	519,778	1,170	4,083	—	259
Debt finance . . . . .	(958,450)	(3,468,221)	—	—	—	—
Finance lease liabilities . . . . .	(774)	(2,185)	—	—	—	—
Trade and other payables . . . . .	(40,498)	(66,050)	(562)	(140)	(68)	(326)
Derivative financial liabilities . . . . .	—	(39,949)	—	—	—	—
Net exposure . . . . .	<u>(457,049)</u>	<u>(2,898,996)</u>	<u>2,534</u>	<u>6,801</u>	<u>2,232</u>	<u>4,812</u>

December 31, 2008						
	Euro	USD	GBP	CHF	CAD	Other
Available-for-sale financial assets . . . . .	—	3,994	350	—	284	—
Held-to-maturity securities and deposits . . . . .	275,898	259,678	—	—	—	147
Loans and receivables . . . . .	177,151	64,066	7,005	—	4,223	8,721
Cash and cash equivalents . . . . .	367,549	713,667	353	16,795	895	1,075
Debt finance . . . . .	(1,263,411)	(3,646,206)	—	—	—	(19)
Finance lease liabilities . . . . .	(1,870)	(5,888)	—	—	—	—
Trade and other payables . . . . .	(39,497)	(65,297)	(260)	(10)	(2,567)	(687)
Derivative financial liabilities . . . . .	—	(11,490)	—	—	—	—
Net exposure . . . . .	<u>(484,180)</u>	<u>(2,687,476)</u>	<u>7,448</u>	<u>16,785</u>	<u>2,835</u>	<u>9,237</u>

December 31, 2007						
	Euro	USD	GBP	CHF	CAD	Other
Available-for-sale financial assets . . . . .	—	530	—	—	—	—
Held-to-maturity securities and deposits . . . . .	373,225	104,316	—	—	—	—
Held-for-trading securities . . . . .	—	210	—	—	—	—
Loans and receivables . . . . .	108,018	150,063	14,265	1,326	5,192	14
Cash and cash equivalents . . . . .	185,692	348,020	115	734	2,045	2,680
Debt finance . . . . .	(453,993)	(1,318,029)	—	—	—	—
Finance lease liabilities . . . . .	(1,396)	(7,080)	—	—	—	—
Trade and other payables . . . . .	(17,879)	(97,717)	(13,001)	(4,249)	(5,829)	(346)
Net exposure . . . . .	<u>193,667</u>	<u>(819,687)</u>	<u>1,379</u>	<u>(2,189)</u>	<u>1,408</u>	<u>2,348</u>

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***Sensitivity analysis***

A 10 percent strengthening of the following currencies against the functional currency at December 31, 2009 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 2008 and 2007.

	Year ended December 31,		
	2009	2008	2007
<b>Net profit</b>			
Euro . . . . .	(36,564)	(36,798)	14,331
USD . . . . .	(231,920)	(204,248)	(65,482)
GBP . . . . .	203	566	22
CHF . . . . .	544	1,276	(166)
CAD . . . . .	179	215	94
Other . . . . .	385	702	178

A 10 percent weakening of these currencies against the functional currency at December 31, 2009 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 or Euribor 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,		
	2009	2008	2007
Financial assets . . . . .	539,818	414,398	434,600
Financial liabilities . . . . .	(4,280,828)	(4,915,822)	(2,357,826)
	<u>(3,741,010)</u>	<u>(4,501,424)</u>	<u>(1,923,226)</u>

Other Group's interest-bearing financial assets and liabilities 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.

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***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 2008 and 2007.

	<b>Net profit</b>	
	<b>100 bp increase</b>	<b>100 bp decrease</b>
<b>December 31, 2009</b>		
Financial assets . . . . .	4,319	(4,319)
Financial liabilities . . . . .	(34,249)	34,249
Cash flow sensitivity (net) . . . . .	<u>(29,930)</u>	<u>29,930</u>
<b>December 31, 2008</b>		
Financial assets . . . . .	3,149	(3,149)
Financial liabilities . . . . .	(37,360)	37,360
Cash flow sensitivity (net) . . . . .	<u>(34,211)</u>	<u>34,211</u>
<b>December 31, 2007</b>		
Financial assets . . . . .	2,912	(2,912)
Financial liabilities . . . . .	(13,636)	13,636
Cash flow sensitivity (net) . . . . .	<u>(10,724)</u>	<u>10,724</u>

**32. Commitments and contingencies**

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

The taxation system and regulatory environment of the Russian Federation are relatively new and characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations between the differing regulatory authorities and jurisdictions, who are empowered to impose significant fines, penalties and interest charges. Events during recent years suggest that the regulatory authorities within the Russian Federation 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 Russian tax authorities had made claims for taxes, fines and penalties in the amount of approximately US\$ 6.3 million (December 31, 2008: US\$ 4 million, December 31, 2007: US\$ 32 million), mostly related to income tax by certain of the Group's entities in the Severstal Resource segment. 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 possible 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\$ 1,142 million (December 31, 2008: US\$ 1,275.3 million; December 31, 2007: US\$ 472.7 million).

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**d. Insurance**

The Group has insured its property and equipment to compensate for expenses arising from accidents. In addition, the Group has insurance for business interruption on a basis of reimbursement of certain fixed costs. The Group has also insured third-party liability in respect of property or environmental damage. However, the Group does not have full insurance coverage.

**e. Guarantees**

At the reporting date the Group had US\$ 43.5 million (December 31, 2008: US\$ 42.3 million; December 31, 2007: US\$ 143.2 million) of guarantees issued, including guarantees issued for associates in amount of US\$ 26.8 million (December 31, 2008: US\$ 18.5 million; December 31, 2007: US\$ 23.5 million).

**33. Subsequent events**

In February 2010, the Group issued US\$ 525 million bonds denominated in US dollars maturing in eight years. Bonds bear an interest rate of 10.25% per annum, which is payable semi-annually in February and August each year, beginning August 2010. Proceeds from the bonds issuance were used to refinance outstanding debt obligations originally incurred to finance construction at Severstal Columbus LLC.

In February 2010, the Group issued US\$ 498 million bonds denominated in rubles maturing in 2013. Bonds bear an interest rate of 9.75% per annum, which is payable semi-annually in February and August each year, beginning August 2010. Proceeds from the bonds issuance will be used for optimization of credit portfolio and refinancing of short-term loan facilities.

In February 2010, the Group acquired a 26.59% 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. CGC owns and operates a gold mining project in Guinea, West Africa.



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