

OJSC Zaporizhstal

**Consolidated Interim Condensed
Financial Information
for the six months ended 30 June 2013
(unaudited)**

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Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the management of
OJSC Zaporizhstal

Introduction

We have reviewed the accompanying consolidated condensed statement of financial position of OJSC Zaporizhstal (the "Company") and its subsidiaries (together referred to as the "Group") as at 30 June 2013, and the related consolidated condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the consolidated interim condensed financial information (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 review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial 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.

Basis for Qualified Conclusion

The Group has not presented corresponding figures for the six-month period ended 30 June 2012 which is required by International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. It is impracticable for us to provide this information.

Conclusion

Based on our review, except for the omission of the information described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2013 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

JSC KPMG Audit

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30 September 2013

OJSC Zaporizhstal
Consolidated Condensed Statement of Financial Position as at 30 June 2013

Assets	Line Code	At 30 June 2013 (unaudited)	At 31 December 2012	Note
<i>(in thousands of Ukrainian hryvnias)</i>				
I. Non-current assets				
Intangible assets:	1000	12,094	265	8
historical cost (1)	1001	12,916	265	8
accumulated amortization	1002	(822)	-	8
Construction in progress (1)	1005	2,252,298	2,058,471	8
Property, plant and equipment:	1010	7,663,638	7,897,748	8
historical cost (1)	1011	8,162,572	7,930,846	8
depreciation	1012	(498,934)	(33,098)	8
Investment property	1015	6,123	6,123	
historical cost of investment property	1016	6,123	6,123	
depreciation of investment property	1017	-	-	
Long-term biological assets:	1020	1,051	1,058	
historical cost	1021	1,136	1,058	
accumulated amortisation	1022	(85)	-	
Long-term financial investments:				
accounted for on an equity basis	1030	1,303,370	1,377,614	
other financial investments	1035	104,631	104,631	
Long-term receivables	1040	4	6,002	
Deferred tax assets	1045	-	-	
Other non-current assets	1090	235,241	86,478	
Total non-current assets	1095	11,578,450	11,538,390	
II. Current assets				
Inventories:	1100	1,571,304	1,342,423	
Production supplies	1101	947,701	974,467	
Work in progress	1102	354,904	345,690	
Finished goods	1103	264,769	17,296	
Merchandise	1104	3,930	4,470	
Current biological assets	1110	5,421	6,717	
Promissory notes received	1120	4,754	31,211	
Trade accounts receivable:	1125	682,404	557,725	
Taxes and other receivables:				
advances paid	1130	34,155	37,076	
budget	1135	615,858	969,054	
accrued income	1140	505	1,156	
intercompany receivables	1145	-	-	
Other current receivables	1155	188,390	104,162	
Current financial investments	1160	2,000	2,000	
Cash and cash equivalents	1165	18,620	109,361	
Deferred expenses	1170	63,891	37,016	
Other current assets	1190	11,973	12,286	
Total current assets (2)	1195	3,199,275	3,210,187	
III. Non-current assets and disposal groups (2)	1200	265	265	
Total assets	1300	14,777,990	14,748,842	

The consolidated condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial information set out on pages 9 to 21.

OJSC Zaporizhstal
Consolidated Condensed Statement of Financial Position as at 30 June 2013
(continued)

