

PAO Severstal and subsidiaries

Consolidated interim condensed financial statements
for the three months ended March 31, 2015 and 2014

PAO Severstal and subsidiaries

Consolidated interim condensed financial statements Three months ended March 31, 2015 and 2014

Contents

	<u>Page</u>
Auditors' Report	1
Consolidated interim condensed income statements	3
Consolidated interim condensed statements of comprehensive income	4
Consolidated interim condensed statements of financial position	5
Consolidated interim condensed statements of cash flows	6
Consolidated interim condensed statements of changes in equity	7
Notes to the consolidated interim condensed financial statements	8 – 16
1. Accounting policies and estimates	8
2. Discontinued operation	11
3. Revenue	12
4. Finance costs, net	13
5. Foreign exchange loss	13
6. Related party transactions	13
7. Related party balances	14
8. Debt finance	14
9. Segment information	15
10. Contingencies for litigation and other liabilities	16
11. Capital commitments	16



JSC "KPMG"
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Auditors' Report on Review of Consolidated Interim Condensed Financial Statements

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 31 March 2015, and the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 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 31 March 2015 and for the three-month periods ended 31 March 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"

22 April 2015

Moscow, Russian Federation



PAO Severstal and subsidiaries

Consolidated interim condensed income statements Three months ended March 31, 2015 and 2014

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

	Note	Three months ended March 31,	
		2015 (unaudited)	2014 (unaudited)*
Revenue			
Revenue - third parties		1,514,501	1,957,930
Revenue - related parties	6	16,801	32,751
	3	1,531,302	1,990,681
Cost of sales		(811,843)	(1,356,552)
Gross profit		719,459	634,129
General and administrative expenses		(76,610)	(117,723)
Distribution expenses		(130,102)	(176,079)
Other taxes and contributions		(15,860)	(28,264)
Share of associates' and joint ventures' profit/(loss)		4,858	(3,522)
(Loss)/gain on disposal of property, plant and equipment and intangible assets		(1,020)	1,212
Net other operating income/(expenses)		1,710	(228)
Profit from operations		502,435	309,525
Impairment of non-current assets		(272)	(7,438)
Net other non-operating expenses		(13,935)	(13,009)
Profit before financing and taxation		488,228	289,078
Finance costs, net	4	(11,365)	(61,092)
Foreign exchange loss	5	(31,266)	(325,967)
Profit/(loss) before income tax		445,597	(97,981)
Income tax (expense)/benefit		(102,203)	25,346
Profit/(loss) from continuing operations		343,394	(72,635)
Loss from discontinued operation	2	(1,157)	(27,567)
Profit/(loss) for the period		342,237	(100,202)
Attributable to:			
shareholders of PAO Severstal		342,539	(99,581)
non-controlling interests		(302)	(621)
Basic and diluted weighted average number of shares outstanding during the period (millions of shares)		810.6	810.6
Basic and diluted earnings/(loss) per share (US dollars)		0.42	(0.12)
Basic and diluted earnings/(loss) per share - continuing operations (US dollars)		0.42	(0.09)
Basic loss per share - discontinued operation (US dollars)		-	(0.03)

*These amounts reflect adjustments made in connection with the presentation of the discontinued operation.

These consolidated interim condensed financial statements were approved by the Board of Directors on April 22, 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 Three months ended March 31, 2015 and 2014

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

	Three months ended March 31,	
	2015 (unaudited)	2014 (unaudited)
Profit/(loss) for the period	342,237	(100,202)
Other comprehensive loss:		
Items that will not be reclassified to profit or loss		
Actuarial losses	(2,445)	(2,795)
Translation to presentation currency	37,741	(245,543)
Total items that will not be reclassified to profit or loss	35,296	(248,338)
Items that may be reclassified subsequently to profit or loss		
Translation to presentation currency - foreign operations	(232,054)	(19,040)
Total items that may be reclassified subsequently to profit or loss	(232,054)	(19,040)
Other comprehensive loss for the period	(196,758)	(267,378)
Total comprehensive income/(loss) for the period	145,479	(367,580)
Attributable to:		
shareholders of PAO Severstal	146,043	(366,414)
non-controlling interests	(564)	(1,166)

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 March 31, 2015 and December 31, 2014

