

**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*

JSC KPMG Audit

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>				
<b>I. Non-current assets</b>				
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	
<b>Total non-current assets</b>	1095	11,578,450	11,538,390	
<b>II. Current assets</b>				
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	17,796	
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	
<b>Total current assets (2)</b>	1195	3,199,275	3,210,187	
<b>III. Non-current assets and disposal groups (2)</b>	1200	265	265	
<b>Total assets</b>	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>				
<b>I. Equity</b>				
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	
<b>Non-controlling interests</b>	1496	2,793	2,793	
<b>Total equity</b>	1495	6,324,859	6,240,654	
<b>II. Non-current liabilities</b>				
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	
<b>Total non-current liabilities</b>	1590	1,554,579	1,478,835	
<b>III. Current liabilities</b>				
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	
<b>Total current liabilities</b>	1695	6,898,552	7,028,632	
<b>IV. Liabilities related to non-current assets and disposal groups</b>	1700	-	721	
<b>Total equity and liabilities</b>	1900	14,777,990	14,748,842	

<sup>(1)</sup> Line 1005 and Line 1011 represented by revalued amount of property, plant and equipment

<sup>(2)</sup> 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)

<sup>(3)</sup> 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)

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 Profit or Loss and Other Comprehensive Income for the six months ended 30 June 2013**

<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)	
<b>Gross:</b>			
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)	
<b>Financial result of operations:</b>			
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)	
<b>Financial result from ordinary activities before tax:</b>			
profit	2290	137,225	
loss	2295	-	
Income tax charge	2300	(25,582)	
(Loss)/gain from discontinued operation	2305	-	
<b>Net financial result of operations:</b>			
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)	
<b>Other comprehensive income (loss) before tax</b>	2450	(28,780)	
Income tax attributed to other comprehensive income	2455	1,342	
<b>Other comprehensive income (loss) after tax</b>	2460	(27,438)	

**Profit attributable to:**

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

**Total comprehensive income attributable to:**

Equity holders of the Parent	84,205
Non-controlling interest	-
<b>Total comprehensive income for the year</b>	<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 hryvnias)</i>	<b>Code</b>	<b>For the six-month period ended 30 June 2013 (unaudited)</b>
<b>I. Cash flows from operating activities</b>		
<b>Proceeds:</b>		
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
<b>Expenditures:</b>		
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)
<b>Net cash flow from operating activities</b>	3195	446,942
<b>II. Cash flow from investing activities</b>		
<b>Disposals:</b>		
financial investments	3200	-
non-current assets	3205	1,087
<b>Receipts:</b>		
interest	3215	-
dividends	3220	-
derivatives	3225	-
other proceeds	3250	368
<b>Acquisitions:</b>		
financial investments	3255	(49,566)
non-current assets	3260	(182,802)
payments on derivatives	3270	-
other payments	3290	(18,915)
<b>Net cash flow used in investing activities</b>	3295	(249,828)
<b>III. Cash flow from financing activities</b>		
<b>Receivables</b>		
Proceeds from issuance of equity	3300	-
Loans received	3305	9,943
Other proceeds	3340	2,291
<b>Expenditures</b>		
Repurchase of own shares	3345	-
Repayment of loans	3350	(204,873)
Dividends paid	3355	-
Other payments	3390	(96,505)
<b>Net cash flow used in financing activities</b>	3395	(289,144)
<b>Net cash flow for the period</b>	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**

