

# **PAO Severstal and subsidiaries**

Consolidated interim condensed financial statements  
for the nine months ended 30 September 2016 and 2015

**PAO Severstal and subsidiaries**  
**Consolidated interim condensed financial statements**  
**Nine months ended 30 September 2016 and 2015**

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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 2016, 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 2016 and 2015, the related consolidated interim condensed statements of changes in equity and cash flows for the nine-month periods ended 30 September 2016 and 2015, 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 reviews.

### ***Scope of Reviews***

We conducted our reviews 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.

Audited entity: PAO Severstal

Registered by Cherepovets' council on 24 September 1993, Registration No. 1150.

Registered in the Unified State Register of Legal Entities/Entered in the Unified State Register of Legal Entities on 31 July 2002 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 Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.



**PAO Severstal**

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**Conclusion**

Based on our reviews, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at 30 September 2016 and for the three- and nine-month periods ended 30 September 2016 and 2015 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"

24 October 2016

Moscow, Russian Federation

## PAO Severstal and subsidiaries

### Consolidated interim condensed income statements Nine months ended 30 September 2016 and 2015

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

|  | Note | Nine months ended<br>30 September |                      | Three months ended<br>30 September |                      |
|--|------|-----------------------------------|----------------------|------------------------------------|----------------------|
|  |      | 2016<br>(unaudited)               | 2015<br>(unaudited)* | 2016<br>(unaudited)                | 2015<br>(unaudited)* |
| <b>Revenue</b>   |      |                                   |                      |                                    |                      |
| Revenue - third parties  |      | 4,192                             | 4,946                | 1,560                              | 1,646                |
| Revenue - related parties  | 6    | 73                                | 54                   | 28                                 | 17                   |
|  | 2    | 4,265                             | 5,000                | 1,588                              | 1,663                |
| Cost of sales  |      | (2,575)                           | (2,920)              | (907)                              | (1,029)              |
| <b>Gross profit</b>  |      | 1,690                             | 2,080                | 681                                | 634                  |
| General and administrative expenses  |      | (200)                             | (222)                | (63)                               | (60)                 |
| Distribution expenses  |      | (334)                             | (402)                | (114)                              | (127)                |
| Other taxes and contributions  |      | (40)                              | (55)                 | (13)                               | (16)                 |
| Share of associates' and joint ventures' profit/(loss)   |      | 3                                 | (3)                  | 1                                  | (8)                  |
| Loss on disposal of property, plant and equipment and intangible assets                                | 10   | (44)                              | (3)                  | (34)                               | (4)                  |
| Net other operating income   |      | 7                                 | 5                    | -                                  | 3                    |
| <b>Profit from operations</b>  |      | 1,082                             | 1,400                | 458                                | 422                  |
| Impairment of non-current assets   | 10   | (20)                              | (10)                 | (16)                               | (9)                  |
| Net other non-operating expenses   | 9    | (24)                              | (29)                 | (4)                                | (5)                  |
| <b>Profit before financing and taxation</b>  |      | 1,038                             | 1,361                | 438                                | 408                  |
| Finance costs, net   | 3    | (86)                              | (91)                 | (41)                               | (55)                 |
| Foreign exchange gain/(loss)   | 4    | 387                               | (416)                | 31                                 | (515)                |
| <b>Profit/(loss) before income tax</b>   |      | 1,339                             | 854                  | 428                                | (162)                |
| Income tax (expense)/benefit   | 5    | (32)                              | (178)                | 1                                  | 32                   |
| <b>Profit/(loss) from continuing operations</b>  |      | 1,307                             | 676                  | 429                                | (130)                |
| Loss from discontinued operation   |      | -                                 | (4)                  | -                                  | (1)                  |
| <b>Profit/(loss) for the period</b>  |      | 1,307                             | 672                  | 429                                | (131)                |
| Attributable to:   |      |                                   |                      |                                    |                      |
| shareholders of PAO Severstal  |      | 1,308                             | 673                  | 429                                | (131)                |
| non-controlling interests  |      | (1)                               | (1)                  | -                                  | -                    |
| 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)   |      | 1.61                              | 0.83                 | 0.53                               | (0.16)               |
| Basic and diluted earnings/(loss) per share - continuing operations (US dollars)                       |      | 1.61                              | 0.83                 | 0.53                               | (0.16)               |

\*These amounts reflect adjustments made in connection with the change in presentation as described in Note 1 to these consolidated interim condensed financial statements.

These consolidated interim condensed financial statements were approved by the Board of Directors on 24 October 2016.

