

IMPORTANT NOTICE

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the Base Prospectus (the “**Base Prospectus**”) attached to this electronic transmission and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Base Prospectus. In accessing the attached Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: By accessing this Base Prospectus you have confirmed to Citigroup Global Markets Limited (the “**Arranger**” and the “**Permanent Dealer**”) and Steel Capital S.A. (the “**Issuer**”) that (i) you have understood and agree to the terms set out herein, (ii) you are either (a) not a U.S. person (within the meaning of Regulation S of the United States Securities Act 1933, as amended (the “**Securities Act**”)), or acting for the account or benefit of any U.S. person, and that the electronic mail address you have given to us is not located in the United States, its territories and possessions, or (b) a person that is “Qualified Institutional Buyer” within the meaning of Rule 144A under the Securities Act (a “**QIB**”) and a qualified purchaser (“**QP**”), as defined in Section 2(a)(51) of the Investment Company Act of 1940 (the “**Investment Company Act**”) in reliance on the exemption provided by Section 3(c)(7) thereunder, (iii) you consent to delivery by electronic transmission, (iv) you will not transmit the attached Base Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Arranger and the Permanent Dealer, and (v) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase of any of the Notes.

You are reminded that the attached Base Prospectus has been delivered to you on the basis that you are a person into whose possession this Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Base Prospectus, electronically or otherwise, to any other person and in particular to any U.S. person or to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

Restrictions: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

ANY NOTES TO BE ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QIB WITHIN THE MEANING OF RULE 144A THAT IS ALSO A QP ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS THAT ARE ALSO QPS, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER RULE 144 UNDER THE SECURITIES ACT, IF AVAILABLE, OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

THE ATTACHED BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE ATTACHED BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS.

Under no circumstances shall this Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful.

This Base Prospectus is not being distributed to, and must not be passed on to, the general public in the UK. The communication of this Base Prospectus is only being made to those persons falling within Article 19(5) or Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or to other persons to whom this Base Prospectus may otherwise be distributed without contravention of sections 21 or 238 of the Financial Services and Markets Act 2000, or any person to whom it may otherwise lawfully be made. This communication is being directed only at persons having professional experience in matters relating to investments and any investment or investment activity to which this communication relates will be engaged in only with such persons. No other person should rely on it.

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Arranger nor the Permanent Dealer, any person who controls any of the Arranger or the Permanent Dealer, PAO Severstal, the Issuer, any director, officer, employee or agent of any of them, or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from any of the Arranger or the Permanent Dealer.



PAO SEVERSTAL

(incorporated as a public joint stock company under the laws of the Russian Federation)

US\$4,500,000,000 Programme for the Issuance of Loan Participation Notes

*to be issued by, but with limited recourse to,
Steel Capital S.A.
for the purpose of financing loans to*

PAO SEVERSTAL

Under the programme for the issuance of Loan Participation Notes (the **Programme**) described in this base prospectus (the **Base Prospectus**), Steel Capital S.A. (the **Issuer**), subject to compliance with all relevant laws, regulations and directives, may from time to time issue loan participation notes (the **Notes**) on the terms set out herein, as completed by a set of final terms (each such set of final terms, **Final Terms**) or series prospectus (**Series Prospectus**) setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed US\$4,500,000,000 (or the equivalent in other currencies). This Base Prospectus supersedes any previous base prospectus, offering circular or supplement thereto relating to the Programme. Any Notes issued under the Programme on or after the date of this Base Prospectus are issued subject to the provisions herein. This Base Prospectus does not affect any Notes issued prior to the date hereof.

Notes will be issued in Series (as defined in “*Overview of the Programme*”) and the sole purpose of issuing each Series will be to finance a loan (each a **Loan**) to PAO Severstal (the **Company** or the **Borrower**) as borrower, on the terms of an amended and restated facility agreement between the Issuer and the Company dated 14 February 2017 (the **Facility Agreement**), as amended and supplemented by a loan supplement to be entered into between the Issuer and the Company in respect of each Series on each date on which the Notes of that Series are issued (each a **Loan Supplement** and, together with the Facility Agreement, a **Loan Agreement**). Subject as provided in the Trust Deed (as defined in “*Overview of the Programme*”) the Issuer will (a) charge, in favour of Citibank, N.A., London Branch as trustee (the **Trustee**), by way of a first fixed charge, as security for its payment obligations in respect of each Series of Notes and under the Trust Deed, certain of its rights and interests under the relevant Loan Agreement and the relevant Account (as defined in the relevant Loan Supplement), but excluding any Reserved Rights (as defined in the “*Terms and Conditions of the Notes*”) and (b) assign, in favour of the Trustee, certain of its other rights under the Loan Agreement but excluding any Reserved Rights, in each case for the benefit of the holders of the corresponding Series of Notes (the **Noteholders**), all as more fully described in “*Overview of the Programme*”.

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of a Series of Notes, the obligation of the Issuer to make any such payment constitutes an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of such Series of Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by, or for the account of, the Issuer pursuant to the corresponding Loan Agreement. The Issuer will have no other financial obligations under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the Company’s covenant to pay under the relevant Loan Agreement and the credit and financial standing of the Company in respect of the financial servicing of each Series of Notes.**

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. PROSPECTIVE INVESTORS SHOULD HAVE REGARD TO THE FACTORS DESCRIBED UNDER THE SECTION ENTITLED “RISK FACTORS” IN THIS BASE PROSPECTUS.

Arranger and Permanent Dealer

Citigroup

The date of this Base Prospectus is 14 February 2017

The Notes and the corresponding Loans (together, the **Securities**) have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any State or other jurisdiction of the United States. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, US persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States to non-US persons in reliance on Regulation S (**Regulation S**) under the Securities Act (the **Regulation S Notes**) and within the United States to qualified institutional buyers (**QIBs**), as defined in Rule 144A (**Rule 144A**) under the Securities Act, that are also qualified purchasers (**QPs**), as defined in Section 2(a)(51) of the US Investment Company Act of 1940 (the **Investment Company Act**), in reliance on the exemption from registration under the Securities Act provided by Rule 144A (the **Rule 144A Notes**). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on Offers, sales and transfers of the Notes and distribution of this Base Prospectus, see “*Subscription and Sale*” and “*Selling and Transfer Restrictions*”.

This Base Prospectus has been approved by the Central Bank of Ireland (the **Central Bank**), as competent authority under Directive 2003/71/EC, as amended (the **Prospectus Directive**). The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes that are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Application will be made to the Irish Stock Exchange for the Notes issued under the Programme during the period of 12 months from the date hereof to be admitted to the Official List (the **Official List**) and trading on its regulated market (the **Main Securities Market**). Reference in this Base Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to trading on the Main Securities Market. The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. Unlisted Notes may also be issued pursuant to the Programme. The relevant Final Terms or Series Prospectus in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Irish Stock Exchange (or any other stock exchange). The Central Bank has only approved this document in relation to Notes that are to be listed on the Irish Stock Exchange or another regulated market in the European Economic Area, and the Central Bank has neither reviewed nor approved this document in relation to any unlisted Notes.

Regulation S Notes of each Series which are sold in an “offshore transaction” within the meaning of Regulation S, will initially be represented by interests in a global unrestricted Note in registered form (each a **Regulation S Global Certificate**), without interest coupons, which will be deposited with a common depository for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) on its issue date (the **Issue Date**). Beneficial interests in a Regulation S Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. Rule 144A Notes of each Series sold to QIBs that are also QPs, as referred to in, and subject to the transfer restrictions described in, “*Subscription and Sale*” and “*Selling and Transfer Restrictions*”, will initially be represented by interests in a global restricted Note in registered form (each a **Rule 144A Global Certificate**) and together with any Regulation S Global Certificates, the **Global Certificates**), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (**DTC**) on its Issue Date. Beneficial interests in a Rule 144A Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See “*Summary of the Provisions relating to the Notes in Global Form*”. Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

The price and amount of Notes to be issued under the Programme will be determined by the Issuer, the Company and the relevant Dealer (as named in “*Overview of the Programme*”) at the time of issue in accordance with prevailing market conditions. The minimum specified denomination of any Notes issued under the Programme shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms or Series Prospectus, and if such Series of Notes is rated, it will be rated by Standard & Poor’s Credit Market Services Europe Limited (**Standard & Poor’s**), Fitch Ratings Limited (**Fitch**) and/or Moody’s Investors Service Limited (**Moody’s**), as indicated in such applicable Final Terms or Series Prospectus. A rating is not a recommendation to sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not by a credit rating agency established in the European Community and registered under Regulation (EC) No 1060/2009 (the **CRA Regulation**) unless this is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted application for registration in accordance with the CRA Regulation and such registration is not refused or (ii) the rating provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA registered under the CRA Regulation or (iii) the rating is provided by a credit rating agency not established in the EEA is certified under the CRA Regulation. For the purposes of the credit ratings referred to in this Base Prospectus and in any applicable Final Terms or Series Prospectus, each of Standard & Poor’s, Fitch and Moody’s is established in the European Union and is registered under the CRA Regulation. As such, each of Standard & Poor’s, Fitch and Moody’s is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. Please also refer to “*Risk Factors—Ratings of the Notes*”.

IMPORTANT INFORMATION ABOUT THIS BASE PROSPECTUS

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Company, the Company and its consolidated subsidiaries taken as a whole (the **Group**), the Notes and the Loans which, according to the particular nature of the Issuer, the Company, the Group, the Notes and the Loans, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Company and the Group, and of the rights attaching to the Notes and the Loans. Each of the Issuer and the Company accepts responsibility for the information contained in this Base Prospectus and any applicable Final Terms or Series Prospectus in relation to the Notes issued by it. To the best of the knowledge and belief of each of the Issuer and the Company, each of which has taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Company, the Group, the Arranger or the Dealers (each as defined in “*Overview of the Programme*”) to subscribe for any of the Notes.