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

		March 31, 2015	
	Note	(unaudited)	December 31, 2014
Assets			
Current assets:			
Cash and cash equivalents		1,522,405	1,896,675
Short-term financial investments		19,532	21,129
Trade accounts receivable		682,502	648,990
Accounts receivable from related parties	7	12,625	14,735
Inventories		853,675	823,331
VAT recoverable		78,119	63,642
Income tax recoverable		33,948	29,416
Other current assets		93,634	122,199
Total current assets		3,296,440	3,620,117
Non-current assets:			
Long-term financial investments		76,274	85,748
Investments in associates and joint ventures		76,429	81,436
Property, plant and equipment		3,210,629	3,336,298
Intangible assets		368,814	376,755
Deferred tax assets		31,389	43,814
Other non-current assets		15,658	16,594
Total non-current assets		3,779,193	3,940,645
Total assets		7,075,633	7,560,762
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		411,829	500,228
Accounts payable to related parties	7	12,771	15,898
Short-term debt finance	8	480,269	774,493
Income taxes payable		5,705	8,814
Other taxes and social security payable		111,102	99,719
Dividends payable		1,960	2,355
Other current liabilities		238,541	332,881
Total current liabilities		1,262,177	1,734,388
Non-current liabilities:			
Long-term debt finance	8	2,418,490	2,654,370
Deferred tax liabilities		206,356	118,393
Retirement benefit liabilities		48,081	48,258
Other non-current liabilities		157,615	167,780
Total non-current liabilities		2,830,542	2,988,801
Equity:			
Share capital		2,752,728	2,752,728
Treasury shares		(235,657)	(235,657)
Additional capital		312,645	312,645
Translation reserve		(2,168,246)	(1,974,195)
Retained earnings		2,304,174	1,964,160
Other reserves		265	265
Total equity attributable to shareholders of PAO Severstal		2,965,909	2,819,946
Non-controlling interests		17,005	17,627
Total equity		2,982,914	2,837,573
Total equity and liabilities		7,075,633	7,560,762

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 Three months ended March 31, 2015 and 2014

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

	Three months ended March 31,	
	2015 (unaudited)	2014 (unaudited)*
Operating activities:		
Profit before financing and taxation	488,228	289,078
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization	86,651	145,261
Impairment of non-current assets	272	7,438
Movements in provision for inventories, receivables and other provisions	13,380	9,948
Loss/(gain) on disposal of property, plant and equipment and intangible assets	1,020	(1,212)
Share of associates' and joint ventures' results less dividends from associates and joint ventures	(4,858)	3,522
Changes in operating assets and liabilities:		
Trade accounts receivable	(66,487)	86,563
Amounts receivable from related parties	1,340	(837)
VAT recoverable	(18,280)	(11,014)
Inventories	(70,428)	(2,695)
Trade accounts payable	(67,710)	(30,185)
Amounts payable to related parties	(3,763)	(5,560)
Other taxes and social security payable	16,338	24,944
Other non-current liabilities	(692)	(13,427)
Net other changes in operating assets and liabilities	(51,969)	36,511
Cash generated from operations	323,042	538,335
Interest paid	(41,555)	(35,340)
Income tax paid	(4,260)	(7,678)
Net cash from operating activities - continuing operations	277,227	495,317
Net cash used in operating activities - discontinued operation	(14,194)	(7,337)
Net cash from operating activities	263,033	487,980
Investing activities:		
Additions to property, plant and equipment	(99,053)	(231,399)
Additions to intangible assets	(4,396)	(19,828)
Additions to financial investments	(1,925)	(11,476)
Proceeds from disposal of property, plant and equipment	2,291	4,861
Proceeds from disposal of financial investments	1,718	13,659
Interest received	33,215	7,137
Net cash used in investing activities - continuing operations	(68,150)	(237,046)
Net cash used in investing activities - discontinued operation	-	(13,589)
Net cash used in investing activities	(68,150)	(250,635)
Financing activities:		
Proceeds from debt finance	112,395	171,201
Repayments of debt finance	(666,353) **	(25,630)
Repayments under lease obligations	(53)	(65)
Dividends paid	(282)	(25,525)
Acquisition of non-controlling interests	(138)	-
Net cash (used in)/from financing activities - continuing operations	(554,431)	119,981
Net cash used in financing activities - discontinued operation	-	(477,865)
Net cash used in financing activities	(554,431)	(357,884)
Effect of exchange rates on cash and cash equivalents	(14,722)	(23,623)
Net decrease in cash and cash equivalents	(374,270)	(144,162)
Cash and cash equivalents at beginning of the period	1,896,675	1,035,948
Cash and cash equivalents at end of the period	1,522,405	891,786

*These amounts reflect adjustments made in connection with the presentation of the discontinued operation.