Equity and Liabilities	Line Code	At 30 June 2013 (unaudited)	At 31 December 2012	Note
<i>(in thousands of Ukrainian hryvnias)</i>				
I. Equity				
Share capital	1400	660,920	660,920	9
Revaluation reserve	1405	4,966,104	5,309,670	9
Additional paid-in capital	1410	134,757	134,757	9
Currency translation reserve	1412	2,456	7,756	9
Reserve capital	1415	506,200	506,200	9
Retained earnings (accumulated deficit)	1420	51,629	(381,442)	9
Unpaid capital	1425	-	-	
Withdrawn capital	1430	-	-	
Equity attributable to equity holders of the Company		6,322,066	6,237,861	
Non-controlling interests	1496	2,793	2,793	
Total equity	1495	6,324,859	6,240,654	
II. Non-current liabilities				
Deferred tax liabilities	1500	476,271	452,031	
Long-term bank loans	1510	314,334	281,184	10
Other long-term financial liabilities (3)	1515	34,098	24,243	
Long-term provisions	1520	728,896	720,283	
Target financing	1525	980	1,094	
Total non-current liabilities	1590	1,554,579	1,478,835	
III. Current liabilities				
Short-term bank loans	1600	1,756,024	2,064,123	10
Promissory notes issued	1605	71,330	111,031	
Current accounts payable:		-	-	
current portion of long-term liabilities	1610	3,029	-	
merchandise, works, services	1615	3,477,554	3,586,821	
to state budget	1620	23,905	23,311	
insurance	1625	18,436	18,676	
salaries	1630	42,782	45,125	
advances received	1635	994,012	673,756	
dividends payable	1640	13,974	13,974	
intercompany payables	1645	-	-	
Current provisions	1660	70,782	-	
Deferred income	1665	279	-	
Other current liabilities	1690	426,445	491,815	
Total current liabilities	1695	6,898,552	7,028,632	
IV. Liabilities related to non-current assets and disposal groups	1700	-	721	
Total equity and liabilities	1900	14,777,990	14,748,842	

¹⁾ Line 1005 and Line 1011 represented by revalued amount of property, plant and equipment

²⁾ Line 1195 Total current assets as at 30 June 2013 should be calculated together with line 1200 of UAH 265 thousand, totally amounting to UAH 3,199,540 thousand as at 30 June 2013 (31 December 2012: UAH 3,210,452 thousand)

³⁾ Line 1515 represented by non-controlling interests in LLC and venture funds.

Total liabilities should be calculated as total of lines 1590, 1695, and 1700, together amounted to UAH 8,453,131 thousand as at 30 June 2013 (31 December 2012: UAH 8,508,188 thousand)

<i>(in thousands of Ukrainian hryvnias)</i>	Line Code	For six-month period ended 30 June 2013 (unaudited)	Note
Net revenue	2000	7,076,158	11
Cost of revenue	2050	(6,361,885)	
Gross:			
profit	2090	714,273	
loss	2095	-	
Other operating income	2120	170,337	12
Administrative expenses	2130	(188,478)	
Selling expenses	2150	(373,052)	
Other operating expenses	2180	(170,036)	
Financial result of operations:			
profit	2190	153,044	
loss	2195	-	
Income from investments in associates	2200	120,440	
Other finance income	2220	110,746	
Other income	2240	78,477	5
Finance costs	2250	(259,616)	
Loss from investments in associates	2255	(57,493)	
Other expenses	2270	(8,373)	
Financial result from ordinary activities before tax:			
profit	2290	137,225	
loss	2295	-	
Income tax charge	2300	(25,582)	
(Loss)/gain from discontinued operation	2305	-	
Net financial result of operations:			
profit	2350	111,643	
loss	2355	-	

**Other comprehensive income
for the first half of year 2013**

Item	Line Code	For six-month period ended 30 June 2013 (unaudited)	Note
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Currency translation reserve	2410	(5,300)	
<i>Total items that are or may be reclassified subsequently to profit or loss:</i>		(5,300)	
<i>Items that will never be reclassified to profit or loss:</i>			
Revaluation gain (loss) on non-current assets	2400	(10,065)	
Share of comprehensive loss of equity accounted investees		(13,415)	
<i>Total items that will not be reclassified to profit or loss</i>	2400	(23,480)	
Other comprehensive income (loss) before tax	2450	(28,780)	
Income tax attributed to other comprehensive income	2455	1,342	
Other comprehensive income (loss) after tax	2460	(27,438)	

Profit attributable to:

Equity holders of the Parent	111,643
Non-controlling interest	-
Profit for the year	<u>111,643</u>

Total comprehensive income attributable to:

Equity holders of the Parent	84,205
Non-controlling interest	-
Total comprehensive income for the year	<u>84,205</u>

Basic and diluted earnings per ordinary share, UAH

0.042

The consolidated condensed statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial information set out on pages 9 to 21.