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 30 September 2016 and 2015

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

|  | Nine months ended<br>30 September |             | Three months ended<br>30 September |             |
|--|-----------------------------------|-------------|------------------------------------|-------------|
|  | 2016                              | 2015        | 2016                               | 2015        |
|  | (unaudited)                       | (unaudited) | (unaudited)                        | (unaudited) |
| <b>Profit/(loss) for the period</b>  | 1,307                             | 672         | 429                                | (131)       |
| <b>Other comprehensive income/(loss):</b>                                  |                                   |             |                                    |             |
| <b>Items that will not be reclassified to profit or loss</b>               |                                   |             |                                    |             |
| Actuarial losses   | (10)                              | (3)         | (7)                                | -           |
| Translation to presentation currency                                       | 58                                | (57)        | 21                                 | (178)       |
| <b>Total items that will not be reclassified to profit or loss</b>         | 48                                | (60)        | 14                                 | (178)       |
| <b>Items that may be reclassified subsequently to profit or loss</b>       |                                   |             |                                    |             |
| Translation to presentation currency - foreign operations                  | 42                                | (179)       | 14                                 | (16)        |
| <b>Total items that may be reclassified subsequently to profit or loss</b> | 42                                | (179)       | 14                                 | (16)        |
| <b>Other comprehensive income/(loss) for the period</b>                    | 90                                | (239)       | 28                                 | (194)       |
| <b>Total comprehensive income/(loss) for the period</b>                    | 1,397                             | 433         | 457                                | (325)       |
| Attributable to:   |                                   |             |                                    |             |
| shareholders of PAO Severstal  | 1,398                             | 434         | 457                                | (325)       |
| non-controlling interests  | (1)                               | (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 30 September 2016 and 31 December 2015

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

|   | Note | 30 September 2016<br>(unaudited) | 31 December 2015 |
|---|------|----------------------------------|------------------|
| <b>Assets</b>   |      |                                  |                  |
| <b>Current assets:</b>  |      |                                  |                  |
| Cash and cash equivalents   |      | 1,141                            | 1,647            |
| Short-term financial investments                                  |      | 213                              | 11               |
| Trade accounts receivable   |      | 553                              | 432              |
| Accounts receivable from related parties                          | 7    | 16                               | 10               |
| Restricted financial assets                                       |      | 13                               | 2                |
| Inventories   |      | 859                              | 650              |
| VAT recoverable   |      | 72                               | 58               |
| Income tax recoverable  |      | 7                                | 36               |
| Other current assets  |      | 97                               | 91               |
| <b>Total current assets</b>                                       |      | <b>2,971</b>                     | <b>2,937</b>     |
| <b>Non-current assets:</b>  |      |                                  |                  |
| Long-term financial investments                                   |      | 55                               | 53               |
| Investments in associates and joint ventures                      |      | 42                               | 26               |
| Property, plant and equipment                                     |      | 3,036                            | 2,611            |
| Intangible assets   |      | 258                              | 225              |
| Deferred tax assets   |      | 15                               | 7                |
| Other non-current assets  |      | 7                                | 8                |
| <b>Total non-current assets</b>                                   |      | <b>3,413</b>                     | <b>2,930</b>     |
| <b>Total assets</b>   |      | <b>6,384</b>                     | <b>5,867</b>     |
| <b>Liabilities and shareholders' equity</b>                       |      |                                  |                  |
| <b>Current liabilities:</b>                                       |      |                                  |                  |
| Trade accounts payable  |      | 417                              | 421              |
| Accounts payable to related parties                               | 7    | 13                               | 9                |
| Short-term debt finance   |      | 143                              | 507              |
| Income taxes payable  |      | 8                                | 6                |
| Other taxes and social security payable                           |      | 98                               | 77               |
| Dividends payable   |      | 4                                | 2                |
| Other current liabilities   |      | 375                              | 275              |
| <b>Total current liabilities</b>                                  |      | <b>1,058</b>                     | <b>1,297</b>     |
| <b>Non-current liabilities:</b>                                   |      |                                  |                  |
| Long-term debt finance  |      | 1,941                            | 1,945            |
| Deferred tax liabilities  |      | 99                               | 141              |
| Retirement benefit liabilities                                    |      | 71                               | 53               |
| Other non-current liabilities                                     |      | 146                              | 163              |
| <b>Total non-current liabilities</b>                              |      | <b>2,257</b>                     | <b>2,302</b>     |
| <b>Equity:</b>  |      |                                  |                  |
| Share capital   |      | 2,753                            | 2,753            |
| Treasury shares   |      | (236)                            | (236)            |
| Additional capital  |      | 296                              | 296              |
| Translation reserve   |      | (2,218)                          | (2,318)          |
| Retained earnings   |      | 2,451                            | 1,758            |
| Other reserves  |      | 9                                | -                |
| <b>Total equity attributable to shareholders of PAO Severstal</b> |      | <b>3,055</b>                     | <b>2,253</b>     |
| <b>Non-controlling interests</b>                                  |      | <b>14</b>                        | <b>15</b>        |
| <b>Total equity</b>   |      | <b>3,069</b>                     | <b>2,268</b>     |
| <b>Total equity and liabilities</b>                               |      | <b>6,384</b>                     | <b>5,867</b>     |