** This amount includes repurchases of bonds issued in the amount of US\$ 221.4 million for the three months ended March 31, 2015.

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 Three months ended March 31, 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)	4,692,475	1,044	6,984,326	15,931	7,000,257
Loss for the period (unaudited)	-	-	-	-	(99,581)	-	(99,581)	(621)	(100,202)
Translation to presentation currency (unaudited)	-	-	-	(264,038)	-	-	(264,038)	(545)	(264,583)
Other comprehensive loss (unaudited)	-	-	-	-	(2,795)	-	(2,795)	-	(2,795)
Total comprehensive loss for the period (unaudited)	-	-	-	(264,038)	(102,376)	-	(366,414)	(1,166)	(367,580)
Effect of disposal without a change in control (unaudited)	-	-	-	-	56	-	56	8,231	8,287
Balances at March 31, 2014 (unaudited)	2,752,728	(235,657)	315,922	(806,224)	4,590,155	1,044	6,617,968	22,996	6,640,964
Balances at December 31, 2014	2,752,728	(235,657)	312,645	(1,974,195)	1,964,160	265	2,819,946	17,627	2,837,573
Profit/(loss) for the period (unaudited)	-	-	-	-	342,539	-	342,539	(302)	342,237
Translation to presentation currency (unaudited)	-	-	-	(194,051)	-	-	(194,051)	(262)	(194,313)
Other comprehensive loss (unaudited)	-	-	-	-	(2,445)	-	(2,445)	-	(2,445)
Total comprehensive (loss)/income for the period (unaudited)	-	-	-	(194,051)	340,094	-	146,043	(564)	145,479
Effect of acquisition without a change in control (unaudited)	-	-	-	-	(80)	-	(80)	(58)	(138)
Balances at March 31, 2015 (unaudited)	2,752,728	(235,657)	312,645	(2,168,246)	2,304,174	265	2,965,909	17,005	2,982,914

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 Three months ended March 31, 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.

The presentation currency of these consolidated interim condensed financial statements is the US dollar. Compared to the previous period, the US dollar strengthened significantly against the Russian ruble and most other functional currencies used within the Group, which effected 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 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

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Three months ended March 31, 2015 and 2014

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

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.

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

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Three months ended March 31, 2015 and 2014

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

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 three months ended March 31, 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, 2017

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 Three months ended March 31, 2015 and 2014

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

2. Discontinued operation

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

The result of discontinued operation was as follows:

	Three months ended March 31,	
	2015	2014
	(unaudited)	(unaudited)
Revenue	-	1,016,022
Expenses	(1,157)	(1,043,711)
Loss before income tax	(1,157)	(27,689)
Income tax benefit	-	122
Loss for the period	(1,157)	(27,567)
Attributable to:		
shareholders of PAO Severstal	(1,157)	(27,567)

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 reportable segment. Consequently, the Severstal International reportable segment was presented as discontinued operation, and the comparative information for the three months ended March 31, 2014 was restated accordingly.

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Three months ended March 31, 2015 and 2014

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

3. Revenue

Revenue by product was as follows:

	Three months ended March 31,	
	2015	2014
	(unaudited)	(unaudited)
Hot-rolled strip and plate	458,917	605,893
Large diameter pipes	145,261	118,178
Cold-rolled sheet	134,987	194,007
Long products	122,922	110,539
Metalware products	113,443	159,761
Shipping and handling costs billed to customers	111,878	162,154
Other tubes and pipes, formed shapes	95,004	109,708
Pellets and iron ore	81,460	173,860
Galvanized and other metallic coated sheet	76,774	88,657
Colour-coated sheet	62,165	70,746
Semi-finished products	39,939	40,089
Coal and coking coal concentrate	34,375	69,672
Scrap	293	4,408
Others	53,884	83,009
	1,531,302	1,990,681

Revenue by delivery destination was as follows:

	Three months ended March 31,	
	2015	2014
	(unaudited)	(unaudited)
Russian Federation	939,013	1,136,526
Europe	345,412	539,315
China and Central Asia	97,924	84,311
The Middle East	58,341	68,887
Central and South America	45,074	34,050
Africa	29,385	33,536
South-East Asia	8,081	13
North America	8,072	94,043
	1,531,302	1,990,681

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Three months ended March 31, 2015 and 2014

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

4. Finance costs, net

	Three months ended March 31,	
	2015	2014
	(unaudited)	(unaudited)
Interest expense	(49,781)	(60,675)
Interest income	31,950	2,318
Gain/(loss) on remeasurement and disposal of financial investments	8,943	(1,464)
Other finance costs	(2,477)	(1,271)
	(11,365)	(61,092)