<i>(in thousands of Ukrainian hryvnias)</i>												
Item (unaudited)	Line Code	Equity attributable to equity holders of the Company										Total equity
		Share capital	Revaluation reserve	Additional paid- in capital	Reserve capital	Retained earnings (accumulated deficit)	Unpaid capital	Withdrawn capital	Currency translation reserve	Equity attributable to equity holders of the Company	Non-controlling interest	
1	2	3	4	5	6	7	8	9	10	11	12	13
Balance as at 1 January 2013	4000	660,920	5,309,670	134,757	506,200	(581,642)	-	-	7,756	6,237,861	2,793	6,240,654
Adjustments:												
Change of accounting policy	4003	-	-	-	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-	-	-	-
Other changes	4090	-	-	-	-	-	-	-	-	-	-	-
Adjusted balance as at 1 January 2013	4095	660,920	5,309,670	134,757	506,200	(581,642)	-	-	7,756	6,237,861	2,793	6,240,654
Net profit for the period	4100	-	-	-	-	111,643	-	-	-	111,643	-	111,643
Other comprehensive income for the period	4110	-	(10,065)	-	-	(12,073)	-	-	(5,700)	(27,438)	-	(27,438)
Profit distribution:												
Distributions to shareholders (shareholders' arrangements)	4200	-	-	-	-	-	-	-	-	-	-	-
Retirement in authorized capital	4205	-	-	-	-	-	-	-	-	-	-	-
Allocations to reserves	4210	-	-	-	-	-	-	-	-	-	-	-
Contributions from shareholders:												
Equity contributions	4340	-	-	-	-	-	-	-	-	-	-	-
Capital repurchase	4345	-	-	-	-	-	-	-	-	-	-	-
Capital withdrawals:												
Repurchase of treasury shares (participatory interest)	4260	-	-	-	-	-	-	-	-	-	-	-
Reverse repurchase of treasury shares (participatory interest)	4265	-	-	-	-	-	-	-	-	-	-	-
Amendment of treasury shares (participatory interest)	4270	-	-	-	-	-	-	-	-	-	-	-
Equity distribution:												
Equity distribution	4275	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	(333,591)	-	-	333,591	-	-	-	-	-	-
Total changes in equity	4295	-	(343,596)	-	-	433,671	-	-	(5,700)	84,205	-	84,205
Balance as at 30 June 2013	4300	660,920	4,966,074	134,757	506,200	-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.



Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The nature and the impact of each new standard/amendment is described below:

**Amendment to IAS 1 *Presentation of items of other comprehensive income***

The Amendment requires an entity to present separately items of other comprehensive income that could be reclassified in the future to profit or loss from those items that will never be reclassified to profit or loss. In addition, according to the Amendment the title of statement of comprehensive income was changed to statement of profit or loss and other comprehensive income. However, use of other titles is permitted.

**IFRS 10 *Consolidated Financial Statements* and IAS 27 (2011) *Separate Financial Statements***

IFRS 10 introduces a single control model that applies to all entities including special purpose entities. IFRS 10 supersedes a part of previously effective IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. The new standard changes the definition of control such that an investor controls an investee when:

- it has power over the investee;
- it is exposed, or has rights, to variable returns from its involvement with the investee, and
- it has the ability to affect those returns through its power over the investee (i.e. there is a link between power and returns).

This standard had no impact on the consolidation of the Group's investees.

**IFRS 13 *Fair Value Measurement*** supersedes the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. Comparative disclosure information is not required for periods before the date of initial application.

The application of IFRS 13 has not had a significant impact on the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures of fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required by IAS 34.16A(j) for the consolidated interim condensed financial information. The Group has presented those disclosures in note 13.

## **4. Operating segments**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. The operating segment's operating results are reviewed regularly by management to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

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

Management believes that the Group is operating in one segment relating to production of pig iron and steel. Disclosures of revenue by product types, by geographical areas and information on the concentration of revenue are presented in note 11. Information on the location of the Group's non-current assets is presented in note 8.



## 5. Disposal of subsidiaries

During the six months ended 30 June 2013 the Group initiated the liquidation of its subsidiaries and lost control of its investments in LLC Kaforest Real Estate as at 2 April 2013 and LLC Mid Properties as at 8 April 2013. The Group ceased consolidation of these companies from these dates which resulted in a gain of UAH 66,421 thousand recognised in other income (line 2240 of the consolidated condensed statement of profit and loss and other comprehensive income).

The carrying amounts of disposed assets and liabilities at the date of disposal were as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	<b>Carrying amount at the date of disposal</b>
<b>Current assets</b>	
Other accounts receivable	2
Cash and cash equivalents	22
<b>Current liabilities</b>	
Other current liabilities	(66,445)
<b>Total net liabilities</b>	(66,421)
Consideration received, satisfied in cash	-
<b>Gain on disposal</b>	66,421

## 6. Income tax expense

The Group recognises income tax expense based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Group's consolidated effective rate in respect of continuing operations for the six months ended 30 June 2013 was 11%, mainly because of the utilisation of tax losses carried forward from prior periods.

## 7. Investments in associates

As at 30 June 2013 the Group recognised dividends receivable amounting to UAH 122,505 thousand declared by one of its associates on 9 April 2013 (line 1155 of the consolidated condensed statement of financial position).