This Base Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Order**) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as **relevant persons**). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

None of the Arranger, the Dealers, their respective affiliates or the Trustee makes any representation or warranty, express or implied, as to the accuracy or completeness of the information in this Base Prospectus. Each person receiving this Base Prospectus acknowledges that such person has not relied on any of the Arranger, the Dealers, their respective affiliates or the Trustee in connection with its investigation of the accuracy of such information or its investment decision. To the fullest extent permitted by law, none of the Arranger or the Dealers accepts any responsibility whatsoever for the contents of this Base Prospectus, or for any other statement, made or purported to be made by an Arranger or a Dealer or on its behalf in connection with the Issuer, the Company, the Group, the Loans or the Notes. Each Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Base Prospectus or any such statement.

Each person contemplating making an investment in the Notes issued under the Programme from time to time must make its own investigation and analysis of the creditworthiness of the Company and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment. Each purchaser of the Notes should be aware that it may be required to bear the financial risks of this investment for an indefinite period of time.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Company, the Group or any of the Arranger or the Dealers. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Company or the Group since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer, the Company or the Group since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Base Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, the Company, the Group, the Arranger and the Dealers to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, Notes may not be offered or sold within the United States or to, or for the account of benefit of, US persons (as defined in Regulation S). For a description of certain restrictions on offers and sales of Notes and on distribution of this Base Prospectus, see “*Subscription and Sale*”.

This Base Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Company, the Group, the Trustee, the Arranger or the Dealers that any recipient of this Base Prospectus or any financial statements should purchase the Notes. None of the Issuer, the Company, the Group, the Arranger, the Dealers or the Trustee or any of their respective affiliates or agents makes any

representation about the legality of the purchase of the Notes by an investor under applicable investment or similar laws. Each prospective investor is advised to consult its own counsel and business adviser as to legal, tax, business, financial and related matters concerning the purchase of the Notes. The contents of this Base Prospectus are not to be construed as legal, business or tax advice.

Each prospective investor in the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes and must obtain any consent, approval or permission required of it for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Company, the Issuer, the Arranger, the Dealers or the Trustee or any of their respective affiliates or agents shall have any responsibility therefor.

Each of the Arranger and Dealers is acting solely for the Company and the Issuer and no one else in connection with the Notes and the Programme and is not, and will not be, responsible to any other person for providing advice in respect of the Notes and the Programme or for providing the protections afforded to their respective clients.

This Base Prospectus contains summaries with respect to certain terms of the Trust Deed and the Facility Agreement, but reference should be made to the actual documents for complete information with respect thereto. These documents will be made available free of charge to prospective investors upon request to the Company or at the office of the paying and transfer agent in London and New York City.

The Issuer is a *société anonyme* incorporated for an unlimited duration under the laws of the Grand Duchy of Luxembourg (**Luxembourg**). The Issuer is not a subsidiary of the Company. The registered office of the Issuer is located at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg and its telephone number is +35 242 122 449. The Issuer is registered with the Registre de Commerce et des Sociétés à Luxembourg (the Register of Commerce and Companies in Luxembourg) under number B116975. For further information on the Issuer, see “*The Issuer*”.

The Notes have not been approved or disapproved by the US Securities and Exchange Commission (the SEC) or any other federal or state securities commission or regulatory authority in the United States, nor has such any commission or regulatory authority passed upon the accuracy or adequacy of this Base Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Securities have not been and will not be registered under the Securities Act. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Regulation S Notes issued under the Programme from time to time are being offered and sold outside the United States to non-US persons in reliance on Regulation S and the Rule 144A Notes issued under the Programme from time to time are being offered and sold within the United States to QIBs that are also QPs in reliance on the exemption from registration under the Securities Act provided by Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and distribution of this Base Prospectus, see “*Subscription and Sale*” and “*Selling and Transfer Restrictions*”.

IN CONNECTION WITH THE ISSUE OF ANY SERIES OF NOTES, THE DEALER OR DEALERS (IF ANY) APPOINTED AS THE STABILISING MANAGER(S) (THE *STABILISING MANAGER(S)*) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN RESPECT OF SUCH SERIES OF NOTES MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR ANY PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT SERIES OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT SERIES OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT SERIES OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH APPLICABLE LAWS AND REGULATIONS.

THE NOTES MAY NOT BE A SUITABLE INVESTMENT FOR ALL INVESTORS

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Base Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of the relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

AVAILABLE INFORMATION

The Company has agreed that, for so long as any Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the US Securities Exchange Act of 1934, as amended (the **Exchange Act**) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Principal Paying Agent (as defined herein) for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Principal Paying Agent, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

FORWARD-LOOKING STATEMENTS

This Base Prospectus contains “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act which relate to, without limitation, any of the Company’s plans, financial position, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. Words such as “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “will”, “should” and any similar expressions are used to identify forward-looking statements. These forward-looking statements are contained in “*Risk Factors*”, “*Operating and Financial Review*”, “*Business*” and elsewhere in this Base Prospectus. The Company has based these forward-looking statements on the current view of its management with respect to future events and financial performance. These views reflect the best judgment of its management but involve uncertainties and are subject to certain known and unknown risks and other important factors beyond the Company’s control, the occurrence of which could cause actual results to differ materially from those predicted in the Company’s forward-looking statements and from past results, performance or achievements. Although the Company believes that the estimates and the projections reflected in such forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise or occur, including those identified in this Base Prospectus, or if any of the underlying assumptions prove to be incomplete or incorrect, the Company’s actual results of operations may vary from those expected, estimated or projected. Accordingly, prospective purchasers of the Notes should not place undue reliance on these forward-looking statements. The important factors that could cause the Company’s actual results, performance or achievements to differ materially from those in these forward-looking statements include, but are not limited to, those discussed in “*Risk Factors*”, “*Operating and Financial Review*” and “*Business*”. These forward-looking statements speak only as at the date of this Base Prospectus. The Company expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in its expectation with regard thereto or any change in events, conditions or circumstances on which any such forward-looking statements are based, unless required to do so by applicable law.

ENFORCEMENT OF JUDGMENTS

The Company is a public joint stock company established under the laws of the Russian Federation. A substantial number of the Company’s directors and executive officers named in this Base Prospectus reside outside the United Kingdom and/or the United States. Moreover, a substantial portion of the assets of the Company and of such persons are located outside the United Kingdom and the United States. As a result, it may not be possible for the Trustee, acting on behalf of the Noteholders, to effect service of process within the United Kingdom or the United States upon the Company and/or to enforce against the Company or any such person court judgments obtained in the United Kingdom and the United States courts.

Judgments rendered by a court in any jurisdiction outside the Russian Federation may not be enforced by courts in the Russian Federation unless there is (i) an international treaty in effect providing for the recognition and enforcement of

judgments in civil cases between the Russian Federation and the jurisdiction where such judgment is rendered, and/or (ii) a federal law of the Russian Federation providing for the recognition and enforcement of foreign court judgments.

The Company is not aware of any treaty or convention directly providing for the recognition and enforcement of judgments in civil and commercial matters between the United Kingdom and the Russian Federation or between the United States and the Russian Federation. However, the Company is aware of at least one instance in which Russian courts have recognised and enforced an English court judgment. The basis for this was a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds.

In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above may significantly delay the enforcement of such judgment, or completely deprive the Noteholders or the Trustee of effective legal recourse for claims under the Notes relating to the Loans.

Each Loan Agreement, and any non-contractual obligations arising out of or in connection with it, will be governed by English law and will provide that if any dispute or difference arises from or in connection with such Loan Agreement, such dispute shall be referred to and finally resolved by arbitration in accordance with the LCIA Arbitration Rules. The seat of any arbitration will be London, England. The United Kingdom, the United States, the Russian Federation and Luxembourg are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the *New York Convention*). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation). However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

In September 2002, the arbitrazh procedural code of the Russian Federation (the *Arbitrazh Procedural Code*) entered into force. The Arbitrazh Procedural Code established the procedure for Russian courts to refuse to recognise and enforce a foreign arbitral award. The Arbitrazh Procedural Code and other Russian procedural legislation could change; therefore, among other things, other grounds for Russian courts to refuse the recognition and enforcement of foreign court judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign court judgment or arbitral award in the Russian Federation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Market and Other Statistical Data

Market data used in this Base Prospectus, as well as certain statistics, including statistics in respect of product sales by volume of third parties and market share, under the captions “*Overview*”, “*Risk Factors*”, “*Operating and Financial Review*”, “*Industry*” and “*Business*”, have been extracted from official and industry sources and other third-party sources that the Company believes to be reliable, such as the following:

- *CDU TEK*. Federal State Unitary Enterprise “Central Dispatching Department of Fuel and Energy Complex”.
- *IMC Group Consulting Ltd*. IMC Group Consulting Ltd (*IMC*) is an internationally recognised consultancy group that offers a broad spectrum of services in the environmental, mining, minerals, engineering and energy industries worldwide. IMC’s headquarters are in Icon Business Centers, New Lake Drive, Sherwood Park, Nottingham, NG15 0DT, United Kingdom. The staff of IMC consists of engineers, accountants, economists and geologists with extensive experience in the metals and mining industries.
- *IMC Montan Ltd*. IMC Montan Ltd (*IMC Montan*), which is part of IMC, is a mining consulting company with experience of assignments in nearly every type of mineral. IMC Montan works closely with many well-known companies in Russia and other CIS countries, as well as major banks and financing institutions operating in the mining sector.

