

PAO Severstal and subsidiaries

Consolidated interim condensed financial statements
for the nine months ended September 30, 2015 and 2014

PAO Severstal and subsidiaries

Consolidated interim condensed financial statements Nine months ended September 30, 2015 and 2014

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Auditors' Report on Review of Consolidated Interim Condensed Financial Statements

To the Shareholders and Board of Directors

PAO Severstal

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of PAO Severstal (the "Company") and its subsidiaries (the "Group") as at 30 September 2015, the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income for the three- and nine-month periods ended 30 September 2015 and 2014, the related consolidated interim condensed statements of changes in equity and cash flows for the nine-month periods ended 30 September 2015 and 2014, and notes to the consolidated interim condensed financial statements (the "consolidated interim condensed financial statements"). Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

We conducted our review 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 statements 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.

Entity: PAO Severstal

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

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

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

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at 30 September 2015 and for the three- and nine-month periods ended 30 September 2015 and 2014 are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Kiseleva L.R.

Director, power of attorney dated 16 March 2015 No. 41/15

JSC "KPMG"

21 October 2015

Moscow, Russian Federation

PAO Severstal and subsidiaries

Consolidated interim condensed income statements Nine months ended September 30, 2015 and 2014

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

	Note	Nine months ended		Three months ended	
		September 30,		September 30,	
		2015	2014	2015	2014
		(unaudited)	(unaudited)*	(unaudited)	(unaudited)*
Revenue					
Revenue - third parties		4,946,378	6,323,072	1,646,840	2,212,445
Revenue - related parties	6	53,556	95,232	16,018	27,540
	3	4,999,934	6,418,304	1,662,858	2,239,985
Cost of sales		(2,902,351)	(4,302,009)	(1,023,109)	(1,446,213)
Gross profit		2,097,583	2,116,295	639,749	793,772
General and administrative expenses		(221,916)	(334,553)	(59,547)	(100,736)
Distribution expenses		(420,382)	(558,038)	(133,588)	(196,317)
Other taxes and contributions		(54,778)	(75,232)	(16,102)	(18,273)
Share of associates' and joint ventures' loss		(2,907)	(6,008)	(7,467)	(5,703)
Loss on disposal of property, plant and equipment and intangible assets		(2,835)	(5,788)	(3,737)	(2,576)
Net other operating income		5,319	13,601	2,750	9,748
Profit from operations		1,400,084	1,150,277	422,058	479,915
(Impairment)/reversal of impairment of non-current assets	10	(10,186)	(161,090)	(8,701)	16
Net other non-operating expenses	9	(28,894)	(69,029)	(5,484)	(42,066)
Profit before financing and taxation		1,361,004	920,158	407,873	437,865
Finance costs, net	4	(91,138)	(179,081)	(55,617)	(36,358)
Foreign exchange loss	5	(415,763)	(592,935)	(514,699)	(453,449)
Profit/(loss) before income tax		854,103	148,142	(162,443)	(51,942)
Income tax (expense)/benefit		(178,497)	(132,630)	32,010	(62,808)
Profit/(loss) from continuing operations		675,606	15,512	(130,433)	(114,750)
(Loss)/profit from discontinued operation	2	(3,270)	(816,013)	6	69,927
Profit/(loss) for the period		672,336	(800,501)	(130,427)	(44,823)
Attributable to:					
shareholders of PAO Severstal		673,048	(799,602)	(130,321)	(44,878)
non-controlling interests		(712)	(899)	(106)	55
Basic and diluted weighted average number of shares outstanding during the period (millions of shares)		810.6	810.6	810.6	810.6
Basic and diluted earnings/(loss) per share (US dollars)		0.83	(0.99)	(0.16)	(0.06)
Basic and diluted earnings/(loss) per share - continuing operations (US dollars)		0.83	0.02	(0.16)	(0.15)
Basic and diluted (loss)/earnings per share - discontinued operation		-	(1.01)	-	0.09

*These amounts reflect adjustments made in connection with the change in the unrealized gain in inventory calculation methodology (Note 1).

These consolidated interim condensed financial statements were approved by the Board of Directors on October 21, 2015.