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 30 September 2016 and 2015

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

|  | <b>Nine months ended 30 September</b> |                    |
|--|---------------------------------------|--------------------|
|  | <b>2016</b>                           | <b>2015</b>        |
|  | <b>(unaudited)</b>                    | <b>(unaudited)</b> |
| <b>Operating activities:</b>   |                                       |                    |
| Profit before financing and taxation   | 1,038                                 | 1,361              |
| Adjustments to reconcile profit to cash generated from operations:                                 |                                       |                    |
| Depreciation and amortisation  | 252                                   | 280                |
| Impairment of non-current assets   | 20                                    | 10                 |
| Movements in provision for inventories, receivables and other provisions                           | 7                                     | 28                 |
| Loss on disposal of property, plant and equipment and intangible assets                            | 44                                    | 3                  |
| Gain on disposal of subsidiaries   | (5)                                   | (4)                |
| Share of associates' and joint ventures' results less dividends from associates and joint ventures | (1)                                   | 6                  |
| Changes in operating assets and liabilities:   |                                       |                    |
| Trade accounts receivable  | (83)                                  | 78                 |
| Amounts receivable from related parties  | (3)                                   | 6                  |
| VAT recoverable  | (5)                                   | (13)               |
| Inventories  | (105)                                 | (41)               |
| Trade accounts payable   | (18)                                  | (100)              |
| Amounts payable to related parties   | 1                                     | (4)                |
| Other taxes and social security payable  | 27                                    | 33                 |
| Other non-current liabilities  | (16)                                  | (5)                |
| Net other changes in operating assets and liabilities  | (41)                                  | (17)               |
| <b>Cash generated from operations</b>  | <b>1,112</b>                          | <b>1,621</b>       |
| Interest paid  | (107)                                 | (126)              |
| Income tax paid  | (69)                                  | (32)               |
| <b>Net cash from operating activities - continuing operations</b>                                  | <b>936</b>                            | <b>1,463</b>       |
| Net cash used in operating activities - discontinued operation                                     | -                                     | (17)               |
| <b>Net cash from operating activities</b>  | <b>936</b>                            | <b>1,446</b>       |
| <b>Investing activities:</b>   |                                       |                    |
| Additions to property, plant and equipment   | (342)                                 | (300)              |
| Additions to intangible assets   | (16)                                  | (17)               |
| Additions to financial investments   | (208)                                 | (5)                |
| Proceeds from disposal of subsidiaries   | 3                                     | 4                  |
| Proceeds from disposal of property, plant and equipment  | 6                                     | 17                 |
| Proceeds from disposal of financial investments  | 2                                     | 4                  |
| Interest received  | 49                                    | 83                 |
| <b>Net cash used in investing activities</b>   | <b>(506)</b>                          | <b>(214)</b>       |
| <b>Financing activities:</b>   |                                       |                    |
| Proceeds from debt finance   | 648                                   | 119                |
| Repayments of debt finance *   | (1,010)                               | (1,076)            |
| Net proceeds from other financing activities   | 6                                     | -                  |
| Dividends paid   | (606)                                 | (416)              |
| <b>Net cash used in financing activities</b>   | <b>(962)</b>                          | <b>(1,373)</b>     |
| Effect of exchange rates on cash and cash equivalents  | 26                                    | (81)               |
| <b>Net decrease in cash and cash equivalents</b>   | <b>(506)</b>                          | <b>(222)</b>       |
| <b>Cash and cash equivalents at beginning of the period</b>  | <b>1,647</b>                          | <b>1,897</b>       |
| <b>Cash and cash equivalents at end of the period</b>  | <b>1,141</b>                          | <b>1,675</b>       |