- *Rosstat*. The Federal State Statistics Service of the Russian Federation.
- *Rasmin*. Rasmin is a publisher of an informational bulletin on the Russian coking coal market.
- *RudProm*. RudProm is an agency that collates statistics about iron ore producers in the former Soviet Union.
- *SRK Consulting*. SRK Consulting (UK) Ltd (**SRK Consulting**) provides a range of consulting services to the resource industry. SRK Consulting's business address is 5th Floor, Churchill House, 17 Churchill Way, Cardiff CF10 2HH, United Kingdom. SRK Consulting employs over 70 full-time technical specialists providing experienced support for all aspects of the natural resource industry. SRK Consulting is part of the SRK Group that employs over 1,600 professional staff in 49 offices in 22 countries, offering expertise in a wide range of engineering disciplines.
- *Worldsteel*. The World Steel Association (**Worldsteel**) is one of the largest industry associations in the world, representing approximately 180 steel producers, national and regional steel industry associations, and steel research institutes. Worldsteel produces annual reports on the global steel industry.

Where information in this Base Prospectus has been sourced from third-parties including in respect of information concerning the Company's competitors, this information has been accurately reproduced, and as far as the Company and the Issuer are aware and are able to ascertain from the information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. Such information, data and statistics may be approximations or estimates or use rounded numbers. Nevertheless, prospective investors are advised to consider this data with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Prospective investors should note that the Company's estimates are based on such third-party information. Neither the Company, the Arranger nor the Dealers have independently verified the figures, market data or other information on which third-parties have based their studies.

In addition, some of the information contained in this Base Prospectus has been derived from official data of Russian government agencies and the Central Bank of the Russian Federation (**CBR**). The official data published by Russian federal, regional and local government agencies are substantially less complete or researched than those of more developed countries. Official statistics, including those produced by the CBR, may also be produced on different bases than those used in more developed countries. Any discussion of matters relating to Russia in this Base Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The contents of the Group's website do not form any part of this Base Prospectus.

Financial Information

The Group's audited consolidated financial statements as at and for the years ended 31 December 2016, 2015 and 2014 included in this Base Prospectus beginning on page F-2 and ending on page F-82, together with the notes thereto (the **Annual Financial Statements**) were prepared in accordance with IFRS as issued by the International Accounting Standards Board (**IASB**), in effect at the time of preparing the Annual Financial Statements.

The Issuer's audited financial statements as at and for the years ended 31 December 2015 and 2014 included in this Base Prospectus beginning on page F-83 and ending on page F-129, together with the notes thereto (the **Issuer's Financial Statements**) were prepared in accordance with Luxembourg Law and Generally Accepted Accounting Principles ("**Luxembourg GAAP**"), in effect at the time of preparing these financial statements.

In this Base Prospectus:

- **Russian Rouble, Russian Roubles, Rouble, Roubles or RUB** refers to the lawful currency of the Russian Federation;
- **US dollar, US dollars or US\$** refers to the lawful currency of the United States of America;
- **British pound sterling, British pounds sterling, GBP or £** refers to the lawful currency of the United Kingdom; and
- **EUR, euro, or €** refers to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time.

Alternative Performance Measures (APMs)

In this Base Prospectus, the Group uses in the analysis of its business, financial position and results of operations the following non-IFRS measures which it considers to constitute Alternative Performance Measures as defined in the European Securities and Markets Authority Guidelines:

- EBITDA;
- Net interest expense;
- Total debt finance;
- Net debt;
- EBITDA/Interest expense;
- EBITDA/Net interest expense;
- Net debt/EBITDA;
- Total debt finance/EBITDA; and
- EBITDA margin.

(collectively, the *APMs*).

EBITDA is a measure of operating performance which is equal to profit from operations plus depreciation and amortisation of productive assets (including the Group's share in depreciation and amortisation of associates and joint ventures) adjusted for gain/(loss) on disposals of property, plant and equipment and intangible assets and for share in associates' and joint ventures' non-operating income/(expenses). Net interest expense is a measure of net impact of the interest expense less interest income. Total debt finance is a measure of indebtedness and borrowing capacity which is equal to short-term and long-term debt finance. Net debt is a measure of indebtedness and borrowing capacity which is equal to the total debt finance less cash and cash equivalents. EBITDA/Interest expense is a measure of the Group's ability to meet its interest expenses which is equal to EBITDA divided by the interest expense. EBITDA/Net interest expense is a measure of the Group's ability to meet its interest expenses which is equal to EBITDA divided by the net interest expense. Net debt/EBITDA is a measure of financial leverage to demonstrate the Group's ability to repay its debt obligations which is equal to the net debt divided by EBITDA. Total debt finance/EBITDA is a measure of financial leverage to demonstrate the Group's ability to repay its debt obligations which is equal to the total debt finance divided by EBITDA. EBITDA margin is a measure of operating profitability which is equal to EBITDA divided by total revenues.

The APMs are presented as supplemental measures of the Group's operating performance, which the Group uses as key performance indicators of the Group's business and to provide a supplemental tool to assist in evaluating current business performance. The Group believes these supplemental measures are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the steel industry. The APMs are measures of the Group's operating performance that are not required by, or prepared in accordance with, IFRS. All of these supplemental measures have limitations as analytical tools, and investors should not consider any one of them in isolation, or any combination of them together, as a substitute for analysis of the Group's operating results as reported under IFRS and should not be considered as alternatives to revenues, profit, operating profit, net cash provided by operating activities or any other measures of performance under IFRS or as alternatives to cash flow from operating activities or as measures of the Group's liquidity. In particular, the APMs should not be considered as measures of discretionary cash available to the Group to invest in the growth of its business.

Some of these limitations are as follows:

- EBITDA does not reflect the impact of financing costs, which can be significant and could further increase if the Group incurs more debt, on the Group's operating performance.
- EBITDA does not reflect the impact of income taxes on the Group's operating performance.
- EBITDA does not reflect the impact of depreciation and amortisation on the Group's operating performance. The assets of the Group's businesses which are being depreciated, depleted and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in

the future. By excluding this expense from EBITDA, EBITDA does not reflect the Group's future cash requirements for these replacements. EBITDA also does not reflect the impact of gain/(loss) on disposals of property, plant and equipment and intangible assets.

- Other companies in the steel and mining industries may calculate EBITDA differently or may use it for different purposes than the Group, limiting its usefulness as a comparative measure.

For a reconciliation of the APMs to the Annual Financial Statements, see “*Overview Financial Information and Operating Results of the Group—Alternative Performance Measures*”.

Mining Reserves

Certain information relating to the Group's reserves and resources relating to iron ore and coal cited in “*Business*” and “*Industry*” are produced by reference to the following sources. Estimation for JSC Karelsky Okatysh (***Karelsky Okatysh***) is based on the report issued by IMC dated June 2006, which was prepared in accordance with Australasian Joint Ore Reserves Committee Code (***JORC***) reporting standards, reduced by actual production since 1 January 2006. IMC's business address is Icon Business Centers, New Lake Drive, Sherwood Park, Nottingham, NG15 0DT, United Kingdom, and the report of IMC was not prepared for the purposes of this Base Prospectus. Reserves and resource estimates for JSC Olkon (***Olkon***) is based on the report issued by IMC Montan dated February 2013 which was prepared in accordance with JORC reporting standards, reduced by actual production since the date of the report. IMC Montan's business address is Pure Office, Lake View Drive, Annesley, Nottingham, Nottinghamshire, NG15 0DT, United Kingdom, and the report of IMC Montan was not prepared for the purposes of this Base Prospectus. Reserves and resource estimates for Severstal Liberia Iron Ore Ltd. (the ***Putu Range Project***) is based on the report prepared by SRK Consulting dated September 2012, which was prepared under the guidelines of Samrec, which is the standard of public disclosure of information relating to mineral properties in South Africa and adopted in Liberia and is essentially similar to the Australasian JORC standard. SRK Consulting's business address is 5th Floor, Churchill House, 17 Churchill Way, Cardiff CF10 2HH, United Kingdom, and its report has not been prepared for the purposes of this Base Prospectus. Reserve estimations for JSC Vorkutaugol (***Vorkutaugol***) were prepared in accordance with the Russian Classification of Reserves and Forecasted Resources of Solid Minerals (the ***Russian Classification***). See also “*Industry—Mining Industry—International Reporting Methodologies*”.

Operating Data

All data relating to the Group's production and operations, such as volumes of production, production capacity and certain sales information presented by sector, geography and product, cited in “*Overview Financial Information and Operating Results of the Group*”, “*Risk Factors*” and “*Business*”, and as cited specifically elsewhere in this Base Prospectus, were derived from information which was not reviewed or audited by JSC KPMG, the independent auditors of the Group.

Certain Defined Terms

In this Base Prospectus:

- the ***CBR*** means the Central Bank of Russia;
- the ***Company*** or the ***Borrower*** means PAO Severstal;
- the ***Group*** means the Company and its consolidated subsidiaries;
- the ***Issuer*** means Steel Capital S.A.;
- the ***FAS*** means the Federal Antimonopoly Service of the Russian Federation;
- the ***Russian Government*** means the federal government of the Russian Federation;
- ***tonnes*** means metric tonnes, and one metric tonne is equal to one thousand kilograms;
- the ***US*** means the United States;
- the ***UK*** means the United Kingdom;
- the ***EU*** means the European Union and its member states (each a ***Member State***) as at the date of this Base Prospectus;

- **Russia** means the Russian Federation; and
- the **CIS** means the countries that formerly comprised the Union of Soviet Socialist Republics and that are now members or associate members of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

Rounding

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly, and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

SUPPLEMENTAL BASE PROSPECTUS

Each of the Company and the Issuer will agree to comply with any undertakings given by it from time to time to the Irish Stock Exchange in connection with listed Notes and, without prejudice to the generality of the foregoing, the Company and the Issuer will each, so long as any of its Notes remains outstanding and admitted to trading on the Main Securities Market, in the event of any significant new factor, material mistake or inaccuracy relating to the information contained in this Base Prospectus, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Notes to be listed on the Irish Stock Exchange.

