

PAO Severstal and subsidiaries

Consolidated interim condensed financial statements
for the six months ended June 30, 2015 and 2014

PAO Severstal and subsidiaries

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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

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 June 2015, the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income for the three- and six-month periods ended 30 June 2015 and 2014, the related consolidated interim condensed statements of changes in equity and cash flows for the six-month periods ended 30 June 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 June 2015 and for the three- and six-month periods ended 30 June 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 July 2015

Moscow, Russian Federation

PAO Severstal and subsidiaries

Consolidated interim condensed income statements Six months ended June 30, 2015 and 2014

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

	Note	Six months ended June 30,		Three months ended June 30,	
		2015 (unaudited)	2014 (unaudited)*	2015 (unaudited)	2014 (unaudited)*
Revenue					
Revenue - third parties		3,299,538	4,110,627	1,785,037	2,152,697
Revenue - related parties	7	37,538	67,692	20,737	34,941
	4	3,337,076	4,178,319	1,805,774	2,187,638
Cost of sales		(1,879,242)	(2,855,796)	(1,060,082)	(1,499,874)
Gross profit		1,457,834	1,322,523	745,692	687,764
General and administrative expenses		(162,369)	(233,817)	(85,759)	(116,094)
Distribution expenses		(286,794)	(361,721)	(156,692)	(185,642)
Other taxes and contributions		(38,676)	(56,959)	(22,816)	(28,695)
Share of associates' and joint ventures' profit/(loss)		4,560	(305)	(298)	3,217
Gain/(loss) on disposal of property, plant and equipment and intangible assets		902	(3,212)	1,922	(4,424)
Net other operating income		2,569	3,853	859	4,081
Profit from operations		978,026	670,362	482,908	360,207
Impairment of non-current assets	3	(1,485)	(161,106)	(1,213)	(153,668)
Net other non-operating expenses		(23,410)	(26,963)	(9,475)	(13,954)
Profit before financing and taxation		953,131	482,293	472,220	192,585
Finance costs, net	5	(35,521)	(142,723)	(24,156)	(81,631)
Foreign exchange gain/(loss), net	6	98,936	(139,486)	130,202	186,481
Profit before income tax		1,016,546	200,084	578,266	297,435
Income tax expense		(210,507)	(69,822)	(109,599)	(94,992)
Profit from continuing operations		806,039	130,262	468,667	202,443
Loss from discontinued operation	2	(3,276)	(885,940)	(2,119)	(858,373)
Profit/(loss) for the period		802,763	(755,678)	466,548	(655,930)
Attributable to:					
shareholders of PAO Severstal		803,369	(754,724)	466,852	(655,597)
non-controlling interests		(606)	(954)	(304)	(333)
Basic weighted average number of shares outstanding during the period (millions of shares)		810.6	810.6	810.6	810.6
Basic earnings/(loss) per share (US dollars)		0.99	(0.93)	0.58	(0.81)
Basic earnings per share - continuing operations (US dollars)		0.99	0.16	0.58	0.25
Basic loss per share - discontinued operation (US dollars)		-	(1.09)	-	(1.06)
Diluted weighted average number of shares outstanding during the period (millions of shares)		834.3	835.5	834.3	835.5
Diluted earnings/(loss) per share (US dollars)		0.98	(0.93)	0.57	(0.81)
Diluted earnings per share - continuing operations (US dollars)		0.98	0.16	0.57	0.25
Diluted loss per share - discontinued operation (US dollars)		-	(1.09)	-	(1.06)

*These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 2) and 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 July 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 Six months ended June 30, 2015 and 2014

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

	Six months ended June 30,		Three months ended June 30,	
	2015 (unaudited)	2014 (unaudited)*	2015 (unaudited)	2014 (unaudited)*
Profit/(loss) for the period	802,763	(755,678)	466,548	(655,930)
Other comprehensive (loss)/income:				
Items that will not be reclassified to profit or loss				
Actuarial losses	(2,601)	(2,839)	(156)	(44)
Translation to presentation currency	121,260	(61,605)	83,519	183,938
Total items that will not be reclassified to profit or loss	118,659	(64,444)	83,363	183,894
Items that may be reclassified subsequently to profit or loss				
Translation to presentation currency - foreign operations	(163,456)	(41,535)	68,598	(22,495)
Total items that may be reclassified subsequently to profit or loss	(163,456)	(41,535)	68,598	(22,495)
Other comprehensive (loss)/income for the period	(44,797)	(105,979)	151,961	161,399
Total comprehensive income/(loss) for the period	757,966	(861,657)	618,509	(494,531)
Attributable to:				
shareholders of PAO Severstal	758,525	(860,823)	618,504	(494,863)
non-controlling interests	(559)	(834)	5	332