## 8. Property, plant and equipment and intangible assets

### (Consolidated condensed statement of financial position, lines 1000-1012)

Movements in property, plant and equipment, construction in progress and intangible assets for six months ended 30 June 2013 are as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	<b>Land and Buildings</b>	<b>Production equipment</b>	<b>Vehicles</b>	<b>Tools and office equipment</b>	<b>Other</b>	<b>Construction in progress</b>	<b>Total</b>
<i>Cost or valuation</i>							
As at 1 January 2013	2,806,596	4,637,932	371,679	106,019	8,885	2,058,471	9,989,582
Additions	-	8,989	11,353	-	12,380	456,700	489,422
Transfers	85,205	121,898	4,450	5,824	52	(217,429)	-
Disposals	(143)	(1,046)	(47)	(79)	-	(2,575)	(3,890)
Currency translation difference	(345)	(4,019)	(49)	(46)	-	(42,869)	(47,328)
<b>As at 30 June 2013</b>	<b>2,891,313</b>	<b>4,763,754</b>	<b>387,386</b>	<b>111,718</b>	<b>21,317</b>	<b>2,252,298</b>	<b>10,427,786</b>
<i>Accumulated depreciation and amortisation</i>							
As at 1 January 2013	(5,334)	(24,465)	(2,112)	(1,135)	(52)	-	(33,098)
Depreciation and amortisation charge	(126,975)	(283,740)	(38,893)	(12,699)	(2,188)	-	(464,495)
Disposals	136	263	-	7	-	-	406
Currency translation difference	218	7,054	97	127	-	-	7,496
Impairment through other comprehensive income	(10,065)	-	-	-	-	-	(10,065)
<b>As at 30 June 2013</b>	<b>(142,020)</b>	<b>(300,888)</b>	<b>(40,908)</b>	<b>(13,700)</b>	<b>(2,240)</b>	<b>-</b>	<b>(499,756)</b>
<i>Net book value</i>							
<b>As at 30 June 2013</b>	<b>2,749,293</b>	<b>4,462,866</b>	<b>346,478</b>	<b>98,018</b>	<b>19,077</b>	<b>2,252,298</b>	<b>9,928,030</b>

#### (i) Revaluation of property plant and equipment

The Group uses the fair value model for accounting for property, plant and equipment. Management believes that the fair value of the property, plant and equipment has not changed significantly as at 30 June 2013.

As at 31 December 2012 the Group's property, plant and equipment was revalued by an independent appraiser in order to determine its fair value.

**(ii) Pledged assets**

At 30 June 2013 property, plant and equipment with a carrying amount of UAH 2,755,865 thousand (31 December 2012: UAH 2,907,009 thousand) are pledged to secure bank loans.

**(iii) Geographical location**

As at 30 June 2013, the property, plant and equipment and intangible assets are located in Ukraine, except for the property, plant and equipment and intangible assets of LLC Rostov Coal Company, amounting to UAH 699,560 thousand (31 December 2012: UAH 763,663 thousand) located in the Russian Federation.

**(a) Capital commitments**

As at 30 June 2013, the Group had entered into a contract to purchase property, plant and equipment for UAH 161,635 thousand.

## **9. Capital and reserves**

**(Consolidated condensed statement of financial position, lines 1400-1420)**

**(a) Share capital**

As at 30 June 2013 the Company has 2,643,681,779 shares authorised, issued and paid-in (31 December 2012: 2,643,681,779 shares).

All shares are ordinary, have equal voting, dividend and capital repayment rights.

In accordance with Ukrainian and Russian legislation, the entities of the Group can distribute all statutory profits as dividends or transfer them to reserves as specified in their charters. Subsequent use of amounts transferred to reserves may be legally restricted; amounts transferred to reserves typically must be used for the purpose designated when the transfer is made.

**(b) Earnings per share**

The calculation of basic and diluted earnings per share at 30 June 2013 was based on the profit attributable to ordinary shareholders of the parent company of UAH 111,643 thousand, and a weighted average number of ordinary shares outstanding of 2,643,681,779. The Company has no dilutive potential ordinary shares.

**(c) Dividends**

Under Ukrainian legislation dividends are limited to the amount of undistributed retained earnings. No dividends were announced by the Company during the six-months ended 30 June 2013.