The Company has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment by investors of any Notes and the corresponding Loan and whose inclusion in this Base Prospectus or removal is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Company and the Group (subsidiaries and controlled affiliates), and the rights attaching to such Notes and Loan, the Company shall prepare an amendment or supplement to this Base Prospectus or publish a replacement base prospectus for use in connection with any subsequent offering of the Notes.

The Company and the Issuer may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the terms and conditions described herein, in which event a Series Prospectus or a supplemental prospectus, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

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OVERVIEW

OVERVIEW OF THE GROUP

This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Base Prospectus, including the more detailed information regarding the Group's business and the Annual Financial Statements and related notes included elsewhere in this Base Prospectus. Certain statements in this overview include forward-looking statements that also involve risks and uncertainties as described in "Forward-Looking Statements".

The Group is an international, vertically-integrated steel and steel-related mining company that sells high quality metal and mining products to customers across the world. In 2016, the Group's total output of crude steel was 11.6 million tonnes. The Group operates a full production cycle which includes iron ore, coal, scrap collection, steel mills and rolled product plants, downstream production and distribution businesses. The Group's primary production facilities are located in Russia. With a focus on high value-added products in attractive niche markets, sales of which represented approximately 42 percent of the Group's total metal sales volume for 2016, the Group's corporate strategy is to become a global industry leader in terms of EBITDA and to sustain a leading position in terms of both profitability margins and return on investment as a vertically-integrated steel and steel-related mining company.

As at 31 December 2016, the Group comprised two business divisions: Severstal Russian Steel and Severstal Resources. The Group sold its entire Severstal International business division in September 2014. See "*Discontinued Operation and assets held for sale—Severstal International reporting segment*".

Severstal Russian Steel. In 2016, Severstal Russian Steel produced approximately 16.4 percent of total Russian crude steel production, based on data from Worldsteel. According to calculations by the Group's management based on publicly released data, Severstal Russian Steel was the third largest producer of crude steel products in Russia by volume of production in 2016. Severstal Russian Steel's revenue accounted for 90.8 percent of the Group's total revenues in 2016. Severstal Russian Steel is comprised of the following:

- *Cherepovets Steel Mill.* One of the world's largest stand-alone integrated steelworks by capacity, Cherepovets Steel Mill produced 10.89 million tonnes of crude steel in 2016. It produces a wide range of flat and long-rolled products, including hot and cold-rolled flat products, galvanised and colour-coated products and long-steel applications. Rolling Mill 5000 is one of the Cherepovets Steel Mill's facilities, located in Kolpino, near Saint-Petersburg, produces thick plates for large diameter pipes, ship and bridge building and other industries.
- *Izhora Pipe Mill.* The Izhora pipe mill located in Kolpino specialises in manufacturing large diameter pipes from plate produced at the nearby Kolpino Rolling Mill 5000. It has a production capacity of up to 600 thousand tonnes of pipes per year. These pipes are mainly used in oil and gas pipeline projects.
- *Mini-Mill Balakovo.* The Balakovo mini-mill is a new generation mini-mill focused on the production of long products for the construction industry. It has an annual production capacity of one million tonnes of rolled products.
- *Severstal-Metiz.* Severstal-Metiz manufactures more than 55,000 product types, including low-carbon and high-carbon wire rods, nails, cold-drawn steel, steel ropes, netting and fastenings, and had total sales of 639 thousand tonnes in 2016 (excluding intersegment sales). Severstal-Metiz comprises several subsidiaries located at the Cherepovets site in northwest Russia, the Orel site in central Russia, the Volgograd site in the Povolzhie region, as well as subsidiaries in Italy (Redaelli) and Ukraine (Dneprometiz). According to estimates by the Group's management based on publicly available data, the Group's metalware market share in 2016 represented approximately 21 percent of the domestic Russian market.
- *Downstream production assets.* The Group has various downstream production assets including: *Severstal-SMC-Kolpino*, which applies the primer to shipbuilding plates and produces semi-finished products for machinery and large fabricated sections for the construction industry; *Severstal-Gonvarri-Kaluga Steel Centre* (the Group's joint venture), which has a production capacity of 170 thousand tonnes of rolled metal products per year, which are used in the automotive and electrical industries; *Gestamp-Severstal-Kaluga Stamping Facility* (the Group's joint venture), which is equipped with a number of press lines and produces all rolled steel products including coils to car components for international car manufacturers and has an annual output of 13 million stamped parts; *Severstal-SMC-Vsevolozhsk Services Centre*, which is a joint venture with the Japanese company Mitsui and prepares high-quality CRC and galvanised steel which is then sent for stamping at the Gestamp-Severstal-Kaluga Stamping Facility and which has an annual capacity of 150 thousand tonnes; *Severtar*, which is a joint venture with Rutgers and is based at the Cherepovets Steel Mill plant and produces vacuum pitch, technical oils and naphthalene; and *TPZ Sheksna*, which has production capacity of up to 250 thousand tonnes of electric-welded

pipes of various diameters, thicknesses and lengths for the construction industry, as well as square and rectangular sections with different cross-sections, and uses semi-finished steel products made at Cherepovets Steel Mill.

- *Trading companies.* Severstal Russian Steel's domestic sales are made to regional and other distributors, directly to end-users, or through AO Severstal Distribution. AO Severstal Distribution has a wide network of metal centres throughout Russia. The Group conducts export sales principally through its subsidiaries Severstal Export GmbH, SIA Severstal Distribution, Severstal Distribution LLC, ZAO Severstal Distribution, AS Latvijas Metals and Severstal Distribution Sp.z.o.o.

Severstal Resources. Severstal Resources comprises iron ore production and coal production. Severstal Resources' revenue accounted for 9.2 percent of the Group's total revenues in 2016.

- The Group's iron ore business consists of two iron ore extracting complexes: Karelsky Okatysh, which produces iron ore pellets, and Olkon, which produces iron ore concentrate. Karelsky Okatysh, located in the Karelia Republic, had an annual iron ore output of 35.1 million tonnes in 2016 and estimated JORC iron ore reserves and resources of approximately 320.8 million tonnes and 976.4 million tonnes, respectively, as at 1 January 2017. The Group expects ore output at Karelsky Okatysh to remain at approximately the same level until 2031. Olkon, located in the Murmansk region of Russia, had an annual iron ore output of 13.6 million tonnes in 2016 and estimated JORC iron ore reserves and resources of approximately 204.3 million tonnes and 542.3 million tonnes, respectively, as at 1 January 2017. The Group expects ore output at Olkon to remain at approximately the same level until 2026. In addition, the Group also has interests in several iron ore development or prospective early stage projects in Africa and South America.
- The Group's coal business consists of Vorkutaugol and two greenfield projects: Tsentralny field and Usinskoye-1 field. Vorkutaugol, located in the Komi Republic, produces coking and steam coal and had ROM coal output of 10.3 million tonnes in 2016 and estimated coal reserves of approximately 139.0 million tonnes as at 1 January 2017. Vorkutaugol comprises five longwall mines (four of which are currently active and one is sealed off), an open pit mine and three washing plants (including the Severnaya mine). Tsentralny field is a greenfield project located in the Tyva Republic and, as at 1 January 2017, had total resources approximating 807.8 million tonnes of coking coal of A, B, C1 and C2 categories, according to the Russian Classification. Usinskoye-1 field is a greenfield project located in the Republic of Komi near the existing Vorkutaugol operation, with estimated resources of 537.3 million tonnes of coking coal of A, B and C1 categories, according to the Russian Classification, as at 1 January 2017. See "*Industry—Mining Industry—Russian Methodologies for Reserve and Resource Reporting*".

In 2016, Severstal Resources was the second largest producer of iron ore pellets and one of the leading producers of high quality hard coking coal in Russia, according to RudProm and Rasmin. Severstal Resources has the capacity to satisfy all of Severstal Russian Steel's iron ore and approximately 70 percent of its coking coal requirements. This forms the basis of the Group's balanced and vertically-integrated business model. With a focus on high value-added products, such as the export of high quality iron ore pellets and hard coking coal concentrate, Severstal Resources' iron ore and ROM coal output amounted to 48.7 million tonnes and 10.3 million tonnes, respectively, in 2016. The Group estimates that, as at 1 January 2017, it had iron ore reserves and resources of approximately 525.1 million tonnes and 6,208.7 million tonnes, respectively, based on reports issued by IMC Montan dated February 2013 and IMC dated June 2006, in each case, prepared in accordance with JORC reporting standards (for assets located in Russia) and a report issued by SRK Consulting dated September 2012 prepared under the guidelines of Samrec (for the Putu Range deposit, Liberia) and coal reserves of approximately 139.0 million tonnes, based on reporting conducted by the Group in accordance with the Russian Classification.

COMPETITIVE STRENGTHS

The Group has developed a variety of competitive strengths, which it believes provide it with a greater resilience to the cyclical nature of the steel industry than some of its competitors and a basis on which to build its position as a global metals and mining company. The Group's distinct business model is focused on global cost leadership through efficient vertical integration, prudent investment and focus on customer care. Consequently, the Group remains one of the global leaders by profitability margins and returns on investment. Financial resilience remains a top priority and the Group currently has one of the strongest balance sheets and lowest leverage in the industry, providing a strong cushion against market volatility. The Group's share in the domestic market (excluding large diameter pipes) accounted for 17.0 percent and 17.4 percent in 2015 and 2016, respectively, and its share in the domestic market (excluding large diameter pipes and long products) was 23.9 percent and 24.2 percent in 2015 and 2016, respectively, according to Metal Expert.