\* These amounts include repurchase and redemption of bonds of US\$ 368 million for the nine months ended 30 September 2016 and repurchases of bonds of US\$ 611 million for the nine months ended 30 September 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

Nine months ended 30 September 2016 and 2015

(Amounts expressed in millions 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 31 December 2014                                 | 2,753   | (236)           | 313                | (1,974)             | 1,954             | -              | 2,810                     | 17    | 2,827 |
| Profit/(loss) for the period (unaudited)                     | -   | -               | -                  | -                   | 673               | -              | 673                       | (1)   | 672   |
| Translation to presentation currency (unaudited)             | -   | -               | -                  | (236)               | -                 | -              | (236)                     | -     | (236) |
| Other comprehensive loss (unaudited)                         | -   | -               | -                  | -                   | (3)               | -              | (3)                       | -     | (3)   |
| Total comprehensive (loss)/income for the period (unaudited) | -   | -               | -                  | (236)               | 670               | -              | 434                       | (1)   | 433   |
| Dividends (unaudited)  | -   | -               | -                  | -                   | (600)             | -              | (600)                     | -     | (600) |
| Repayment of convertible bonds (unaudited)                   | -   | -               | (17)               | -                   | -                 | -              | (17)                      | -     | (17)  |
| Balances at 30 September 2015 (unaudited)                    | 2,753   | (236)           | 296                | (2,210)             | 2,024             | -              | 2,627                     | 16    | 2,643 |
| Balances at 31 December 2015                                 | 2,753   | (236)           | 296                | (2,318)             | 1,758             | -              | 2,253                     | 15    | 2,268 |
| Profit/(loss) for the period (unaudited)                     | -   | -               | -                  | -                   | 1,308             | -              | 1,308                     | (1)   | 1,307 |
| Translation to presentation currency (unaudited)             | -   | -               | -                  | 100                 | -                 | -              | 100                       | -     | 100   |
| Other comprehensive loss (unaudited)                         | -   | -               | -                  | -                   | (10)              | -              | (10)                      | -     | (10)  |
| Total comprehensive income/(loss) for the period (unaudited) | -   | -               | -                  | 100                 | 1,298             | -              | 1,398                     | (1)   | 1,397 |
| Dividends (unaudited)  | -   | -               | -                  | -                   | (605)             | -              | (605)                     | -     | (605) |
| Other (unaudited)  | -   | -               | -                  | -                   | -                 | 9              | 9                         | -     | 9     |
| Balances at 30 September 2016 (unaudited)                    | 2,753   | (236)           | 296                | (2,218)             | 2,451             | 9              | 3,055                     | 14    | 3,069 |

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 30 September 2016 and 2015

(Amounts expressed in millions 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 following exchange rates were used in the consolidated interim condensed financial statements:

|         | <b>30 September<br/>2016</b> | <b>Three months ended<br/>30 September 2016</b> | <b>31 December<br/>2015</b> | <b>30 September<br/>2015</b> | <b>Three months ended<br/>30 September 2015</b> |
|---------|------------------------------|---|-----------------------------|------------------------------|---|
| USD/RUB | 63.1581                      | 64.6184   | 72.8827                     | 66.2367                      | 62.9540   |
| EUR/USD | 1.1161                       | 1.1168  | 1.0887                      | 1.1203                       | 1.1120  |

### *Adoption of new and amended Standards*

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 31 December 2015, except that the Group has adopted those new and amended Standards that are mandatory for financial annual periods beginning on 1 January 2016.

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

These new and amended standards did not have a significant effect on the Group's consolidated interim condensed financial statements.

# PAO Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Nine months ended 30 September 2016 and 2015

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

### *New accounting pronouncements*

A number of new Standards and amendments to Standards were not yet effective for the nine months ended 30 September 2016, and have not been applied in these consolidated interim condensed financial statements.

| <b>Standards</b>                                | <b>Effective for annual periods<br/>beginning on or after</b> |
|---|---|
| IAS 7 (Amended) "Statement of Cash Flows"       | 1 January 2017  |
| IAS 12 (Amended) "Income Taxes"                 | 1 January 2017  |
| IFRS 2 (Amended) "Share-based Payment"          | 1 January 2018  |
| IFRS 9 (Amended) "Financial Instruments"        | 1 January 2018  |
| IFRS 15 "Revenue from Contracts with Customers" | 1 January 2018  |
| IFRS 16 "Leases"                                | 1 January 2019  |

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.

### *Restatements*

During the current year the Group changed the classification of packaging expenses between cost of sales and distribution expenses to more appropriately reflect their nature.