**(d) Reserves**

Reserves are represented by equity restricted for distribution to shareholders in accordance with the Charter of the Company. Reserves were formed from retained earnings of the Company.

## 10. Loans and borrowings

**(Consolidated condensed statement of financial position, lines 1510, 1600)**

<i>(in thousands of Ukrainian hryvnias)</i>	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Year of maturity</b>	<b>Face value</b>	<b>Carrying amount</b>
Balance at 1 January 2013			2013-2018	2,345,307	2,345,307
<b>Issued</b>					
Secured bank loan	USD	14.5%	2014	7,999	7,999
Unsecured bank facility	RUR	9-10.5%	2013	10,101	10,101
<b>Repaid</b>					
Secured bank loan	USD	8.5-12.25%	2017-2018	(84,706)	(84,706)
Unsecured bank facility	EUR	Variable	2011-2013	(208,343)	(208,343)
Balance at 30 June 2013			2013-2018	<u>2,070,358</u>	<u>2,070,358</u>

### **(a) Overdue loan**

With respect to a loan amounting to UAH 252,809 thousand as at 30 June 2013 the Group has not repaid its liabilities on the maturity date and the loan is overdue. As at the date of these financial statements, repayment was not requested by the creditor and the Group is negotiating prolongation of the loan agreement.

### **(b) Breach of loan covenant**

With respect to loans amounting to UAH 665,061 thousand as at 30 June 2013 the Group is in breach of loans repayment schedule therefore these loans were recognised as current (31 December 2012: UAH 667,704 thousand).



## 11. Revenue

**(Consolidated condensed statement of profit or loss and other comprehensive income, line 2000)**

Revenue for the six months ended 30 June 2013 is as follows:

*(in thousands of Ukrainian hryvnias)*

	30 June 2013
Export sales:	
Rolled steel	4,889,021
Other	12
	<hr/> 4,889,033 <hr/>
Domestic sales:	
Rolled steel	1,937,161
Pig iron	5,302
Other	244,662
	<hr/> 2,187,125 <hr/>
	<hr/> 7,076,158 <hr/>

Revenue from one customer, a related party of the Group, represents approximately 54% (UAH 3,833,813 thousand) of the Group's total revenue for the six months ended 30 June 2013.

## 12. Other operating income

Other operating income for the six months ended 30 June 2013 includes income from recovery of receivables from MD Group of UAH 94,313 thousand, which were written off during the year ended 31 December 2011.

## 13. Financial instruments and risk management

During the six months ended 30 June 2013 the Group had no significant changes in financial risks management policies as compared to 31 December 2012.

### (a) Fair values

Estimated fair values of financial assets and liabilities are determined using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to produce the estimated fair values. Accordingly, the estimates presented below are not necessarily indicative of the amounts that could be realised in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

The estimated fair values of financial assets and liabilities are determined using discounted cash flow and other appropriate valuation methodologies, at year-end, and are not indicative of the fair value of those instruments at the date these consolidated financial statements are prepared or distributed. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

The Group's financial assets and liabilities, except for other financial investments, are accounted at cost less impairment and the carrying values approximate the fair values as at 30 June 2013 and 31 December 2012.

Other financial investments of UAH 104,631 thousand as at 30 June 2013 (31 December 2012: UAH 104,631 thousand) are measured at fair value through other comprehensive income. Their fair value was determined based on revenue and EBITDA multiples of comparable companies and relate to Level 3 (inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly) of fair value hierarchy as at 30 June 2013 and 31 December 2012. There have been no changes in the hierarchy of fair value measurements during the six months ended 30 June 2013.

## 14. Contingencies

### (a) Litigation

The Group is involved in various legal proceedings in the ordinary course of business. Management does not believe the result of any such actions will have a material effect on the financial condition or results of operations of the Group.

As at 30 June 2013 the tax authorities rejected VAT claimed by the Group of UAH 93,044 thousand and assessed penalties of UAH 22,745 thousand (as at 31 December 2012: UAH 155,574 thousand and UAH 3,997 thousand respectively).

The Group did not agree with the ruling of the tax authorities and filed a claim in court. There is a possible risk that the tax authorities are successful in their claim and that the Group may be liable to pay the abovementioned penalties and reduce the relevant VAT previously claimed for reimbursement. No provision for this claim was created.