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

PAO Severstal and subsidiaries

Consolidated interim condensed statements of comprehensive income Nine months ended September 30, 2015 and 2014

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

	Nine months ended September 30,		Three months ended September 30,	
	2015 (unaudited)	2014 (unaudited)*	2015 (unaudited)	2014 (unaudited)*
Profit/(loss) for the period	672,336	(800,501)	(130,427)	(44,823)
Other comprehensive loss:				
Items that will not be reclassified to profit or loss				
Actuarial (losses)/gains	(2,624)	(2,573)	(23)	266
Translation to presentation currency	(57,035)	(528,656)	(178,295)	(467,051)
Total items that will not be reclassified to profit or loss	(59,659)	(531,229)	(178,318)	(466,785)
Items that may be reclassified subsequently to profit or loss				
Translation to presentation currency - foreign operations	(179,193)	(207,902)	(15,737)	(166,367)
Total items that may be reclassified subsequently to profit or loss	(179,193)	(207,902)	(15,737)	(166,367)
Items that were reclassified to profit or loss				
Reclassification of foreign operation's reserve	-	(1,454)	-	(1,454)
Total items that were reclassified to profit or loss	-	(1,454)	-	(1,454)
Other comprehensive loss for the period	(238,852)	(740,585)	(194,055)	(634,606)
Total comprehensive income/(loss) for the period	433,484	(1,541,086)	(324,482)	(679,429)
Attributable to:				
shareholders of PAO Severstal	434,778	(1,538,694)	(323,747)	(677,870)
non-controlling interests	(1,294)	(2,392)	(735)	(1,559)

*These amounts reflect adjustments made in connection with the change in the unrealized gain in inventory calculation methodology (Note 1).

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

PAO Severstal and subsidiaries

Consolidated interim condensed statements of financial position September 30, 2015 and December 31, 2014

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

	Note	September 30, 2015 (unaudited)	December 31, 2014*
Assets			
Current assets:			
Cash and cash equivalents		1,674,506	1,896,675
Short-term financial investments		19,543	21,129
Trade accounts receivable		493,026	648,990
Accounts receivable from related parties	7	10,428	14,735
Restricted financial assets		390	-
Inventories		720,586	815,112
VAT recoverable		63,629	63,642
Income tax recoverable		28,991	29,416
Other current assets		93,681	122,199
Total current assets		3,104,780	3,611,898
Non-current assets:			
Long-term financial investments		56,374	85,748
Investments in associates and joint ventures		40,719	81,436
Property, plant and equipment		2,851,863	3,336,298
Intangible assets		337,059	376,755
Deferred tax assets		32,989	43,814
Other non-current assets		8,768	16,594
Total non-current assets		3,327,772	3,940,645
Total assets		6,432,552	7,552,543
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		359,962	500,228
Accounts payable to related parties	7	12,100	15,898
Short-term debt finance	8	531,397	774,493
Income taxes payable		3,054	8,814
Other taxes and social security payable		116,657	99,719
Dividends payable		151,057	2,355
Other current liabilities		247,709	332,881
Total current liabilities		1,421,936	1,734,388
Non-current liabilities:			
Long-term debt finance	8	1,972,627	2,654,370
Deferred tax liabilities		216,202	120,368
Retirement benefit liabilities		40,978	48,258
Other non-current liabilities		136,566	167,780
Total non-current liabilities		2,366,373	2,990,776
Equity:			
Share capital		2,752,728	2,752,728
Treasury shares		(235,657)	(235,657)
Additional capital		296,236	312,645
Translation reserve		(2,209,841)	(1,974,195)
Retained earnings		2,024,237	1,953,966
Other reserves		265	265
Total equity attributable to shareholders of PAO Severstal		2,627,968	2,809,752
Non-controlling interests		16,275	17,627
Total equity		2,644,243	2,827,379
Total equity and liabilities		6,432,552	7,552,543

*These amounts reflect adjustments made in connection with the change in the unrealized gain in inventory calculation methodology (Note 1).

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

PAO Severstal and subsidiaries

Consolidated interim condensed statements of cash flows Nine months ended September 30, 2015 and 2014