*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 June 30, 2015 and December 31, 2014

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

	Note	June 30, 2015 (unaudited)	December 31, 2014*
Assets			
Current assets:			
Cash and cash equivalents		1,552,235	1,896,675
Short-term financial investments		20,327	21,129
Trade accounts receivable		717,491	648,990
Accounts receivable from related parties	8	17,944	14,735
Restricted financial assets		3,876	-
Inventories		923,974	815,112
VAT recoverable		83,944	63,642
Income tax recoverable		36,019	29,416
Other current assets		110,199	122,199
Total current assets		<u>3,466,009</u>	<u>3,611,898</u>
Non-current assets:			
Long-term financial investments		78,137	85,748
Investments in associates and joint ventures		82,970	81,436
Property, plant and equipment		3,384,417	3,336,298
Intangible assets		383,673	376,755
Deferred tax assets		30,377	43,814
Other non-current assets		11,315	16,594
Total non-current assets		<u>3,970,889</u>	<u>3,940,645</u>
Total assets		<u><u>7,436,898</u></u>	<u><u>7,552,543</u></u>
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		396,285	500,228
Accounts payable to related parties	8	21,173	15,898
Short-term debt finance	9	474,105	774,493
Income taxes payable		8,079	8,814
Other taxes and social security payable		127,652	99,719
Dividends payable		2,779	2,355
Other current liabilities		327,741	332,881
Total current liabilities		<u>1,357,814</u>	<u>1,734,388</u>
Non-current liabilities:			
Long-term debt finance	9	2,433,049	2,654,370
Deferred tax liabilities		302,121	120,368
Retirement benefit liabilities		51,188	48,258
Other non-current liabilities		156,297	167,780
Total non-current liabilities		<u>2,942,655</u>	<u>2,990,776</u>
Equity:			
Share capital		2,752,728	2,752,728
Treasury shares		(235,657)	(235,657)
Additional capital		312,645	312,645
Translation reserve		(2,016,438)	(1,974,195)
Retained earnings		2,305,876	1,953,966
Other reserves		265	265
Total equity attributable to shareholders of PAO Severstal		<u>3,119,419</u>	<u>2,809,752</u>
Non-controlling interests		<u>17,010</u>	<u>17,627</u>
Total equity		<u>3,136,429</u>	<u>2,827,379</u>
Total equity and liabilities		<u><u>7,436,898</u></u>	<u><u>7,552,543</u></u>

*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 Six months ended June 30, 2015 and 2014