Vertically-Integrated Business with Access to Iron Ore, Coal and Scrap

The Group is a vertically-integrated steel producer operating on a global scale. Its facilities span the full production cycle from iron ore and coal mining operations to steel mills and rolled product plants as well as downstream production and

distribution businesses. The Group's mining operations, conducted by Severstal Resources, provide supplies of iron ore and coal products to its production facilities in Russia while also supplying these raw materials to third parties. The Group has its own scrap collection and processing facilities.

Severstal Resources is one of the largest producers of hard coking coal and iron ore pellets in Russia. As a result, Severstal Russian Steel's operations with respect to iron ore are fully self-sufficient, as Severstal Resources' overall production volumes of iron ore are able to cover in full the overall consumption volumes of Severstal Russian Steel, without taking into account the chemical features of the particular iron ore mix required. With respect to coal, Severstal Resources' capacities could satisfy approximately 70 percent of Severstal Russian Steel's demand for coking coal for 2016. However, Severstal Russian Steel sources a portion of its iron ore and coal requirements from third party suppliers, to cover its requirements for materials with different chemical features, to take advantage of favourable prices, as well as in cases of disruptions in the mining operations of Severstal Resources.

Severstal Resources' deposits have technical characteristics which enable it to produce a relatively wide range of products for customers in the metallurgical industries, in addition to the Group's steel operations. Its reserves of iron ore and coal are significant, with estimated lives of some mines exceeding several decades. The Group considers mining to be one of its core businesses. The vertically-integrated nature of the Group enables it to secure raw material supplies for its operations while reducing the Group's exposure to raw material price fluctuations, resulting in increased efficiencies.

Global Cost Competitiveness

Globally, Russia is one of the lowest cost regions for steel production in the world, and the Group occupies one of the most favourable positions on the global hot-rolled coil cost curve, according to Worldsteel. In particular, the Group had hot rolled coil cash cost of approximately US\$224 per tonne in 2015 and US\$258 per tonne in December 2016. With its largest production facilities located in northwest Russia, the Group benefits from relatively low-cost supplies of electricity and natural gas, as well as low transportation fees as a result of its proximity to major steel consuming markets in the central European part of Russia and the ports of the St. Petersburg region.

In addition to these cost advantages, as one of the largest producers of steel in Russia, the Group benefits from economies of scale in both production and negotiation power with its suppliers, including third-party suppliers of raw materials. This cost competitiveness is particularly valuable in granting the Group's flexibility to shift its sales focus between the Russian domestic market and the export market in a cost effective manner depending on relative demand for steel and mining products domestically and globally.

Further, the Group is self-sufficient to a substantial degree in the raw materials essential for its operations. It generates a significant amount of the electricity it uses in its operations at its own production facilities and, consequently, is less exposed to electricity price volatility. The Group's vertically-integrated structure and self-sufficiency in iron ore and to a substantial degree in coking coal also reduces its exposure to raw material price volatility and enables it to achieve significant cost synergies. See "*—Vertically-Integrated Business with Access to Iron Ore, Coal and Scrap*". The Group benefits from the implementation and close monitoring of cost control measures, including as part of the Severstal Business System, and as a result of the launch of various initiatives by the Group's Expert Network since 2015 that are designed to improve operational processes throughout the Group. See "*—Severstal Business System*". In recent years the Group has made significant investments into modernisation and efficiency programmes in order to improve productivity and achieve cost and operational efficiencies. As a result of these investments, the Group is well positioned to control operating costs.

Experienced Management Team

The Group's senior management team combines extensive steel and resources industry knowledge with international management and financial expertise, including valuable insight gained from the five independent non-executive directors on the board of directors. At an operational level, the Group has developed, and continues to refine, a management structure that is focused on improving accountability, clarifying responsibilities and streamlining information reporting and decision-making. Much attention is devoted to efficiently and effectively reporting and communicating the development of a business undertaking at all levels of the production process. Backed by international experience and advanced technical and business qualifications, the management team's ability to successfully manage the performance of the Group's assets is evidenced by the increased operating efficiency in recent years and cost reduction achievements across the divisions.

Severstal Business System

Severstal Business System is carefully structured to foster sustainable competitiveness by creating a culture of continuous improvement within which the Group's employees are challenged and encouraged to achieve targets and implement the Group's strategy through the use of best practices and management tools, all of which are updated responsively on an ongoing basis. In particular, the Business System has established cost control targets for each division and specific plants of the Group. The Group constantly evaluates these targets and the performance of its divisions and assets through

regular benchmarking processes and an audit programme for its operations, in connection with which international experts periodically consider specific segments of the operational process.

The Group believes that the Business System drives operational and organisational excellence along its entire value chain, improves customer satisfaction and promotes a safety-conscious culture. During the early years of its implementation in 2010-2013, the Business System was primarily focused on changing the prevailing culture within the Group's production departments in order to achieve cost reductions, improve working conditions and industrial safety, and enhance product quality. The Group believes that the implementation of the Business System achieved these targets by fostering an ambitious and collegiate working environment which was more receptive to change and the adoption of new best-in-class business-processes. Most recently, the Business System has been expanded to cover other areas of the Group's operations, including:

- Customer relationships (by refining and clarifying key customer requirements and creating joint supply systems);
- Value stream improvement (by encouraging production planning targeted at delivery performance improvement and quality management along the value chain);
- Supplier development (by building a smooth supply chain for materials and services required for the value stream); and
- Maintaining implemented changes (by goal-setting, improving customer-focus and the adoption of an audit system).

Strong Corporate Governance

The Group seeks to adhere to international corporate governance standards. The Group benefits from a culture of independence on its board of directors as a result of both a diverse, multinational membership and the independence of half of its board (according to UK standards of independence). In addition, the Group has established committees of its board of directors in accordance with the UK Combined Code on Corporate Governance and has implemented other measures aimed at promoting transparency and good corporate governance. These measures include implementing internal control procedures and internal audit functions, publishing quarterly financial statements prepared in accordance with IFRS, publishing regular production updates and requiring the approval of two-thirds of the board of directors for acquisitions with a value in excess of US\$500 million and any transaction with a value of more than 10.0 percent of the book value of the Company's assets. In addition, all transactions with affiliates are approved by the Board of Directors.

Robust Liquidity and Sustainable Leverage

As a result of the Group's strong financial performance, including achieving EBITDA margins of 32.8 percent and 32.3 percent in 2015 and 2016, respectively, the Group has a sustainable leverage (net debt/EBITDA ratio was 0.4 as at 31 December 2016) and a robust liquidity position (US\$1.2 billion of cash and cash equivalent and unused committed credit lines of US\$0.7 billion as at 31 December 2016). Even though the Group represents less than 1 percent of the global steel industry in terms of production volumes, it has been the leader within the global steel industry in terms of profitability for the past six consecutive quarters. S&P and Fitch upgraded the Company's credit rating to BBB- in August 2016 and May 2016, respectively, and in the third and fourth quarters of 2016, S&P and Fitch revised the Company's rating outlook from negative to stable. Financial resilience remains a top priority for the Group and provides a strong cushion against market volatility.

STRATEGY

The Group's corporate strategy is based on its model of being a vertically-integrated steel and steel-related mining company. The Group aims to maximise shareholder value by building a stable and high quality business that will generate higher than market average earnings throughout the economic cycle. The Group has grounded its corporate strategy in the crucial industrial growth drivers of cost competitiveness, vertical integration, customer care and focus on a diversified products portfolio with emphasis on high value-added products in order to build upon and improve its ranking as one of the leading steel companies worldwide.

As part of its overall strategy, the Group is focused on achieving certain targets and goals in respect of its financial performance and condition, including the following:

- achieving cycle-average EBITDA margin of approximately 20 percent;
- keeping annual mid-term capital expenditure below US\$1 billion;
- generating stable positive free cash flow;

- maintaining net debt to EBITDA ratio below 1.5x; and
- dividend payout of not less than 50 percent of net profit, provided that net debt to EBITDA ratio is below 1.0x (if above, dividend payout shall not exceed 25 percent of net profit).

To successfully implement the above strategy, the Group intends to accomplish the following initiatives:

Pursue Low-Cost Steel Production

The Group believes that cost competitiveness is a vital element of its success. See “—*Competitive Strengths—Global Cost Competitiveness*”. Accordingly, the Group plans to continue to pursue a strategy of lower-cost steel production (in comparison to global cost levels in steel production). Efficient vertical integration is an integral part of the Group’s business model which enables it to extract significant synergies and manage costs. The Group is one of the few steel companies with a strong position in both iron ore and coking coal. The Group is largely self-sufficient in iron ore and to a substantial degree in coking coal, which are its primary steel-related raw materials. The Group intends to maintain its vertically-integrated structure in order to remain largely self-sufficient in primary steel-related raw materials, which enables it to maximise cost efficiencies and reduce production costs.

The Group believes that a low-cost operating structure can be achieved by a combination of prudent capital expenditure on production facilities, cost control measures, energy efficiency improvements, integration of its raw materials business with steel production and labour productivity gains, the main contributions of which are expected to come from the continuous improvement, purchasing optimisation and cost control and other initiatives included in the Severstal Business System. In particular, the Group intends to continue to invest in modernisation and maintenance projects which are expected to make the Group’s assets more cost efficient and expand the number and scope of the initiatives already introduced through the Severstal Business System. See “—*Implement Prudent Investment Policy*”.

Enhance Customer Care

As a result of the weak fundamentals of the global steel market, the Group intends to implement a “defensive growth” strategy, pursuant to which it will focus on improving customer care and enhancing product quality rather than increasing the scale of its production in order to increase profitability by generating higher earnings per tonne of product. Consequently, the Group intends to adopt a more customer-centric business model and focus on three key areas: service quality, product quality and supply discipline. The Group considers best-in-class customer care will allow it to attract and retain customers in a volatile macro-economic environment. The Group will assess improvements in its customer care through the use of the net promoter metrics, whilst benchmarking results against previous performance.