OJSC Zaporizhstal
Consolidated Condensed Statement of Cash Flows for the six months ended 30 June 2013

<i>(in thousands of Ukrainian hryvntas)</i>	Code	For the six-month period ended 30 June 2013 (unaudited)
I. Cash flows from operating activities		
Proceeds:		
Sale of goods and services	3000	2,931,361
Return of taxes and duties	3005	848,899
Target financing	3010	104
Subsidies and subventions receivable	3011	20
Prepayments from customers	3015	4,977,484
Return of advances	3020	6,999
Interests on current bank accounts	3025	277
Penalties, fines and forfeits	3035	821
Other	3095	186,653
Expenditures:		
Settlement of trade payables	3100	(5,338,247)
Payments to personnel	3105	(498,049)
Social charges paid	3110	(241,371)
Taxes paid:	3115	-
Income tax paid	3116	(68)
VAT paid	3117	(3,845)
Other taxes and duties paid	3118	(152,360)
Advances to suppliers	3135	(2,162,026)
Return of advances from customers	3140	(4,064)
Other expenditures	3190	(105,646)
Net cash flow from operating activities	3195	446,942
II. Cash flow from investing activities		
Disposals:		
financial investments	3200	-
non-current assets	3205	1,087
Receipts:		
interest	3215	-
dividends	3220	-
derivatives	3225	-
other proceeds	3250	368
Acquisitions:		
financial investments	3255	(49,566)
non-current assets	3260	(182,802)
payments on derivatives	3270	-
other payments	3290	(18,915)
Net cash flow used in investing activities	3295	(249,828)
III. Cash flow from financing activities		
Receivables		
Proceeds from issuance of equity	3300	-
Loans received	3305	9,943
Other proceeds	3340	2,291
Expenditures		
Repurchase of own shares	3345	-
Repayment of loans	3350	(204,873)
Dividends paid	3355	-
Other payments	3390	(96,505)
Net cash flow used in financing activities	3395	(289,144)
Net cash flow for the period	3400	(92,030)
Cash and cash equivalents at the beginning of the period	3405	109,361
Effect of change in exchange rates on cash and cash equivalents	3410	1,289
Cash and cash equivalents at the end of the period	3415	18,620

The consolidated condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial information set out on pages 9 to 21.

OJSC Zaporizhtal
Consolidated Condensed Statement of Changes in Equity for the six months ended 30 June 2013

Item (unaudited)	Line Code	Equity attributable to equity holders of the Company										
		Share capital	Revaluation reserve	Additional paid- in capital	Reserve capital	Retained earnings (accumulated deficit)	Unpaid capital	Withdrawn capital	Currency translation reserves	Equity attributable to equity holders of the Company	Non-controlling interest	Total equity
1	2	3	4	5	6	7	8	9	8.1	10	11	12
Balance as at 1 January 2013	4088	660,920	6,309,670	154,757	806,200	(381,642)	-	-	7,756	6,237,861	2,793	6,240,654
Adjustments:												
Change of accounting policy	4083	-	-	-	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-	-	-	-
Other changes	4080	-	-	-	-	-	-	-	-	-	-	-
Adjusted balance as at 1 January 2013	4095	660,920	6,309,670	154,757	806,200	(381,642)	-	-	7,756	6,237,861	2,793	6,240,654
Net profit for the period	4188	-	-	-	-	111,642	-	-	-	111,642	-	111,642
Other comprehensive income for the period Profit distribution	4110	-	(10,965)	-	-	(12,973)	-	-	(5,300)	(27,438)	-	(27,438)
Distributions to shareholders (shareholders arrangements)	4200	-	-	-	-	-	-	-	-	-	-	-
Retirement in authorized capital	4203	-	-	-	-	-	-	-	-	-	-	-
Allocations to reserves	4210	-	-	-	-	-	-	-	-	-	-	-
Contributions from shareholders:												
Equity contribution	4340	-	-	-	-	-	-	-	-	-	-	-
Capital repayment	4345	-	-	-	-	-	-	-	-	-	-	-
Capital withdrawals:												
Repurchase of treasury shares (participatory interest)	4266	-	-	-	-	-	-	-	-	-	-	-
Reverse repurchase of treasury shares (participatory interest)	4265	-	-	-	-	-	-	-	-	-	-	-
Amendment of treasury shares (participatory interest)	4270	-	-	-	-	-	-	-	-	-	-	-
Equity divestment	4275	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity	4280	-	(333,501)	-	-	333,501	-	-	-	-	-	-
Total changes in equity	4285	-	(343,566)	-	-	433,671	-	-	(5,300)	84,205	-	84,205
Balance as at 30 June 2013	4300	660,920	4,966,104	154,757	806,200	51,629	-	-	2,456	6,322,066	2,793	6,324,859