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

	Six months ended June 30,	
	2015 (unaudited)	2014 (unaudited)*
Operating activities:		
Profit before financing and taxation	953,131	482,293
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortization	190,894	292,989
Impairment of non-current assets	1,485	161,106
Movements in provision for inventories, receivables and other provisions	30,705	33,092
(Gain)/loss on disposal of property, plant and equipment and intangible assets	(902)	3,212
Share of associates' and joint ventures' results less dividends from associates and joint ventures	(4,560)	305
Changes in operating assets and liabilities:		
Trade accounts receivable	(80,792)	66,217
Amounts receivable from related parties	(3,164)	(13,055)
VAT recoverable	(20,009)	(4,904)
Inventories	(105,155)	43,267
Trade accounts payable	(95,579)	73,101
Amounts payable to related parties	4,364	56
Other taxes and social security payable	27,102	33,913
Other non-current liabilities	(5,014)	(20,693)
Net other changes in operating assets and liabilities	(578)	5,251
Cash generated from operations	891,928	1,156,150
Interest paid	(93,430)	(144,501)
Income tax paid	(20,644)	(6,641)
Net cash from operating activities - continuing operations	777,854	1,005,008
Net cash (used in)/from operating activities - discontinued operation	(17,371)	167,231
Net cash from operating activities	760,483	1,172,239
Investing activities:		
Additions to property, plant and equipment	(203,515)	(407,873)
Additions to intangible assets	(10,520)	(33,580)
Additions to financial investments	(4,073)	(12,083)
Proceeds from disposal of subsidiary	-	17
Proceeds from disposal of property, plant and equipment	14,989	10,581
Proceeds from disposal of financial investments	3,867	8,343
Interest received	58,775	13,283
Dividends received	-	1,093
Net cash used in investing activities - continuing operations	(140,477)	(420,219)
Net cash used in investing activities - discontinued operation	-	(29,592)
Net cash used in investing activities	(140,477)	(449,811)
Financing activities:		
Proceeds from debt finance	112,836	683,978
Repayments of debt finance **	(670,381)	(1,016,253)
Repayments under lease obligations	(106)	(130)
Dividends paid	(409,359)	(58,058)
Acquisition of non-controlling interests	(138)	-
Net cash used in financing activities - continuing operations	(967,148)	(390,463)
Net cash used in financing activities - discontinued operation	-	(580,521)
Net cash used in financing activities	(967,148)	(970,984)
Effect of exchange rates on cash and cash equivalents	2,702	(7,678)
Net decrease in cash and cash equivalents	(344,440)	(256,234)
Cash and cash equivalents at beginning of the period	1,896,675	1,035,948
Cash and cash equivalents at end of the period	1,552,235	779,714

*These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 2) and 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\$ 221.4 million for the six months ended June 30, 2015 and US\$ 665.9 million for the six months ended June 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 Six months ended June 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)	-	-	-	-	(754,724)	-	(754,724)	(954)	(755,678)
Translation to presentation currency (unaudited)	-	-	-	(103,260)	-	-	(103,260)	120	(103,140)
Other comprehensive loss (unaudited)	-	-	-	-	(2,839)	-	(2,839)	-	(2,839)
Total comprehensive loss for the period (unaudited)	-	-	-	(103,260)	(757,563)	-	(860,823)	(834)	(861,657)
Dividends (unaudited)	-	-	-	-	(147,657)	-	(147,657)	(49)	(147,706)
Effect of disposal without a change in control (unaudited)	-	-	-	-	56	-	56	8,231	8,287
Balances at June 30, 2014 (unaudited)	2,752,728	(235,657)	315,922	(645,446)	3,770,811	1,044	5,959,402	23,279	5,982,681
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)	-	-	-	-	803,369	-	803,369	(606)	802,763
Translation to presentation currency (unaudited)	-	-	-	(42,243)	-	-	(42,243)	47	(42,196)
Other comprehensive loss (unaudited)	-	-	-	-	(2,601)	-	(2,601)	-	(2,601)
Total comprehensive (loss)/income for the period (unaudited)	-	-	-	(42,243)	800,768	-	758,525	(559)	757,966
Dividends (unaudited)	-	-	-	-	(448,778)	-	(448,778)	-	(448,778)
Effect of acquisition without a change in control (unaudited)	-	-	-	-	(80)	-	(80)	(58)	(138)
Balances at June 30, 2015 (unaudited)	2,752,728	(235,657)	312,645	(2,016,438)	2,305,876	265	3,119,419	17,010	3,136,429

*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 Six months ended June 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. The Group additionally prepared IFRS consolidated interim condensed financial statements presented in Russian rubles and in the Russian language in accordance with the Federal Law No. 208-FZ *On consolidated financial reporting*.

In the three and six months ended 30 June 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. In the second quarter 2015 the US Dollar weakened against the Russian ruble and the Euro. These foreign exchange fluctuations 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

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Six months ended June 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 Six months ended June 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 six months ended June 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, 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 Six months ended June 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 gains in inventory.

Accordingly the following adjustments were made to the prior period:

	Six months ended June 30, 2014 (unaudited)	Three months ended June 30, 2014 (unaudited)
Decrease in cost of sales	8,212	7,582
Increase in income tax expense	(1,560)	(1,384)
Decrease in loss for the period	6,652	6,198
	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 represents the Severstal International reportable segment, following the management's decision to dispose of this business.