Service Quality

The Group is planning to implement a large number of measures to enhance service quality, including continuing to develop its online shopping platform and online customer accounts, optimising its purchasing system and ensuring closer interaction and cross-functional cooperation among its employees (including between sales managers and after-sales service specialists). In particular, the Group understands that proactive and regular engagement with customers is key to ensuring it continues to meet their evolving needs. Such interaction is expected to enable the Group to better understand the balance of price and non-price factors affecting customer decision-making. To this end, the Group intends to simplify and encourage communication between the Group and its customers at all stages, from the point of submitting product orders to delivery and aftersales service. Ongoing client feedback will be solicited to enable the Group to enhance and adapt its customer service tools to satisfy their requirements.

Product Quality

The Group intends to implement new measures to enhance product quality. One of the most important projects in this regard will be the branding of the Group’s products, pursuant to which the Group will guarantee high product quality standards. The Group will also invite customers to specify a broader range of requirements and criteria when ordering products in order to better understand their current and future requirements. The Group will seek to evaluate product quality from the perspective of its customers and will focus on improving product quality maintenance throughout the operational process in order to support its efforts to identify and permanently resolve product quality issues at an earlier stage (and ideally before an official request or claim is made). Further, the Group will continue to invest in the maintenance and modernisation of its assets and develop new high-quality products (such as olivine pellets in Karelsky Okatysh). See “—*Implement Prudent Investment Policy*”.

Supply discipline

The Group will seek to further improve its supply discipline and increase the proportion of product deliveries that are made on-time and in-full. To this end, the Group will integrate and develop the IT-systems that oversee and coordinate its supply chain. The Group has also revised its Supply Chain Management strategy, in particular, the procurement structure

of the Group has been divided into documentation (back-office) and operating (front-office) streams, which the Group believes to be in line with best global practices. Further, centralisation is being introduced in the procurement system for the purpose of creating synergies in procurement and increased opportunities in the management of suppliers. In 2015, the Group implemented the Product Portfolio Management project which is aimed at splitting all of the Group's products into two categories: commodity (mass) products and non-typical products tailored to customers' needs.

The Group will leverage its Product Portfolio Management system to differentiate between specific market segments and define optimal sales, production, planning and logistic strategy to fully address customer expectations. For example, the Group employs simple forecasts in planning the production cycle for its commodity (mass) products, which have a diversified customer base and numerous purchases every month, in order to improve the lead-time without building up inventories, whereas the Group's production planning methodology for non-typical products, aimed at clients in the automotive segment, who demand considerably lower volumes of specific higher value-added steel products, is necessarily more complex.

Implement Prudent Investment Policy

The Group intends to continue to implement a prudent investment policy, pursuant to which investment will continue to be primarily focused on developing key areas of the Group's strategy including cost control, further diversification of its products portfolio, increased production of high value-added products and enhancement of customer care. The Group expects to invest approximately US\$673 million across its business in 2017.

Severstal Russian Steel

Planned investments across Severstal Russian Steel in 2017 are expected to amount to approximately US\$407 million, part of which will be invested in development projects, including the construction of a new coating line and ladle furnace No.2 and reconstruction of coke battery No.4. All of these investment projects are aimed at the modernisation of existing facilities, delivering increased capacity of high value-added products and reducing costs. In addition to these development projects, the Group plans to allocate a substantial part of its capital expenditure in 2017 to the ongoing maintenance of its production assets, as well as environmental, health and safety projects.

Severstal Resources

Planned investments across Severstal Resources in 2017 are expected to amount to approximately US\$266 million which will be invested in the development of the division's assets including the implementation of a new multi-functional safety system at the Vorkutaugol mines, improvements to stripping works, maintenance of the Group's coal and iron ore operations as well as health and safety improvement projects.

Develop and Incorporate Advanced Information Technology

The Group believes that recent developments in information technology and analytics, such as the "internet of things", predictive maintenance and the use of "big data", will offer significant opportunities to improve the productivity and efficiency of all areas of the Group's business and operations. To that end, the Group is actively developing its information technology to support the introduction of such concepts and developments.

RISK FACTORS

An investment in the Notes involves a high degree of risk. For a detailed discussion of the risks and other factors to be considered when making an investment with respect to the Notes, see "*Risk Factors*". Prospective investors in the Notes should carefully consider the risks and other information contained in this Prospectus prior to making any investment decision with respect to the Notes. Prospective investors should note that the risks described in this Base Prospectus are not the only risks the Group faces. The Group has described only the risks that it considers to be material. However, there may be additional risks that the Group currently considers immaterial or of which the Group is currently unaware.

USE OF PROCEEDS

The gross proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to the Company. The gross proceeds of such Loan will be used by the Company for general corporate purposes unless otherwise specified in the relevant Loan Agreement. In connection with the receipt of such Loan, the Company will pay an arrangement fee, as reflected in the relevant Final Terms or Series Prospectus.

RECENT DEVELOPMENTS

Since 31 December 2016, the following significant developments have occurred:

- In January 2017, the Group entered into a definitive agreement to sell to a third party 100 percent of the shares in Redaelli Tecna S.p.A., an Italian steel company, included in the Severstal Russian Steel reporting segment. The preliminary cash consideration receivable by the Group under this sale agreement amounts to EUR50 million (US\$53 million at the transaction exchange rate date), subject to certain adjustments upon the deal closure. The expected loss on the disposal has been preliminary estimated at the amount of US\$30 million and recognised in the Annual Financial Statements as impairment of goodwill and property, plant and equipment in the amount of US\$25 million and US\$5 million, respectively. Completion of the transaction is expected in the first half of 2017, subject to receipt of applicable regulatory approvals and other closing conditions agreed between the parties.
- On 9 February 2017, the Company announced that it has priced an offering of U.S.\$250 million principal amount of senior unsecured convertible bonds due 2022, issued by Abigrove Limited, a wholly-owned subsidiary of the Company, and guaranteed by the Company. The Bonds will not pay any coupon (zero-coupon). Subject to a cash settlement option at the discretion of the issuer of the bonds, the bonds are convertible into the Global Depositary Receipts (the **GDRs**) of the Company listed on the London Stock Exchange. The initial conversion price has been set at U.S. \$20.33 per GDR, representing a conversion premium of 35 percent above the reference price of U.S.\$15.06 (being the volume weighted average price of a GDR between launch and pricing of the Bonds on 9 February 2017). Holders of these convertible bonds will have the option to require an early redemption of the convertible bonds held by them on the third anniversary of the issue date, at their principal amount. Settlement of the convertible bond offering is expected to occur on or around 16 February 2017. The net proceeds of the issue will be used for the general corporate purposes of Severstal.

OVERVIEW OF THE PROGRAMME

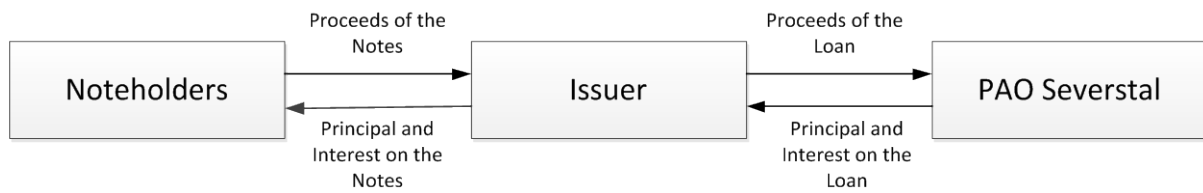
The following overview contains basic information about the Notes and Loans and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “Terms and Conditions of the Notes” and “Facility Agreement” appearing elsewhere in this Base Prospectus. The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this document and, in relation to the terms and conditions of any particular Series of Notes, the applicable Final Terms or Series Prospectus. Words and expressions defined in “Terms and Conditions of the Notes” below shall have the same meanings in this overview.

Each Series of Notes will be structured as a Loan by the Issuer to the Company of a sum equivalent to the gross proceeds of an issue of such Series. The Issuer will issue Notes to Noteholders, for the sole purpose of funding such Loan. The Loan will have capacity to produce funds to service the payments due and payable on the Notes. Each Series of Notes will be constituted by the amended and restated principal trust deed dated 15 March 2013 (the **Principal Trust Deed**) and as supplemented and amended in respect of such Series of Notes by a supplemental trust deed (each a **Supplemental Trust Deed**, and together with the Principal Trust Deed, a **Trust Deed**), each entered into between the Issuer and the Trustee. Pursuant to each Trust Deed the Issuer will (i) charge to the Trustee by way of a first fixed charge as security for the benefit of the holders of a Series of Notes (a) all principal, interest and other amounts payable by the Company to the Issuer as lender under the relevant Loan Agreement, (b) the right to receive all sums which may be or become payable by the Company under any claim, award or judgment relating to the relevant Loan Agreement and (c) all rights, title and interest in and to all sums of money now or in the future deposited in an account established for the relevant Series of Notes with the Principal Paying and Transfer Agent in the name of the Issuer (the **Account**) including interest from time to time earned thereon and (ii) assign certain of its rights under the relevant Loan Agreement (but excluding any Reserved Rights), to the Trustee for the benefit of the holders of the corresponding Series of Notes. As a consequence of the assignment of the rights under the Loan Agreement the Trustee shall assume the rights of the Issuer (other than certain Reserved Rights) as set out in the relevant provisions of the Trust Deed. If and when the first fixed charge of certain of the Issuer’s rights and interests under any Loan is enforced, the Trustee will assume the rights of the Issuer under such Loan as set out in the relevant provisions of the Trust Deed and the Trustee will assume certain rights and obligations towards the Noteholders, as more fully set out in the Trust Deed.