The consolidated condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial information set out on pages 9 to 21.

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1. Background

(a) Organisation and operations

Open Joint-Stock Company Zaporizhstal – Integral Iron and Steel Works (the Company or the Parent) is a Ukrainian open joint-stock company. The original enterprise was established as a state owned enterprise in 1933. It was privatised on 4 January 1997, as part of the Ukrainian privatisation program, as an open joint-stock company. The consolidated interim condensed financial statements of the Company for the six months ended 30 June 2013 comprise the Company and its subsidiaries (together referred to as the Group).

The Group's principal activities are production and distribution of pig iron, steel and consumer goods at a plant located at Pivdenne Shosse 72, Zaporizhya, Ukraine. These products are sold in Ukraine and abroad. The main consumers of the Group's products in Ukraine are motor manufacturers, machine-building, agricultural and transport engineering industries and tube producers.

(b) Ukrainian business environment

Ukraine is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Ukraine involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the economy of Ukraine have further increased the level of economic uncertainty in the environment. This consolidated interim condensed financial information reflects management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2. Basis of preparation

(a) Statement of compliance

This consolidated interim condensed financial information has been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2012. This consolidated interim condensed financial information does not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The results of the six-months period ended 30 June 2013 are not necessarily indicative of the results for the full year.

(b) Liquidity

The Group's current liabilities exceeded its current assets by UAH 3,699,012 thousand as at 30 June 2013. This excess mainly relates to short-term liabilities with related parties. Additionally, a portion of the Group's loans of UAH 917,870 thousand is overdue as of the date of these financial statements.

Management undertook the following measures in order to minimize the underlying liquidity risk and increase the Group's operating cash flows:

- Obtained consent from its major creditors that are related parties, that the settlement of the amounts due to those parties of UAH 2,774,314 thousand will not be requested for settlement in case such settlement would have a significant adverse effect on the Group's financial position;
- Improved operational profitability by putting into operation a coal-dust injection system, which allowed the Group to improve efficiency in usage of natural gas;
- Improved operational efficiency and reduced the cost of production mainly through increased production output per unit of raw materials, better control and usage of scrap metal and other auxiliary materials, negotiated discounts with suppliers and reduced transportations costs.

As of the date of these financial statements management plans to attract additional long-term financing to refinance Group's current liabilities. Accordingly, management believes that there is no material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

(c) Use of estimates and judgments

Preparing the interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

In preparing this consolidated interim condensed financial information significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2012.

3. Significant accounting policies

Except for the adoption of the new standards and interpretations effective as at 1 January 2013, the accounting policies applied by the Group were consistent with those applied in the consolidated financial statements as at and for the year ended 31 December 2012.

(a) Changes in accounting policies

The Group applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IFRS 10 *Consolidated Financial Statements*, IFRS 13 *Fair Value Measurement* and amendments to IAS 1 *Presentation of Financial Statements*. As required by IAS 34, the nature and the effect of these changes are disclosed below. In addition, the application of IFRS 12 *Disclosure of Interest in Other Entities* would result in additional disclosures in the annual consolidated financial statements.