Accordingly, the following adjustments were made to the prior period:

|                                   | <b>Nine months ended<br/>30 September 2015<br/>(unaudited)</b> | <b>Three months ended<br/>30 September 2015<br/>(unaudited)</b> |
|-----------------------------------|--|---|
| Increase in cost of sales         | (18)   | (6)   |
| Decrease in distribution expenses | 18   | 6   |

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Nine months ended 30 September 2016 and 2015

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

#### 2. Revenue

Revenue by product was as follows:

|   | Nine months ended<br>30 September |              | Three months ended<br>30 September |              |
|---|-----------------------------------|--------------|------------------------------------|--------------|
|   | 2016                              | 2015         | 2016                               | 2015         |
|   | (unaudited)                       | (unaudited)  | (unaudited)                        | (unaudited)  |
| Hot-rolled strip and plate                      | 1,241                             | 1,437        | 471                                | 473          |
| Large diameter pipes                            | 383                               | 545          | 124                                | 145          |
| Metalware products                              | 362                               | 383          | 132                                | 130          |
| Long products                                   | 339                               | 360          | 122                                | 118          |
| Shipping and handling costs billed to customers | 313                               | 358          | 107                                | 125          |
| Cold-rolled sheet                               | 305                               | 459          | 126                                | 157          |
| Other tubes and pipes, formed shapes            | 266                               | 309          | 92                                 | 106          |
| Galvanized and other metallic coated sheet      | 244                               | 272          | 100                                | 105          |
| Colour-coated sheet                             | 232                               | 241          | 94                                 | 105          |
| Pellets and iron ore                            | 212                               | 234          | 83                                 | 76           |
| Semi-finished products                          | 126                               | 97           | 57                                 | 26           |
| Coal and coking coal concentrate                | 83                                | 125          | 19                                 | 40           |
| Scrap   | 7                                 | 2            | 1                                  | -            |
| Others  | 152                               | 178          | 60                                 | 57           |
|   | <u>4,265</u>                      | <u>5,000</u> | <u>1,588</u>                       | <u>1,663</u> |

Revenue by delivery destination was as follows:

|                           | Nine months ended<br>30 September |              | Three months ended<br>30 September |              |
|---------------------------|-----------------------------------|--------------|------------------------------------|--------------|
|                           | 2016                              | 2015         | 2016                               | 2015         |
|                           | (unaudited)                       | (unaudited)  | (unaudited)                        | (unaudited)  |
| Russian Federation        | 2,756                             | 3,256        | 1,004                              | 1,140        |
| Europe                    | 833                               | 915          | 348                                | 282          |
| CIS                       | 223                               | 329          | 74                                 | 87           |
| The Middle East           | 223                               | 215          | 89                                 | 83           |
| Central and South America | 60                                | 77           | 43                                 | 9            |
| South-East Asia           | 57                                | 11           | 13                                 | 1            |
| China and Central Asia    | 56                                | 82           | -                                  | 29           |
| Africa                    | 47                                | 69           | 10                                 | 16           |
| North America             | 10                                | 46           | 7                                  | 16           |
|                           | <u>4,265</u>                      | <u>5,000</u> | <u>1,588</u>                       | <u>1,663</u> |

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Nine months ended 30 September 2016 and 2015 (Amounts expressed in millions of US dollars, except as otherwise stated)

#### 3. Finance costs, net

|   | Nine months ended<br>30 September |                     | Three months ended<br>30 September |                     |
|---|-----------------------------------|---------------------|------------------------------------|---------------------|
|   | 2016<br>(unaudited)               | 2015<br>(unaudited) | 2016<br>(unaudited)                | 2015<br>(unaudited) |
| Interest expense  | (123)                             | (158)               | (38)                               | (61)                |
| Interest income   | 51                                | 84                  | 16                                 | 26                  |
| Loss on remeasurement and disposal of financial investments | (15)                              | (11)                | (23)                               | (19)                |
| Other   | 1                                 | (6)                 | 4                                  | (1)                 |
|   | <u>(86)</u>                       | <u>(91)</u>         | <u>(41)</u>                        | <u>(55)</u>         |