The Company will be obliged to make payments in respect of principal, interest and additional amounts (if any) to the Issuer under each Loan into the Account in accordance with the terms of the relevant Loan Agreement. The Issuer will agree in the Trust Deed not to make or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of any Loan Agreement, unless the Trustee has given its prior written consent. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to each Loan Agreement. Any material amendments, modifications, waivers or authorisations made with the Trustee’s consent shall be notified to the Noteholders in accordance with, and as more fully described in, “Terms and Conditions of the Notes—14. Notices”, and shall be binding on the Noteholders. Formal notice of the security interests

created by any Trust Deed will be given to the Company and the Principal Paying and Transfer Agent who will each be required to acknowledge the same.

Each Series of Notes will be limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to Noteholders for payments of principal, interest and other amounts, if any, received by it or for its account pursuant to the relevant Loan. Set out below is a diagrammatic representation of the structure:



Notes to Be Issued Under the Programme

Issuer	Steel Capital S.A.
Company (as Borrower)	PAO Severstal with its registered office and business headquarters at Ul. Mira 30, 162608 Cherepovets, Russia.
Description	Programme for the Issuance of Loan Participation Notes pursuant to which the Issuer may issue Notes from time to time.
Offering	The Notes and the corresponding Loans have not been, and will not be, registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S). The Notes may be offered and sold (i) within the United States to QIBs, as defined in Rule 144A, that are also QPs, as defined in Section 2(a)(51) of the Investment Company Act, in reliance on the exemption from registration provided by Rule 144A and (ii) to persons who are not US persons (as defined in Regulation S) in offshore transactions in reliance on Regulation S. The Issuer has not been and will not be registered under the Investment Company Act. Prospective purchasers are hereby notified that sellers of the Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A and the Issuer is relying on an exemption from the Investment Company Act provided by Section 3(c)(7) thereof. Each purchaser of Notes will be deemed, by its acceptance of such Notes, to have made certain representations and agreements intended to restrict transfers of the Notes as described under “ <i>Selling and Transfer Restrictions</i> ”. No holder or beneficial owner of the Notes may transfer the Notes except to a transferee who can make the same deemed representations and agreements as set forth in “ <i>Selling and Transfer Restrictions</i> ” on behalf of itself and each account for which it is purchasing. Any transfer in breach of the transfer restrictions set forth in “ <i>Selling and Transfer Restrictions</i> ” will be void ab initio and will not operate to transfer any rights to the transferee. For a description of these and certain further restrictions, see “ <i>Subscription and Sale</i> ” and “ <i>Selling and Transfer Restrictions</i> ”.
Programme Size	Up to US\$4,500,000,000 (or its equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. The Issuer, with the consent of the Company, may increase the amount of the Programme in accordance with the Dealer Agreement (as defined in “ <i>Subscription and Sale</i> ”). In this respect, for the purpose of calculating the aggregate principal amount of Notes outstanding, the premium of Notes issued at a premium shall be added to their principal amount.
Arranger	Citigroup Global Markets Limited
Permanent Dealer	Citigroup Global Markets Limited
Dealers	Pursuant to the terms of the Dealer Agreement, the Issuer, on the Company’s instructions, may from time to time terminate the appointment of any Dealer under the Programme. The Issuer, on the Company’s instructions, may also from time to time appoint additional Dealers either in respect of one or more Series of Notes or in respect of the whole Programme. References in this Base Prospectus to “Permanent Dealers” are to the persons listed above as Permanent Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to “Dealers” are to all Permanent Dealers and all persons appointed as dealers in respect of one or more Series of Notes.
Trustee	Citibank, N.A., London Branch.
Principal Paying and Transfer Agent	Citibank, N.A., London Branch, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another principal paying and transfer agent is appointed in respect of that Series. References in this Base Prospectus to “Principal Paying and Transfer Agent” are to Citibank, N.A., London Branch or such alternative principal paying agent or agents, as the case may be.
Registrar	Citigroup Global Markets Deutschland AG, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that an alternative registrar is appointed in respect of that Series. References in this Base Prospectus to “Registrar” are to Citigroup Global Markets Deutschland AG or such alternative Registrar, as the case may be.
Paying Agent	Citibank, N.A., London Branch, unless it is specified in the relevant Final

	Terms or Series Prospectus relating to a Series of Notes that another paying agent is appointed in respect of that Series. References in this Base Prospectus to “Paying Agent” are to Citibank, N.A., London Branch, or such alternative paying agent, as the case may be.
Transfer Agent	Citibank, N.A., unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another transfer agent is appointed in respect of that Series. References in this Base Prospectus to “Transfer Agent” are to Citibank, N.A., or such alternative transfer agent, as the case may be.
Calculation Agent	Citibank, N.A., London Branch, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another calculation agent is appointed in respect of that Series. References in this Base Prospectus to “Calculation Agent” are to Citibank, N.A., London Branch or such alternative calculation agent, as the case may be.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a <i>Series</i>) having one or more issue dates and on terms otherwise identical to each other (or identical other than in respect of the amount and the date of first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. The specific terms of each Series will be completed in the Final Terms or Series Prospectus which shall complete the “ <i>Terms and Conditions of the Notes</i> ”.
Status	Each Series of Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the corresponding Loan and to account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to such Loan, all as more fully described in “ <i>Terms and Conditions of the Notes—1. Status</i> ”.
Security	The Issuer’s payment obligations in respect of each Series of Notes will be secured by a first fixed charge on: <ul style="list-style-type: none"> • principal, interest and other amounts paid and payable under the relevant Loan Agreement and the Issuer’s right to receive all sums paid and payable under any claim, award or judgment relating to such Loan Agreement (save for any Reserved Rights); and • all the rights, title and interest in and to all sums of money held from time to time in an account for the particular Series specified in the relevant Final Terms or Series Prospectus, together with the debt represented thereby (including interest from time to time earned thereon) pursuant to the Trust Deed.
Assignment of Rights	The Issuer will assign its rights under the relevant Loan Agreement (save for any Reserved Rights and those rights charged above) to the Trustee on the Issue Date of the corresponding Series of Notes.
Form	Each Series of Notes will be issued in registered form. The Regulation S Notes and the Rule 144A Notes will be represented by the Regulation S Global Certificate and the Rule 144A Global Certificate, respectively, in each case without interest coupons. The Global Certificates will be exchangeable for Definitive Certificates (as defined in “ <i>Summary of the Provisions relating to the Notes in Global Form</i> ”) in the limited circumstances specified in the Global Certificates.
Clearing Systems	DTC (in the case of the Rule 144A Notes), Euroclear and Clearstream, Luxembourg (in the case of the Regulation S Notes) and such other clearing system as may be agreed between the Issuer, the Company, the Paying Agents, the Trustee and the relevant Dealer(s).
Initial Delivery of Notes	On or before the issue date for each Series, the Rule 144A Global Certificate will be deposited with a custodian for DTC and the Regulation S Global Certificate will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Notes will be registered in the name of a nominee of DTC and the Regulation S Notes will be registered in the name of a nominee of Euroclear and Clearstream, Luxembourg. Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Company, the Paying Agents, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of a nominee or nominees for such clearing systems.

Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Company and the relevant Dealer(s).
Maturities	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued with any maturity as may be agreed between the Issuer, the Company and the relevant Dealer(s).
Denomination	Notes will be in such denominations as may be specified in the relevant Final Terms or Series Prospectus, save that unless otherwise permitted by then current laws and regulations: (i) Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum specified denomination of £100,000 (or its equivalent in other currencies), (ii) Notes resold pursuant to Rule 144A will be issued in specified denominations of US\$200,000 or its equivalent in other currencies rounded upwards as agreed between the Issuer, the Company and the relevant Dealer(s) or integral multiples of US\$1,000 thereafter and (iii) the minimum specified denomination of any Notes shall be €100,000 (or its equivalent in any other currency as at the issue date of the relevant Notes).
Rate of Interest.....	The Notes may be issued on a fixed rate or a floating rate basis.
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms or Series Prospectus.
Floating Rate Notes.....	<p>Floating Rate Notes will bear interest determined separately for each Series of Notes issued on a floating rate basis and the corresponding Loan Supplement as follows (and as specified in the relevant Final Terms, or Series Prospectus, and Loan Supplement):</p> <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or (ii) by reference to the London inter-bank offered rate (LIBOR) or the Euro inter-bank offered rate (EURIBOR) as adjusted for any applicable margin.
Interest Periods and Interest Rates ...	The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms or Series Prospectus.
Redemption	The relevant Final Terms or Series Prospectus will specify the basis for calculating the redemption amounts payable and whether there will be any put or call options. Unless permitted by then current laws and regulations, Notes that have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Issuer's Restrictions and Covenants .	So long as any Note remains outstanding, the Issuer will not, without the prior written consent of the Trustee, <i>inter alia</i> , engage in any business whatsoever (other than entering into limited recourse debt securities programmes and other limited recourse debt securities issues for the benefit of the Company, issuing notes thereunder for the purpose of financing any loans to the Company and certain other activities). See " <i>Terms and Conditions of the Notes—4. Restrictive Covenants</i> ". Furthermore, the Issuer will agree in the Trust Deed not to make or consent to any amendment or modification or waiver of, or authorise any breach or proposed breach of the terms of any Loan Agreement unless the Trustee has given its prior written consent.
Use of Proceeds of the Notes	The Issuer will apply the gross proceeds of the issue of each Series of Notes to fund the corresponding Loan to the Company.
Redemption by the Issuer at the Option of the Company	The Issuer will redeem the Notes in whole, but not in part, at 100.0 percent of their aggregate principal amount plus accrued and unpaid interest and all additional amounts, if any, if the Group elects to repay any Loan on the happening of certain events that result in the Group (or the Issuer) being

required to pay additional amounts on account of Russian or Luxembourg taxes in respect of payments under the corresponding Loan or corresponding Notes or results in the Group being required to pay additional amounts on account of increased costs incurred by the Issuer, reduced amounts receivable by the issuer or the Issuer makes any payment or foregoes any return in connection with the relevant Loan. If specified in the relevant Final Terms, the Issuer may, subject to receipt of corresponding amount from the Company under the relevant Loan Agreement and upon notice to Noteholders, redeem the Notes, in whole or in part, at the Early Redemption Amount (as specified in the relevant Final Terms) plus the Make Whole Amount (as specified in the “*Terms and Conditions of the Notes*”);

Mandatory Redemption In limited circumstances as more fully described in the relevant Loan Agreement, the Notes may be redeemed by the Issuer in whole, but not in part, on any Interest Payment Date in the case of Floating Rate Notes or at any time, in the case of Fixed Rate Notes, upon giving notice to the Trustee and the Company, at the principal amount thereof, together with accrued and unpaid interest and all additional amounts, if any, up to the date of redemption in the event that it becomes unlawful for (i) the Issuer to allow the relevant Loan to remain outstanding under the relevant Loan Agreement or (ii) the Issuer to allow the relevant Notes to remain outstanding. In either case, the Loan would be repaid in full on the date notified by the Issuer.