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

	Nine months ended September 30,	
	2015 (unaudited)	2014 (unaudited)*
Operating activities:		
Profit before financing and taxation	1,361,004	920,158
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization	279,812	440,126
Impairment of non-current assets	10,186	161,090
Movements in provision for inventories, receivables and other provisions	28,111	43,128
Loss on disposal of property, plant and equipment and intangible assets	2,835	5,788
(Gain)/loss on disposal of subsidiaries	(4,000)	24,457
Share of associates' and joint ventures' results less dividends from associates and joint ventures	5,578	11,263
Changes in operating assets and liabilities:		
Trade accounts receivable	78,107	16,386
Amounts receivable from related parties	5,458	(3,850)
VAT recoverable	(12,720)	(1,137)
Inventories	(41,364)	4,548
Trade accounts payable	(99,704)	(43,112)
Amounts payable to related parties	(4,017)	(510)
Other taxes and social security payable	33,372	45,140
Other non-current liabilities	(5,019)	(25,913)
Net other changes in operating assets and liabilities	(16,773)	20,947
Cash generated from operations	1,620,866	1,618,509
Interest paid	(126,011)	(189,723)
Income tax paid	(31,785)	(45,035)
Net cash from operating activities - continuing operations	1,463,070	1,383,751
Net cash (used in)/from operating activities - discontinued operation	(17,371)	123,045
Net cash from operating activities	1,445,699	1,506,796
Investing activities:		
Additions to property, plant and equipment	(300,284)	(575,478)
Additions to intangible assets	(16,942)	(46,910)
Additions to financial investments	(5,324)	(20,192)
Proceeds from disposal of subsidiaries	4,000	1,986,878
Proceeds from disposal of property, plant and equipment	17,258	17,738
Proceeds from disposal of financial investments	3,879	7,204
Interest received	83,434	26,747
Dividends received	-	1,224
Net cash (used in)/from investing activities - continuing operations	(213,979)	1,397,211
Net cash used in investing activities - discontinued operation	-	(94,207)
Net cash (used in)/from investing activities	(213,979)	1,303,004
Financing activities:		
Proceeds from debt finance	119,105	1,035,114
Repayments of debt finance **	(1,075,625)	(1,467,839)
Repayments under lease obligations	(159)	(193)
Dividends paid	(415,680)	(216,405)
Acquisitions of non-controlling interests	(218)	-
Net cash used in financing activities - continuing operations	(1,372,577)	(649,323)
Net cash used in financing activities - discontinued operation	-	(367,191)
Net cash used in financing activities	(1,372,577)	(1,016,514)
Effect of exchange rates on cash and cash equivalents	(81,312)	(75,982)
Net (decrease)/increase in cash and cash equivalents	(222,169)	1,717,304
Cash and cash equivalents at beginning of the period	1,896,675	1,035,948
Cash and cash equivalents at end of the period	1,674,506	2,753,252

*These amounts reflect adjustments made in connection with the change in the unrealized gain in inventory calculation methodology (Note 1).

** These amounts include repurchases of bonds issued in the amount of US\$ 611.4 million for the nine months ended September 30, 2015 and repurchase and redemption of bonds issued of US\$ 842.5 million for the nine months ended September 30, 2014.

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

PAO Severstal and subsidiaries

Consolidated interim condensed statements of changes in equity Nine months ended September 30, 2015 and 2014

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

	Attributable to shareholders of PAO Severstal						Non- controlling interests	Total	
	Share capital	Treasury shares	Additional capital	Translation reserve	Retained earnings*	Other reserves	Total		
Balances at December 31, 2013	2,752,728	(235,657)	315,922	(542,186)	4,675,975	1,044	6,967,826	15,931	6,983,757
Loss for the period (unaudited)	-	-	-	-	(799,602)	-	(799,602)	(899)	(800,501)
Translation to presentation currency (unaudited)	-	-	-	(735,065)	-	-	(735,065)	(1,493)	(736,558)
Other comprehensive loss (unaudited)	-	-	-	(675)	(2,573)	(779)	(4,027)	-	(4,027)
Total comprehensive loss for the period (unaudited)	-	-	-	(735,740)	(802,175)	(779)	(1,538,694)	(2,392)	(1,541,086)
Dividends (unaudited)	-	-	-	-	(194,544)	-	(194,544)	(49)	(194,593)
Repurchase of convertible bonds (unaudited)	-	-	(3,277)	-	-	-	(3,277)	-	(3,277)
Effect of disposal without a change in control (unaudited)	-	-	-	-	639	-	639	7,590	8,229
Balances at September 30, 2014 (unaudited)	2,752,728	(235,657)	312,645	(1,277,926)	3,679,895	265	5,231,950	21,080	5,253,030
Balances at December 31, 2014	2,752,728	(235,657)	312,645	(1,974,195)	1,953,966	265	2,809,752	17,627	2,827,379
Profit/(loss) for the period (unaudited)	-	-	-	-	673,048	-	673,048	(712)	672,336
Translation to presentation currency (unaudited)	-	-	-	(235,646)	-	-	(235,646)	(582)	(236,228)
Other comprehensive loss (unaudited)	-	-	-	-	(2,624)	-	(2,624)	-	(2,624)
Total comprehensive (loss)/income for the period (unaudited)	-	-	-	(235,646)	670,424	-	434,778	(1,294)	433,484
Dividends (unaudited)	-	-	-	-	(599,855)	-	(599,855)	-	(599,855)
Repurchase of convertible bonds (unaudited)	-	-	(16,409)	-	-	-	(16,409)	-	(16,409)
Effect of acquisitions without a change in control (unaudited)	-	-	-	-	(298)	-	(298)	(58)	(356)
Balances at September 30, 2015 (unaudited)	2,752,728	(235,657)	296,236	(2,209,841)	2,024,237	265	2,627,968	16,275	2,644,243

*These amounts reflect adjustments made in connection with the change in the unrealized gain in inventory calculation methodology (Note 1).