#### 4. Foreign exchange gain/(loss)

|  | Nine months ended<br>30 September |                     | Three months ended<br>30 September |                     |
|--|-----------------------------------|---------------------|------------------------------------|---------------------|
|  | 2016<br>(unaudited)               | 2015<br>(unaudited) | 2016<br>(unaudited)                | 2015<br>(unaudited) |
| Foreign exchange gain/(loss) on cash and cash equivalents and debt finance | 412                               | (439)               | 34                                 | (585)               |
| Foreign exchange (loss)/gain on other assets and liabilities               | (25)                              | 23                  | (3)                                | 70                  |
|  | <u>387</u>                        | <u>(416)</u>        | <u>31</u>                          | <u>(515)</u>        |

#### 5. Income tax (expense)/benefit

The Group reassessed recoverability of certain previously unrecognised deferred tax assets due to a more positive outlook. The amount recognised in these consolidated interim condensed financial statements was determined based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

## PAO Severstal and subsidiaries

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### 6. Related party transactions

|  | Nine months ended<br>30 September |                     | Three months ended<br>30 September |                     |
|--|-----------------------------------|---------------------|------------------------------------|---------------------|
|  | 2016<br>(unaudited)               | 2015<br>(unaudited) | 2016<br>(unaudited)                | 2015<br>(unaudited) |
| Revenue - related parties:   |                                   |                     |                                    |                     |
| Revenue - associates   | 20                                | 21                  | 7                                  | 7                   |
| Revenue - joint ventures   | 31                                | 14                  | 11                                 | 4                   |
| Revenue - other related parties  | 22                                | 19                  | 10                                 | 6                   |
| Proceeds from disposal of property, plant and equipment to related parties:      |                                   |                     |                                    |                     |
| Proceeds from disposal of property, plant and equipment to other related parties | -                                 | 2                   | -                                  | -                   |
| Interest income from related parties:  |                                   |                     |                                    |                     |
| Interest income from joint ventures  | 2                                 | 3                   | -                                  | 1                   |
| Interest income from other related parties                                       | 11                                | 19                  | 4                                  | 6                   |
|  | 86                                | 78                  | 32                                 | 24                  |
| Purchases from related parties:  |                                   |                     |                                    |                     |
| Purchases from associates:   |                                   |                     |                                    |                     |
| Non-capital expenditures   | 42                                | 46                  | 15                                 | 14                  |
| Purchases from joint ventures:   |                                   |                     |                                    |                     |
| Non-capital expenditures   | 2                                 | 1                   | 1                                  | -                   |
| Purchases from other related parties:  |                                   |                     |                                    |                     |
| Non-capital expenditures   | 17                                | 17                  | 7                                  | 5                   |
| Capital expenditures   | 3                                 | 3                   | 2                                  | 1                   |
|  | 64                                | 67                  | 25                                 | 20                  |

# PAO Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Nine months ended 30 September 2016 and 2015 (Amounts expressed in millions of US dollars, except as otherwise stated)

### 7. Related party balances

|   | 30 September 2016<br>(unaudited) | 31 December 2015 |
|---|----------------------------------|------------------|
| <b>Joint ventures' balances</b>                 |                                  |                  |
| Short-term trade accounts receivable            | 3                                | 3                |
| Short-term loans                                | 2                                | 2                |
| Long-term loans                                 | 39                               | 38               |
| <b>Associates' balances</b>                     |                                  |                  |
| Short-term trade accounts receivable            | 3                                | 2                |
| Short-term loans                                | 6                                | 5                |
| Short-term trade accounts payable               | 6                                | 5                |
| <b>Other related party balances</b>             |                                  |                  |
| Cash and cash equivalents at related party bank | 160                              | 168              |
| Accounts receivable from other related parties: |                                  |                  |
| Short-term trade accounts receivable            | 8                                | 4                |
| Short-term other receivables                    | 2                                | 1                |
| Long-term other receivables                     | 1                                | 1                |
|   | 11                               | 6                |
| Accounts payable to other related parties:      |                                  |                  |
| Short-term trade accounts payable               | 2                                | 1                |
| Advances received                               | 1                                | 1                |
| Short-term other accounts payable               | 4                                | 2                |
| Long-term other accounts payable                | 4                                | 5                |
|   | 11                               | 9                |

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

### 8. Carrying amounts and fair values

In April 2016, the Group issued US\$ 200 million senior unsecured guaranteed convertible bonds maturing in 2021. The conversion rights may be exercised at any time on or after 9 June 2016. The initial conversion price was set at US\$ 13.80 per GDR. If the conversion rights are exercised, it is at the Group's discretion to determine whether to convert bond into GDR or to pay a cash amount as defined in the terms of the issue. This settlement option causes the conversion feature of the bond to be classified separately and measured at fair value through profit and loss, while the host liability is accounted for at amortised cost using market interest rate at 5.1% per annum at the date of the issue. The bonds bear an interest rate of 0.5% per annum, which is payable semi-annually in April and October each year, beginning in October 2016. Holders of the bonds have an option to require an early redemption of their bonds on 29 April 2019 at the principal amount plus accrued interest. The Group also has an option for early redemption, exercisable starting from 20 May 2019 provided the value of the GDRs deliverable on conversion of the bonds exceeds 130 per cent of the principal amount of the bonds on a specified period of time. The proceeds from the bonds issuance were mainly used for general corporate purposes.