5. Foreign exchange loss

	Three months ended March 31,	
	2015	2014
	(unaudited)	(unaudited)
Foreign exchange gain/(loss) on cash and cash equivalents and debt finance	11,614	(388,449)
Foreign exchange (loss)/gain on other assets and liabilities	(42,880)	62,482
	(31,266)	(325,967)

6. Related party transactions

	Three months ended March 31,	
	2015	2014
	(unaudited)	(unaudited)
Revenue - related parties:		
Revenue - associates	6,861	11,023
Revenue - joint ventures	4,087	10,909
Revenue - other related parties	5,853	10,819
Interest income from related parties:		
Interest income from joint ventures	915	1,240
Interest income from other related parties	6,158	2,268
	23,874	36,259
Purchases from related parties:		
Purchases from associates:		
Non-capital expenditures	15,597	22,935
Purchases from joint ventures:		
Non-capital expenditures	333	1,146
Purchases from other related parties:		
Non-capital expenditures	6,209	11,560
	22,139	35,641

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Three months ended March 31, 2015 and 2014

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

7. Related party balances

	March 31, 2015 (unaudited)	December 31, 2014
Joint ventures' balances		
Short-term trade accounts receivable	2,305	807
Short-term loans	473	471
Long-term loans	42,573	48,126
Short-term trade accounts payable	112	424
Associates' balances		
Short-term trade accounts receivable	2,978	3,003
Short-term loans	4,851	4,778
Short-term trade accounts payable	6,385	6,720
Other related party balances		
Cash and cash equivalents at related party bank	252,563	309,092
Accounts receivable from other related parties:		
Short-term trade accounts receivable	5,173	8,732
Advances paid	539	551
Short-term other receivables	1,630	1,642
Short-term loans	43	320
Short-term promissory notes	6,934	6,755
Long-term other receivables	1,304	1,491
Available-for-sale financial assets	433	450
	<u>16,056</u>	<u>19,941</u>
Accounts payable to other related parties:		
Short-term trade accounts payable	2,555	5,423
Advances received	393	73
Short-term other accounts payable	3,326	3,258
Long-term other accounts payable	7,942	8,960
	<u>14,216</u>	<u>17,714</u>
Debt financing includes the following balances with other related parties:		
Short-term debt financing	51	196
	<u>51</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 March 31, 2015 the fair value of the Group's financial liabilities was less their carrying amount approximately by US\$ 89.2 million.

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Three months ended March 31, 2015 and 2014

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

9. Segment information

As of March 31, 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 part of the Group's entities were transferred from Severstal Resources segment to 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.

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

	Three months ended March 31,	
	2015	2014
	(unaudited)	(unaudited)
Revenue		
Severstal Resources	288,782	567,227
Severstal Russian Steel	1,395,678	1,729,287
Intersegment transactions	(153,158)	(305,833)
	1,531,302	1,990,681
Profit before financing and taxation		
Severstal Resources	33,264	130,621
Severstal Russian Steel	459,545	155,546
Intersegment transactions	(4,581)	2,911
	488,228	289,078

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

	March 31,	December 31,
	2015 (unaudited)	2014
Total assets		
Severstal Resources	4,058,154	3,924,916
Severstal Russian Steel	8,027,718	8,205,414
Intersegment balances	(5,010,239)	(4,569,568)
	7,075,633	7,560,762

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Three months ended March 31, 2015 and 2014

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

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

	March 31, 2015 (unaudited)	December 31, 2014
Total liabilities		
Severstal Resources	1,205,517	931,760
Severstal Russian Steel	4,404,898	4,873,603
Intersegment balances	(1,517,696)	(1,082,174)
	<u>4,092,719</u>	<u>4,723,189</u>

10. Contingencies for litigation and other liabilities

As of March 31, 2015 the actual contingent claims related to utilities supply agreements and factoring agreements made by counterparties to certain Group's entities amounted to approximately US\$ 23.5 million and US\$ 15.2 million, respectively (December 31, 2014: US\$ 24.4 million and US\$ 15.8 million, respectively). Management does not agree with these claims and has made all necessary steps to protect its position. Management is unable to assess the ultimate outcome of the claims and the outflow of financial resources to settle such claims, if any.

11. Capital commitments

As of March 31, 2015 the Group had contractual capital commitments of US\$ 214.8 million (December 31, 2014: US\$ 244.0 million).