As at 30 June 2013 the Group also filed a claim to enforce reimbursement of VAT receivable of UAH 135,965 thousand. (as at 31 December 2012: nil).

The actual outcome of the cases listed is unknown and may be influenced by judicial discretion, willingness of the parties to settle the dispute and the unstable political and economical environment in Ukraine.

### (b) Taxation contingencies

#### *Ukrainian tax system*

The Group performs most of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and

in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the Ministry of Finance and other state authorities are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These facts create tax risks substantially more significant than typically found in countries with more developed systems. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

No provisions for potential tax assessments have been made in these consolidated financial statements.

## **15. Related party transactions**

The Group purchases raw materials, sells goods and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party when making financial and operational decisions. Related parties comprise the subsidiaries and associates of the Group, the shareholders of the Group, companies which are with joint significant influence over the entity, key management personnel of the Group and their close family members, members of the Supervisory Board and their close family members and companies that are controlled or significantly influenced by shareholders. Terms on transactions with related parties are established at the time of the transaction.

### **(a) Transactions with key management personnel**

Remuneration of key management personnel is represented by short-term employee benefits and includes salary and bonuses payable in cash amounting to UAH 11,374 thousand for the period ended 30 June 2013.

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly, and include members of the Board of Directors and Supervisory Board.



**(b) Significant balances with related parties are as follows:**

**Assets**

*(in thousands of Ukrainian hryvnias)*

	as at 30 June 2013			as at 31 December 2012		
	Entities under common control	Equity accounted investee	Total	Entities under common control	Equity accounted investee	Total
Trade accounts receivable	593,122	33,793	626,915	381,495	1,990	383,485
Advances to suppliers	2,780	-	2,780	-	-	-
Cash and cash equivalents	15,393	-	15,393	104,493	-	104,493
	<u>611,295</u>	<u>33,793</u>	<u>645,088</u>	<u>485,988</u>	<u>1,190</u>	<u>487,978</u>

**Liabilities**

*(in thousands of Ukrainian hryvnias)*

	as at 30 June 2013			as at 31 December 2012		
	Entities under common control	Equity accounted investee	Total	Entities under common control	Equity accounted investee	Total
<i>Trade and other accounts payable:</i>						
Trade accounts payable	2,164,116	784,285	2,948,401	2,109,369	658,320	2,767,689
Advances received	864,846	-	864,846	508,109	-	508,109
Other current liabilities	98,183	235,572	333,755	784	239,918	240,702
<i>Promissory notes issued:</i>						
Promissory notes issued	15,330	-	15,330	-	-	-
<i>Interest bearing loans:</i>						
Loans	824,562	-	824,562	818,044	-	818,044
	<u>3,967,037</u>	<u>1,019,857</u>	<u>4,986,894</u>	<u>3,436,306</u>	<u>898,238</u>	<u>4,334,544</u>



**(c) Significant transactions with related parties are as follows:**

(in thousands of Ukrainian hryvnias)

	Six months ended 30 June 2013		
	Entities under common control	Equity accounted investee	Total
<i>Revenue:</i>			
Sales of finished goods	6,875,522	514	6,876,036
Sales of services	-	4,216	4,216
	<u>6,875,522</u>	<u>4,730</u>	<u>6,880,252</u>
<i>Purchases:</i>			
Purchase of raw materials	2,410,101	2,199,333	4,609,434
	<u>2,410,101</u>	<u>2,199,333</u>	<u>4,609,434</u>

**16. Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)**

The Group determines EBITDA as key factor for the Group's performance analysis. EBITDA per management determination represents net profit increased by finance costs, income taxes, depreciation and amortisation.

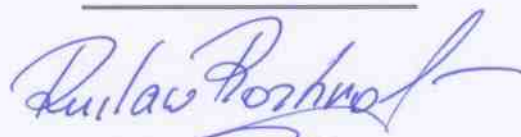
EBITDA for the six month period ended 30 June 2013 is as follows:

	Note	For six month period ended 30 June 2013
(in thousands of Ukrainian hryvnias)		
Net profit for the year		111,643
<i>Adjusted for:</i>		
Other finance income		(110,746)
Finance costs		259,616
Depreciation and amortisation	8	464,495
Income tax expense		25,582
<b>EBITDA</b>		<u>750,590</u>



Acting General Director  
R. I. Shurma

30 September 2013



Chief Financial Officer  
R.A. Bozhko