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

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2015 and 2014

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

1. Accounting policies and estimates

These consolidated interim condensed financial statements of PAO 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.

In the three and nine months ended September 30, 2015 the US dollar strengthened significantly against the Russian ruble, the Euro and most other functional currencies used within the Group as compared with the same periods in 2014. These foreign exchange fluctuations affected the Group's financial position and results.

Adoption amended IFRS

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, 2014, except that the Group has adopted those amended Standards that are mandatory for financial annual periods beginning on January 1, 2015.

Standards	Effective for annual periods beginning on or after
IAS 16 (Amended) "Property, Plant and Equipment"	July 1, 2014
IAS 19 (Amended) "Employee Benefits"	July 1, 2014
IAS 24 (Amended) "Related Party Disclosures"	July 1, 2014
IAS 37 (Amended) "Provisions, Contingent Liabilities and Contingent Assets"	July 1, 2014
IAS 38 (Amended) "Intangible Assets"	July 1, 2014
IAS 39 (Amended) "Financial Instruments: Recognition and Measurement"	July 1, 2014
IAS 40 (Amended) "Investment Property"	July 1, 2014
IFRS 1 (Amended) "First-time Adoption of International Financial Reporting Standards"	July 1, 2014
IFRS 2 (Amended) "Share-based Payment"	July 1, 2014
IFRS 3 (Amended) "Business Combinations"	July 1, 2014
IFRS 8 (Amended) "Operating Segments"	July 1, 2014
IFRS 9 (Amended) "Financial Instruments"	July 1, 2014
IFRS 13 (Amended) "Fair Value Measurement"	July 1, 2014

Amended IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in gross carrying amount of the asset. At the date of revaluation, either the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation (amortization) is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or the accumulated depreciation (amortization) is eliminated against the gross carrying amount of the asset. Amended IAS 16 and IAS 38 did not have a significant effect on the Group's consolidated interim condensed financial statements.

Amended IAS 19 *Employee Benefits* permits contributions from employees and third parties that are independent of the number of years of service to be recognized as a reduction in the service costs in

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2015 and 2014

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

the period in which the service is rendered, instead of allocating the contributions to periods of service. Other contributions by employees or third parties are required to be attributed to periods of service either using the plan's contribution formula or on a straight-line basis. Amended IAS 19 did not have a significant effect on the Group's consolidated interim condensed financial statements.

Amended IAS 24 *Related Party Disclosures* clarifies that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Amended IAS 24 did not have a significant effect on the Group's consolidated interim condensed financial statements.

Amended IAS 40 *Investment Property* clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 *Business Combinations* and investment property as defined in IAS 40 requires the separate application of both standards independently of each other. Amended IAS 40 did not have a significant effect on the Group's consolidated interim condensed financial statements.

Amended IFRS 1 *First-time Adoption of International Financial Reporting* clarifies that a first-time adopter is allowed, but not required, to apply a new IFRS that is not yet mandatory if that IFRS permits early application. If an entity chooses to early apply a new IFRS, the new IFRS is to be applied retrospectively throughout all the periods presented, unless IFRS 1 provides an exemption or an exception that permits or requires otherwise. Amended IFRS 1 did not have a significant effect on the Group's consolidated interim condensed financial statements, since the Group is not a first-time adopter of IFRS.

Amended IFRS 2 *Share-based Payment* revises the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. Also the 'market condition' now includes cases when the exercise price, vesting or exercisability of an equity instruments relate to the market price or the value of equity instruments of another entity in the same group, in addition to those of entity. Amended IFRS 2 did not have a significant effect on the Group's consolidated interim condensed financial statements.

Amended IFRS 3 *Business Combinations* clarifies the classification and measurement of contingent consideration in a business combination. When contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to IAS 32 *Financial instruments: Presentation*, rather than to any other IFRSs. Contingent consideration that is classified as an asset or a liability is always subsequently measured at fair value, with changes in fair value recognized in profit and loss. Consequential amendments were also made to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. In addition, IFRS 3 clarifies that this standard does not apply to the accounting for the formation of all types of joint arrangements in IFRS 11 *Joint Arrangements* in the financial statements of the joint arrangement itself. Amended IFRS 3 did not have a significant effect on the Group's consolidated interim condensed financial statements.