The result of discontinued operation was as follows:

	Six months ended June 30,		Three months ended June 30,	
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	-	2,081,786	-	1,065,764
Expenses	(3,276)	(2,920,012)	(2,119)	(1,876,301)
Loss before income tax	(3,276)	(838,226)	(2,119)	(810,537)
Income tax expense	-	(47,714)	-	(47,836)
Loss for the period	(3,276)	(885,940)	(2,119)	(858,373)
Attributable to:				
shareholders of PAO Severstal	(3,276)	(885,940)	(2,119)	(858,373)

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 six months ended June 30, 2014 was restated accordingly.

3. Impairment of non-current assets

In July 2014, the Group entered into an agreement to sell to a third party 100% stake in PBS Coals Ltd, a U.S. coal mining company, included in the Severstal Resources reporting segment. The cash consideration receivable by the Group under this sale agreement amounted to US\$ 60.0 million, subject to certain adjustments upon the deal closure. The expected loss on the disposal was estimated at the amount of US\$ 153.9 million and recognized in these consolidated interim condensed financial statements as impairment of property, plant and equipment.

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

4. Revenue

Revenue by product was as follows:

	Six months ended June 30,		Three months ended June 30,	
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hot-rolled strip and plate	963,975	1,242,981	505,058	637,088
Large diameter pipes	400,452	200,156	255,191	81,978
Cold-rolled sheet	302,474	419,066	167,487	225,059
Metalware products	253,007	349,087	139,564	189,326
Long products	242,281	272,544	119,359	162,005
Shipping and handling costs billed to customers	232,480	338,041	120,602	175,887
Other tubes and pipes, formed shapes	203,149	248,842	108,145	139,134
Galvanized and other metallic coated sheet	167,016	199,186	90,242	110,529
Pellets and iron ore	158,120	292,279	76,660	118,419
Colour-coated sheet	135,874	190,065	73,709	119,319
Coal and coking coal concentrate	84,836	126,585	50,461	56,913
Semi-finished products	70,509	119,220	30,570	79,131
Scrap	1,514	10,095	1,221	5,687
Others	121,389	170,172	67,505	87,163
	3,337,076	4,178,319	1,805,774	2,187,638

Revenue by delivery destination was as follows:

	Six months ended June 30,		Three months ended June 30,	
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Russian Federation	2,115,991	2,495,416	1,176,978	1,358,890
Europe	760,264	963,749	414,852	424,434
China and Central Asia	168,134	167,044	70,210	82,733
The Middle East	131,729	126,916	73,388	58,029
Central and South America	67,723	100,100	22,649	66,050
Africa	53,538	60,218	24,153	26,682
North America	29,911	211,240	21,839	117,197
South-East Asia	9,786	53,636	1,705	53,623
	3,337,076	4,178,319	1,805,774	2,187,638

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

5. Finance costs, net

	Six months ended June 30,		Three months ended June 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Interest expense	(97,174)	(141,716)	(47,393)	(81,041)
Interest income	57,989	4,351	26,039	2,033
Gain/(loss) on remeasurement and disposal of financial investments	8,095	(2,925)	(848)	(1,461)
Other finance costs	(4,431)	(2,433)	(1,954)	(1,162)
	<u>(35,521)</u>	<u>(142,723)</u>	<u>(24,156)</u>	<u>(81,631)</u>

6. Foreign exchange gain/(loss), net

	Six months ended June 30,		Three months ended June 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Foreign exchange gain/(loss) on cash and cash equivalents and debt finance	146,150	(174,858)	134,536	213,591
Foreign exchange (loss)/gain on other assets and liabilities	(47,214)	35,372	(4,334)	(27,110)
	<u>98,936</u>	<u>(139,486)</u>	<u>130,202</u>	<u>186,481</u>