As of 30 September 2016 the value of conversion option of US\$ 49 million was determined with the reference to quoted market price (level 2 of the fair value hierarchy) and included in other current liabilities.

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Nine months ended 30 September 2016 and 2015

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The fair value of the Group's other financial liabilities was greater than their carrying amount by approximately US\$ 125 million (31 December 2015: US\$ 13 million).

As of 30 September 2016, the Group had a derivative financial liability amounted to US\$ 6 million, measured at fair value (level 2 of the fair value hierarchy).

As of 30 September 2016, short-term financial investments included available for sale financial assets of US\$ 192 million, the value was determined with reference to quoted market (level 1 of the fair value hierarchy).

The carrying value of other Group's financial assets does not differ significantly from its fair value.

#### **9. Disposal of subsidiary**

In August 2014, the Group sold its 100% stake in PBS Coals Ltd for a total consideration of US\$ 60 million. A cumulative net loss on the disposal of US\$ 174 million, of which US\$ 154 million was recognised as impairment of property, plant and equipment in June 2014 and US\$ 20 million recognised as part of net other non-operating expense upon the disposal.

In July 2015, the Group received an instalment of contingent consideration for the PBS Coals Ltd sale of US\$ 4 million.

In September 2016, the Group received a final instalment contingent consideration for the PBS Coals Ltd sale of US\$ 3 million after final settlement with the purchaser.

#### **10. Impairment of non-current assets**

##### *AO Vorkutaugol*

*2016*

In February 2016, an explosion occurred at the Vorkutaugol's Severnaya mine which is included in Severstal Resources segment. In September 2016, the Group announced that the Severnaya mine will be sealed off to avoid the risk of airflow causing further underground fire and explosions in the mine. By the reporting date, the Group has already paid compensation of US\$ 2 million to the injured workers and the relatives of those killed. Loss on disposal of property, plant and equipment of US\$ 35 million and an impairment loss of US\$ 18 million was recognised in the reporting period, of which US\$ 2 million was recognised in the three month period ended 31 March 2016, in relation to all relevant property, plant and equipment of Severnaya mine.

The other four mines and one open pit at Vorkutaugol are operating as usual. Management is continuing to analyse the incident's implications and potential activities involved in the mine sealing off and approved a restructuring plan in October 2016. A preliminary assessment of the planned costs related to the restructuring activities amounted to US\$ 2 million liability to be recognised in the three months ending 31 December 2016.

##### *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 recognised an impairment loss of US\$ 9 million in relation to non-current assets of Severstal Liberia Iron Ore Ltd

## PAO Severstal and subsidiaries

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based on its fair value less costs to sell. The loss was fully allocated to evaluation and exploration assets.

### 11. Segment information

As of 30 September 2016, the Group had two reportable segments: Severstal Resources and Severstal Russian Steel.

Severstal Resources has its extraction facilities in the Russian Federation 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 in 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 the international market.

The following is an analysis of the Group's revenue and profit before financing and taxation by segments:

|   | Nine months ended<br>30 September |                     | Three months ended<br>30 September |                     |
|---|-----------------------------------|---------------------|------------------------------------|---------------------|
|   | 2016<br>(unaudited)               | 2015<br>(unaudited) | 2016<br>(unaudited)                | 2015<br>(unaudited) |
| <b>Revenue</b>                              |                                   |                     |                                    |                     |
| Severstal Resources                         | 806                               | 941                 | 281                                | 296                 |
| Severstal Russian Steel                     | 3,918                             | 4,580               | 1,471                              | 1,527               |
| Intersegment transactions                   | (459)                             | (521)               | (164)                              | (160)               |
|   | 4,265                             | 5,000               | 1,588                              | 1,663               |
| <b>Profit before financing and taxation</b> |                                   |                     |                                    |                     |
| Severstal Resources                         | 96                                | 140                 | 4                                  | 29                  |
| Severstal Russian Steel                     | 947                               | 1,210               | 426                                | 358                 |
| Intersegment transactions                   | (5)                               | 11                  | 8                                  | 21                  |
|   | 1,038                             | 1,361               | 438                                | 408                 |