Amended IFRS 8 *Operating Segments* requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have similar economic characteristics. In addition, IFRS 8 clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision maker. Amended IFRS 8 did not have a significant effect on the Group's consolidated interim condensed financial statements.

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Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2015 and 2014

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

Amended IFRS 13 *Fair Value Measurement* clarifies that it is acceptable to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial. In addition, IFRS 13 clarifies that the scope of the portfolio exception – whereby entities are exempted from measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis if certain conditions are met – includes all contracts accounted for within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 *Financial Instruments: Presentation*. Amended IFRS 13 did not have a significant effect on the Group's consolidated interim condensed financial statements.

New accounting pronouncements

A number of new and amended Standards were not yet effective for the nine months ended September 30, 2015, and have not been applied in these consolidated interim condensed financial statements.

Standards	Effective for annual periods beginning on or after
IAS 1 (Amended) "Presentation of Financial Statements"	January 1, 2016
IAS 16 (Amended) "Property, Plant and Equipment"	January 1, 2016
IAS 19 (Amended) "Employee Benefits"	January 1, 2016
IAS 27 (Amended) "Separate Financial Statements"	January 1, 2016
IAS 28 (Amended) "Investments in Associates and Joint Ventures"	January 1, 2016
IAS 34 (Amended) "Interim Financial Reporting"	January 1, 2016
IAS 38 (Amended) "Intangible Assets"	January 1, 2016
IAS 41 (Amended) "Agriculture"	January 1, 2016
IFRS 1 (Amended) "First-time Adoption of International Financial Reporting Standards"	January 1, 2016
IFRS 5 (Amended) "Non-current Assets Held for Sale and Discontinued Operations"	January 1, 2016
IFRS 7 (Amended) "Financial Instruments: Disclosure"	January 1, 2016
IFRS 9 (Amended) "Financial Instruments"	January 1, 2018
IFRS 10 (Amended) "Consolidated Financial Statements"	January 1, 2016
IFRS 11 (Amended) "Joint Arrangements"	January 1, 2016
IFRS 12 (Amended) "Disclosure of Interests in Other Entities"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018

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.

IFRS 9 *Financial Instruments* is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement*. Amended IFRS 7 *Financial Instruments: Disclosure* requires additional disclosure on transition from IAS 39 to IFRS 9. The standard provides amended guidance on the recognition and measurement of financial assets and liabilities. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements.

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2015 and 2014

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

Restatements

During the current year the Group changed its methodology for calculating unrealized gain in inventory.

Accordingly the following adjustments were made to the prior period:

	Nine months ended September 30, 2014 (unaudited)	Three months ended September 30, 2014 (unaudited)
Decrease in cost of sales	8,919	707
Increase in income tax expense	(1,666)	(106)
Decrease in loss for the period	7,253	601
	December 31, 2014	
Decrease in inventories	(8,219)	
Increase in deferred tax liabilities	1,975	
Decrease in retained earnings	(10,194)	

2. Discontinued operation

The Group's discontinued operation represented the Severstal International reportable segment, following the management's decision to dispose of this business.

The result of discontinued operation was as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Revenue	-	3,014,442	-	932,656
(Expenses)/income	(3,270)	(3,861,501)	6	(941,489)
(Loss)/profit before income tax	(3,270)	(847,059)	6	(8,833)
Income tax expense	-	(54,272)	-	(6,558)
(Loss)/profit for the period	(3,270)	(901,331)	6	(15,391)
Net gain on disposal	-	85,318	-	85,318
(Loss)/profit for the period	(3,270)	(816,013)	6	69,927
Attributable to:				
shareholders of PAO Severstal	(3,270)	(816,013)	6	69,927

In September 2014, the Group sold its 100% stakes in Severstal Dearborn LLC and Severstal Columbus LLC comprising, together with their subsidiaries and investments in joint ventures and associates, the Severstal International reporting segment. The preliminary cash consideration received by the Group under the respective sale agreements amounted to US\$ 1,998.5 million, after settlement of US\$ 385.3 million of external debt. A cumulative net loss on the disposal comprised US\$ 826.6 million, of which the loss of US\$ 911.9 million was primarily recognized as impairment of property, plant and equipment in June, 2014 and included into the expenses of discontinued operation, and net gain on the disposal of US\$ 85.3 million recognized upon the disposal in September, 2014.