7. Related party transactions

	Six months ended June 30,		Three months ended June 30,	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Revenue - related parties:				
Revenue - associates	14,537	21,837	7,676	10,814
Revenue - joint ventures	9,950	20,078	5,863	9,169
Revenue - other related parties	13,051	25,777	7,198	14,958
Proceeds from disposal of property, plant and equipment:				
Proceeds from disposal of property, plant and equipment to other related parties	2,393	-	2,393	-
Interest income from related parties:				
Interest income from joint ventures	1,755	2,518	840	1,278
Interest income from other related parties	13,118	4,704	6,960	2,436
	<u>54,804</u>	<u>74,914</u>	<u>30,930</u>	<u>38,655</u>
Purchases from related parties:				
Purchases from associates:				
Non-capital expenditures	32,478	45,482	16,881	22,547
Purchases from joint ventures:				
Non-capital expenditures	628	2,828	295	1,682
Purchases from other related parties:				
Non-capital expenditures	12,246	16,922	6,037	5,362
Capital expenditures	1,570	-	1,570	-
	<u>46,922</u>	<u>65,232</u>	<u>24,783</u>	<u>29,591</u>

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

8. Related party balances

	June 30, 2015 (unaudited)	December 31, 2014
Joint ventures' balances		
Short-term trade accounts receivable	2,726	807
Short-term loans	477	471
Long-term loans	42,987	48,126
Short-term trade accounts payable	170	424
Associates' balances		
Short-term trade accounts receivable	5,795	3,003
Short-term loans	5,059	4,778
Short-term trade accounts payable	12,730	6,720
Other related party balances		
Cash and cash equivalents at related party bank	257,243	309,092
Accounts receivable from other related parties:		
Short-term trade accounts receivable	6,330	8,732
Advances paid	1,629	551
Short-term other receivables	1,464	1,642
Short-term loans	43	320
Short-term promissory notes	7,348	6,755
Long-term other receivables	1,236	1,491
Available-for-sale financial assets	404	450
	<u>18,454</u>	<u>19,941</u>
Accounts payable to other related parties:		
Short-term trade accounts payable	3,316	5,423
Advances received	755	73
Short-term other accounts payable	4,202	3,258
Long-term other accounts payable	7,716	8,960
	<u>15,989</u>	<u>17,714</u>
Debt financing includes the following balances with other related parties:		
Short-term debt financing	54	196
Long-term debt financing	276	-
	<u>330</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.

9. Debt finance

As of June 30, 2015 the fair value of the Group's financial liabilities was less their carrying amount approximately by US\$ 47.0 million.

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Notes to the consolidated interim condensed financial statements Six months ended June 30, 2015 and 2014

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

10. Segment information

As of June 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 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/(loss) before financing and taxation by segments (the discontinued operation is excluded):

	Six months ended June 30,		Three months ended June 30,	
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue				
Severstal Resources	644,867	1,053,417	356,085	486,190
Severstal Russian Steel	3,053,365	3,734,914	1,657,687	2,005,627
Intersegment transactions	(361,156)	(610,012)	(207,998)	(304,179)
	<u>3,337,076</u>	<u>4,178,319</u>	<u>1,805,774</u>	<u>2,187,638</u>
Profit/(loss) before financing and taxation				
Severstal Resources	111,555	15,083	78,291	(115,538)
Severstal Russian Steel	851,724	427,368	392,179	271,822
Intersegment transactions	(10,148)	39,842	1,750	36,301
	<u>953,131</u>	<u>482,293</u>	<u>472,220</u>	<u>192,585</u>

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

	June 30,	December 31,
	2015 (unaudited)	2014
Total assets		
Severstal Resources	3,949,085	3,924,916
Severstal Russian Steel	8,006,324	8,205,414
Intersegment balances	(4,518,511)	(4,577,787)
	<u>7,436,898</u>	<u>7,552,543</u>

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Notes to the consolidated interim condensed financial statements Six months ended June 30, 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:

	<u>June 30,</u> <u>2015 (unaudited)</u>	<u>December 31,</u> <u>2014</u>
Total liabilities		
Severstal Resources	997,302	931,760
Severstal Russian Steel	4,314,090	4,873,603
Intersegment balances	(1,010,923)	(1,080,199)
	<u>4,300,469</u>	<u>4,725,164</u>

11. Contingencies for litigation, tax and other liabilities

As of June 30, 2015 the contingent claims related to utilities supply agreements and factoring agreements made by counterparties to certain Group's entities amounted to approximately US\$ 23.0 million and US\$ 9.8 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.

As of June 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\$ 21.5 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.

12. Capital commitments

As of June 30, 2015 the Group had contractual capital commitments of US\$ 199.0 million (December 31, 2014: US\$ 244.0 million).

13. 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 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.