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

|                         | 30 September<br>2016<br>(unaudited) | 31 December<br>2015 |
|-------------------------|-------------------------------------|---------------------|
| <b>Total assets</b>     |                                     |                     |
| Severstal Resources     | 3,523                               | 3,335               |
| Severstal Russian Steel | 7,217                               | 6,833               |
| Intersegment balances   | (4,356)                             | (4,301)             |
|                         | 6,384                               | 5,867               |

# PAO Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Nine months ended 30 September 2016 and 2015

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

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

|                          | <b>30 September<br/>2016<br/>(unaudited)</b> | <b>31 December<br/>2015</b> |
|--------------------------|--|-----------------------------|
| <b>Total liabilities</b> |  |                             |
| Severstal Resources      | 935  | 861                         |
| Severstal Russian Steel  | 3,255  | 3,563                       |
| Intersegment balances    | (875)  | (825)                       |
|                          | <u>3,315</u>                                 | <u>3,599</u>                |

### 12. Contingencies for litigation, tax and other liabilities

The taxation system and regulatory environment of the Russian Federation are characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations between the differing regulatory authorities and jurisdictions, who are empowered to impose significant fines, penalties and interest charges. Events during recent years suggest that the regulatory authorities within this country are adopting a more assertive stance regarding the interpretation and enforcement of legislation. This situation creates substantial tax and regulatory risks. In addition, a number of new laws introducing changes to Russian tax legislation were adopted in the fourth quarter of 2014 and were effective from 1 January 2015. In particular, those changes are aimed at regulating transactions with foreign companies and their activities, including the withholding of dividends tax, which may potentially impact the Group's tax position and create additional tax risks going forward. At the reporting date, the actual and potential contingent claims for taxes, fines and penalties made by the Russian tax authorities to certain Group's entities amounted to approximately US\$ 290 million (31 December 2015: US\$ 44 million). Management does not agree with the tax authorities' claims and believes that the Group has complied in all material respects with all existing, relevant legislation. 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 provision for other probable tax claims.

As of 30 September 2016, a claw-back claim had been made by Lucchini S.p.A's ('Lucchini') extraordinary commissioner against the Group's subsidiary amounting to approximately US\$ 142 million (31 December 2015: US\$ 142 million). The bankruptcy claw-back action is a remedy offered by the Italian Bankruptcy Act to allow commissioners to declare ineffective, vis-à-vis all creditors of a bankrupt company, certain payments and transactions executed in the period preceding the insolvency declaration that altered the equal treatment of all the unsecured creditors of an insolvent debtor. Lucchini was previously the Group's subsidiary and was deconsolidated in 2011 and currently is under the bankruptcy procedure. This claim relates to cash received by the Group's subsidiary for supplies of raw materials to Lucchini primarily during the period when Lucchini was already not part of the Group. Management does not agree with this claim and believes strongly it has made all necessary steps to protect its position. Management is unable to assess the ultimate outcome of the claim, including the outflow of the financial resources to settle the claim, if any, because it depends on multiple circumstances concerning the facts and the applicability and interpretation of the relevant statutes. In case the Group has to make any payment, the relevant amount paid will be included in Lucchini's creditors' list and will be settled in the course of the bankruptcy procedure.

### 13. Capital commitments

As of 30 September 2016, the Group had contractual capital commitments of US\$ 226 million (31 December 2015: US\$ 189 million).

## **PAO Severstal and subsidiaries**

### **Notes to the consolidated interim condensed financial statements Nine months ended 30 September 2016 and 2015**

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

#### **14. Dividends**

On 25 May 2015 the Meeting of Shareholders approved an annual dividend of RUB 14.65 (US\$ 0.29 at 25 May 2015 exchange rate) per share and per GDR for the year ended 31 December 2014 and an interim dividend of RUB 12.81 (US\$ 0.26 at 25 May 2015 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2015.

On 15 September 2015 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 12.63 (US\$ 0.19 at 15 September 2015 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2015.

On 24 June 2016 the Meeting of Shareholders approved an annual dividend of RUB 20.27 (US\$ 0.32 at 24 June 2016 exchange rate) per share and per GDR for the year ended 31 December 2015 and an interim dividend of RUB 8.25 (US\$ 0.13 at 24 June 2016 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2016.

On 2 September 2016 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 19.66 (US\$ 0.30 at 2 September 2016 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2016.