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2015 and 2014

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

A summary of assets and liabilities disposed during the nine months ended September 30, 2015 and 2014 is presented below:

	Nine months ended September 30,		Three months ended September 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Cash and cash equivalents	-	(62,998)	-	(62,998)
Trade accounts receivable	-	(328,623)	-	(328,623)
Inventories	-	(682,502)	-	(682,502)
Other current assets	-	(36,443)	-	(36,443)
Property, plant and equipment	-	(1,591,066)	-	(1,591,066)
Intangible assets	-	(8,254)	-	(8,254)
Long-term financial investments	-	(30,085)	-	(30,085)
Other non-current assets	-	(108,967)	-	(108,967)
Trade accounts payable	-	383,975	-	383,975
Accounts payable to related parties	-	27,244	-	27,244
Other taxes and social security payable	-	3,896	-	3,896
Other current liabilities	-	29,064	-	29,064
Long-term debt finance	-	385,323	-	385,323
Other non-current liabilities	-	106,216	-	106,216
Net identifiable assets	-	(1,913,220)	-	(1,913,220)
Consideration in cash	-	1,998,538	-	1,998,538
Net gain on disposal	-	85,318	-	85,318
Net change in cash and cash equivalents	-	1,935,540	-	1,935,540

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

3. Revenue

Revenue by product was as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hot-rolled strip and plate	1,436,503	1,884,664	472,528	641,683
Large diameter pipes	545,499	376,984	145,047	176,828
Cold-rolled sheet	459,451	632,629	156,977	213,563
Metalware products	382,670	524,756	129,663	175,669
Long products	359,775	449,119	117,494	176,575
Shipping and handling costs billed to customers	358,247	502,578	125,767	164,537
Other tubes and pipes, formed shapes	309,301	397,190	106,152	148,348
Galvanized and other metallic coated sheet	271,540	336,199	104,524	137,013
Colour-coated sheet	241,319	334,012	105,445	143,947
Pellets and iron ore	234,158	404,199	76,038	111,920
Coal and coking coal concentrate	124,683	173,740	39,847	47,155
Semi-finished products	96,485	126,633	25,976	7,413
Scrap	2,381	10,543	867	448
Others	177,922	265,058	56,533	94,886
	<u>4,999,934</u>	<u>6,418,304</u>	<u>1,662,858</u>	<u>2,239,985</u>

Revenue by delivery destination was as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Russian Federation	3,255,981	4,029,575	1,139,990	1,534,159
Europe	1,102,051	1,416,808	341,787	453,059
China and Central Asia	224,198	221,477	56,064	54,433
The Middle East	215,054	196,992	83,325	70,076
Central and South America	76,708	105,447	8,985	5,347
Africa	69,499	72,337	15,961	12,119
North America	46,072	309,777	16,161	98,537
South-East Asia	10,371	65,891	585	12,255
	<u>4,999,934</u>	<u>6,418,304</u>	<u>1,662,858</u>	<u>2,239,985</u>

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

4. Finance costs, net

	Nine months ended September 30,		Three months ended September 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Interest expense	(157,695)	(196,167)	(60,521)	(54,451)
Interest income	83,907	16,138	25,918	11,787
(Loss)/gain on remeasurement and disposal of financial investments	(10,935)	4,691	(19,030)	7,616
Other finance costs	(6,415)	(3,743)	(1,984)	(1,310)
	<u>(91,138)</u>	<u>(179,081)</u>	<u>(55,617)</u>	<u>(36,358)</u>

5. Foreign exchange loss

	Nine months ended September 30,		Three months ended September 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Foreign exchange loss on cash and cash equivalents and debt finance	(439,144)	(657,600)	(585,294)	(482,742)
Foreign exchange gain on other assets and liabilities	23,381	64,665	70,595	29,293
	<u>(415,763)</u>	<u>(592,935)</u>	<u>(514,699)</u>	<u>(453,449)</u>

6. Related party transactions

	Nine months ended September 30,		Three months ended September 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Revenue - related parties:				
Revenue - associates	20,404	32,759	5,867	10,922
Revenue - joint ventures	14,125	25,173	4,175	5,095
Revenue - other related parties	19,027	37,300	5,976	11,523
Proceeds from disposal of property, plant and equipment:				
Proceeds from disposal of property, plant and equipment to other related parties	2,393	-	-	-
Interest income from related parties:				
Interest income from joint ventures	2,575	3,757	820	1,239
Interest income from other related parties	18,621	7,487	5,503	2,783
	<u>77,145</u>	<u>106,476</u>	<u>22,341</u>	<u>31,562</u>
Purchases from related parties:				
Purchases from associates:				
Non-capital expenditures	46,328	67,247	13,850	21,765
Purchases from joint ventures:				
Non-capital expenditures	859	4,309	231	1,481
Purchases from other related parties:				
Non-capital expenditures	17,116	24,780	4,870	7,858
Capital expenditures	3,273	58	1,703	58
	<u>67,576</u>	<u>96,394</u>	<u>20,654</u>	<u>31,162</u>

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2015 and 2014

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

7. Related party balances

	September 30, 2015 (unaudited)	December 31, 2014
Joint ventures' balances		
Short-term trade accounts receivable	2,580	807
Short-term loans	481	471
Long-term loans	42,489	48,126
Short-term trade accounts payable	116	424
Associates' balances		
Short-term trade accounts receivable	2,317	3,003
Short-term loans	5,193	4,778
Short-term trade accounts payable	5,642	6,720
Other related party balances		
Cash and cash equivalents at related party bank	328,613	309,092
Accounts receivable from other related parties:		
Short-term trade accounts receivable	4,563	8,732
Advances paid	112	551
Short-term other receivables	856	1,642
Short-term loans	43	320
Short-term promissory notes	6,686	6,755
Long-term other receivables	921	1,491
Available-for-sale financial assets	297	450
	<u>13,478</u>	<u>19,941</u>
Accounts payable to other related parties:		
Short-term trade accounts payable	602	5,423
Advances received	566	73
Short-term other accounts payable	5,174	3,258
Long-term other accounts payable	5,922	8,960
	<u>12,264</u>	<u>17,714</u>
Debt financing includes the following balances with other related parties:		
Short-term debt financing	33	196
Long-term debt financing	392	-
	<u>425</u>	<u>196</u>

The amounts outstanding are expected to be settled in cash. The Group did not hold any collateral for amounts owed by related parties.

8. Debt finance

As of September 30, 2015 the fair value of the Group's financial liabilities was greater than their carrying amount by approximately US\$ 6.9 million.

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2015 and 2014

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

9. Acquisition and disposal

Disposal of subsidiary (other than discontinued operation)

In August 2014, the Group sold its 100% stake in PBS Coals Ltd for a total consideration of US\$ 57.1 million. A cumulative net loss on the disposal of US\$ 174.4 million was recognized in these consolidated interim condensed financial statements, of which US\$ 153.9 million was recognized as impairment of property, plant and equipment in June, 2014 and US\$ 20.5 million recognized as part of net other non-operating expense upon the disposal.

In July 2015, the Group received the contingent consideration for the PBS Coals Ltd sale of US\$ 4.0 million after settlement with the purchaser.

A summary of assets and liabilities disposed during the nine months ended September 30, 2015 and 2014 is presented below:

	Nine months ended September 30,		Three months ended September 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Cash and cash equivalents	-	(1,780)	-	(1,780)
Trade accounts receivable	-	(11,935)	-	(11,935)
Inventories	-	(21,047)	-	(21,047)
Other current assets	-	(2,644)	-	(2,644)
Property, plant and equipment	-	(25,729)	-	(25,729)
Intangible assets	-	(64,882)	-	(64,882)
Other non-current assets	-	(51,792)	-	(51,792)
Trade accounts payable	-	12,049	-	12,049
Other taxes and social security payable	-	421	-	421
Other current liabilities	-	7,933	-	7,933
Deferred tax liabilities	-	26,348	-	26,348
Other non-current liabilities	-	55,505	-	55,505
Net identifiable assets	-	(77,553)	-	(77,553)
Consideration in cash	4,000	53,101	4,000	53,101
Net gain/(loss) on disposal	4,000	(24,452)	4,000	(24,452)
Net change in cash and cash equivalents	4,000	51,321	4,000	51,321

Transaction within discontinued operation

In July 2014, the Group acquired an additional 50% stake in Mountain State Carbon LLC from a third party for a total consideration of US\$ 30.0 million, increasing its ownership interest up to 100%. The consideration paid by the Group also included cancellation of the promissory note receivable from the same third party with a face value of US\$ 100.0 million and a carrying value of nil.

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2015 and 2014

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

10. Impairment of non-current assets

Severstal Liberia Iron Ore Ltd

2015

During nine months ended 30 September, 2015 due to the decrease in iron ore prices the Group assessed the recoverable amount of Severstal Liberia Iron Ore Ltd. As a result, the Group recognized an impairment loss of US\$ 9.0 million in relation to non-current assets of Severstal Liberia Iron Ore Ltd based on its fair value less costs to sell. The loss was fully allocated to evaluation and exploration assets.

PBS Coals Limited

2014

In June 2014, the Group recognized US\$ 153.9 million of impairment loss in respect of PBS Coals Ltd (Note 9).

11. Segment information

As of September 30, 2015 the Group had two reportable segments: Severstal Resources and Severstal Russian Steel.

Severstal Resources has its extraction facilities in the Russian Federation and Liberia producing iron ore and coal.

Severstal 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 to the domestic Russian market, serving the needs of the Russian automotive, construction, shipbuilding, oil and gas, engineering and other industries, as well as on the international market.

In January, 2015 some of the Group's entities were transferred from the Severstal Resources segment to the Severstal Russian Steel segment following a change in the Group's management structure. The comparative information had been presented as if the transfer occurred at the beginning of the earliest comparative period presented.

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

The following is an analysis of the Group's revenue and profit before financing and taxation by segments (the discontinued operation is excluded):

	Nine months ended September 30,		Three months ended September 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Revenue				
Severstal Resources	941,273	1,493,489	296,406	440,073
Severstal Russian Steel	4,580,210	5,834,400	1,526,845	2,099,485
Intersegment transactions	(521,549)	(909,585)	(160,393)	(299,573)
	<u>4,999,934</u>	<u>6,418,304</u>	<u>1,662,858</u>	<u>2,239,985</u>
Profit before financing and taxation				
Severstal Resources	139,634	42,523	28,079	27,440
Severstal Russian Steel	1,209,829	831,017	358,105	403,649
Intersegment transactions	11,541	46,618	21,689	6,776
	<u>1,361,004</u>	<u>920,158</u>	<u>407,873</u>	<u>437,865</u>

The following is an analysis of the Group's total assets by segments:

	September 30, 2015 (unaudited)	December 31, 2014
Total assets		
Severstal Resources	3,558,417	3,924,916
Severstal Russian Steel	7,039,599	8,205,414
Intersegment balances	(4,165,464)	(4,577,787)
	<u>6,432,552</u>	<u>7,552,543</u>

The following is an analysis of the Group's total liabilities by segments:

	September 30, 2015 (unaudited)	December 31, 2014
Total liabilities		
Severstal Resources	714,566	931,760
Severstal Russian Steel	3,741,809	4,873,603
Intersegment balances	(668,066)	(1,080,199)
	<u>3,788,309</u>	<u>4,725,164</u>

12. Contingencies for litigation, tax and other liabilities

As of September 30, 2015 the contingent claims made by counterparties to certain Group's entities amounted to US\$ nil (December 31, 2014: US\$ 24.4 million and US\$ 15.8 million related to utilities supply agreements and factoring agreements, respectively).

As of September 30, 2015 the contingent claims for taxes, fines and penalties made by the Russian tax authorities to certain Group's entities amounted to approximately US\$ 21.7 million (December 31, 2014: US\$ 2.0 million). 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 resources to settle such claims, if any. Management believes that it has made adequate provisions for other probable tax claims.

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Notes to the consolidated interim condensed financial statements Nine months ended September 30, 2015 and 2014

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

13. Capital commitments

As of September 30, 2015 the Group had contractual capital commitments of US\$ 198.4 million (December 31, 2014: US\$ 244.0 million).

14. Dividends

On June 11, 2014 the Meeting of Shareholders approved an annual dividend of RUB 3.83 (US\$ 0.11 at June 11, 2014 exchange rate) per share and per GDR for the year 2013 and an interim dividend of RUB 2.43 (US\$ 0.07 at June 11, 2014 exchange rate) per share and per GDR for the first quarter of 2014.

On September 10, 2014 the Meeting of Shareholders approved an interim dividend of RUB 2.14 (US\$ 0.06 at September 10, 2014 exchange rate) per share and per GDR for the first six months of 2014.

On May 25, 2015 the Meeting of Shareholders approved an annual dividend of RUB 14.65 (US\$ 0.29 at May 25, 2015 exchange rate) per share and per GDR for the year 2014 and an interim dividend of RUB 12.81 (US\$ 0.26 at May 25, 2015 exchange rate) per share and per GDR for the first quarter of 2015.

On September 15, 2015 the Meeting of Shareholders approved an interim dividend of RUB 12.63 (US\$ 0.19 at September 15, 2015 exchange rate) per share and per GDR for the first six months of 2015.