Relevant Events..... In the case of a Relevant Event the Trustee may, subject to the provisions of the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.

Pursuant to the Trust Deed, a **Relevant Event** means the earlier of the failure by the Issuer to make any payment of principal or interest on the Notes when due or the Issuer becoming insolvent or bankrupt or unable to pay its debts, stopping, suspending or threatening to stop or suspend payment of all or (in the opinion of the Trustee) a material part of its debts, proposing or making a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium is agreed or declared in respect of or affecting all or (in the opinion of the Trustee) a material part of the debts of the Issuer or an order is made or an effective resolution is passed for the winding up or dissolution of the Issuer or the Issuer becomes subject to any insolvency, bankruptcy, *concordat preventif de la faillite*, moratorium, controlled management (*gestion controllee*), general settlement with creditors, liquidation, reorganisation and any other similar legal proceedings affecting the Issuer or a *commissaire a la gestion contdlee*, a *liquidateur*, a *commissaire*, a *curateur*, an *administrates* or any similar officer is appointed as a consequence of the financial difficulties affecting the Issuer.

Withholding Tax All payments of principal and interest in respect of each Series of Notes will be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of all taxes, which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by Luxembourg, or any taxing authority thereof or therein, other than as required by law. If any such taxes, duties and other charges are payable, the sum payable by the Company to the Issuer under the relevant Loan Agreement will (subject to certain exceptions and limitations) be required to be increased to the extent necessary to ensure that the Noteholders receive the net sum which they would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from the Company, after accounting for any such deduction or withholding pursuant to the relevant Loan Agreement.

Further Issues..... The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes of the same Series and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series. In the event of such further issuance, the principal amount of the relevant Loan will be correspondingly increased.

Listing and Admission to Trading..... Application will be made, where specified in the relevant Final Terms or Series Prospectus, as the case may be, to the Irish Stock Exchange for the Series of Notes to be admitted to the Official List and trading on the Main Securities

Market or such other exchange as shall be specified in the relevant Final Terms or Series Prospectus, as the case may be, or the Series of Notes will remain unlisted.

Rating	<p>Series of Notes issued under this Programme may be rated or unrated. The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms or Series Prospectus, and if such Series of Notes is rated, it will be rated by Standard & Poor's, Fitch and/or Moody's, as indicated in such applicable Final Terms or Series Prospectus. A rating is not a recommendation to sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating.</p> <p>In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not by a credit rating agency established in the European Community and registered under the CRA Regulation unless this is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted application for registration in accordance with the CRA Regulation and such registration is not refused or (ii) the rating provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA registered under the CRA Regulation or (iii) the rating is provided by a credit rating agency not established in the EEA is certified under the CRA Regulation. For the purposes of the credit ratings referred to in this Base Prospectus and in any applicable Final Terms or Series Prospectus, each of Standard & Poor's, Fitch and Moody's is established in the European Union and is registered under the CRA Regulation. As such, each of Standard & Poor's, Fitch and Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. Please also refer to "<i>Risk Factors—Ratings of the Notes</i>".</p> <p>Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Company could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.</p>
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with them, will be governed by English law. The provisions of articles 86 to 94-8 of the Luxembourg law of August 10, 1915, as amended on commercial companies are excluded.
Selling Restrictions	United States, United Kingdom and Russia and any other jurisdiction relevant to any Series. See " <i>Subscription and Sale</i> ".
ERISA Considerations	A Series of Notes issued under the Programme may be regarded for purposes of the United States Employee Retirement Income Security Act of 1974 (ERISA) as equity interests in a separate entity whose sole asset is the Loan. Accordingly, the Notes should not be acquired by any "benefit plan investor" within the meaning of Section 3(42) of ERISA. Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made certain representations as to its status under ERISA and the US Tax Code. Potential purchasers should read the sections entitled " <i>Certain ERISA Considerations</i> " and " <i>Selling and Transfer Restrictions</i> ".
Risk Factors	An investment in the Notes involves a high degree of risk. Prospective investors should have regard to the factors described in the section entitled " <i>Risk Factors</i> " in this Base Prospectus.
The Loan Corresponding to Each Series of Notes	
Lender	Steel Capital S.A.
Borrower	PAO Severstal.
Security and Ranking	None of the Loans will be secured by any collateral. Obligations under the Loan will rank at least <i>pari passu</i> with all other unsecured and unsubordinated financial indebtedness of the Company.

Interest Basis Dates	Interest will be payable on a fixed or floating rate basis as specified in the relevant Loan Supplement.
Redemption at the Option of the Company	Each Loan may be prepaid at the Company's option in whole, but not in part, on any Interest Payment Date in the case of Floating Rate Loans or at any time, in the case of Fixed Rate Loans, in either case at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, up to the date of repayment, for certain tax reasons or by reason of certain increased costs as provided in the Facility Agreement. If specified in the relevant Loan Agreement, the Company may, upon notice to the Issuer, repay the relevant Loan, in whole or in part, at the Early Redemption Amount plus the Make Whole Amount (each as specified in the relevant Loan Agreement).
Mandatory Repayments	In the event that it becomes unlawful for the Issuer to fund any Loan or allow such Loan to remain outstanding under the relevant Loan Agreement or allow the corresponding Series of Notes to remain outstanding, the Company may be required to repay such Loan in full.
Certain Restrictions and Covenants ..	The Issuer will have the benefit of certain covenants made by the Company all as fully described in the relevant Loan Agreement.
Events of Default	In the case of an Event of Default (as defined in the Facility Agreement), the Trustee may, subject as provided in the Trust Deed, require the Issuer to declare all amounts payable under the relevant Loan Agreement by the Company to be due and payable.
Use of Proceeds of the Loans	The Company will use the gross proceeds of each Loan for general corporate purposes unless otherwise specified in the relevant Loan Agreement. In connection with the receipt of any Loan, the Company will pay an arrangement fee as reflected in the relevant Loan Agreement.
Withholding Tax	All payments of principal and interest under each Loan will be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of any taxes, other than as required by law. If any such taxes, duties or other charges are payable in respect of the Loan, the sum payable by the Company under the Loan will (subject to certain conditions) be required to be increased to the extent necessary to ensure that the Issuer receives the net sum which it would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made.
Governing Law	The Loans, and any non-contractual obligations arising out of or in connection with them, will be governed by English law.

OVERVIEW FINANCIAL INFORMATION AND OPERATING RESULTS OF THE GROUP

The following tables set forth, in summary form, the consolidated statements of financial position, the income statement and other information relating to the Group. Such information has been derived from the Annual Financial Statements of the Group prepared in accordance with IFRS. The audit report of JSC KPMG relating to the Annual Financial Statements of the Group (the *Report of KPMG*) appear elsewhere in this Base Prospectus. The financial information presented below should be read in conjunction with such Annual Financial Statements, the Report of KPMG and “*Operating and Financial Review*”.

CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December		
	2016	2015 ⁽¹⁾	2014 ⁽¹⁾
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
Revenue			
Revenue — third parties	5,812	6,323	8,181
Revenue — related parties	104	73	115
	5,916	6,396	8,296
Cost of sales	(3,573)	(3,810)	(5,474)
Gross profit	2,343	2,586	2,822
General and administrative expenses	(279)	(290)	(419)
Distribution expenses	(462)	(518)	(683)
Other taxes and contributions	(54)	(68)	(96)
Share of associates’ and joint ventures’ gain/(loss)	14	(1)	(24)
Loss on disposal of property, plant and equipment and intangible assets	(52)	(13)	(11)
Net other operating income	7	7	13
Profit from operations	1,517	1,703	1,602
Impairment of non-current assets	(135)	(183)	(292)
Net other non-operating income/(expenses)	12	(51)	(102)
Profit before financing and taxation	1,394	1,469	1,208
Finance cost, net	(160)	(123)	(208)
Foreign exchange gain/(loss)	483	(624)	(1,806)
Profit/(loss) before income tax	1,717	722	(806)
Income tax (expense)/benefit	(97)	(160)	11
Profit/(loss) from continuing operations	1,620	562	(795)
Profit/(loss) from discontinued operation	-	41	(801)
Profit/(loss) for the period	1,620	603	(1,596)
Attributable to:			
shareholders of PAO Severstal	1,621	605	(1,595)
non-controlling interests	(1)	(2)	(1)
Basic and diluted weighted average number of shares outstanding during the period (millions of shares)	810.6	810.6	810.6
Basic and diluted earnings/(loss) per share (US dollars)	2.00	0.75	(1.97)
Basic and diluted earnings/(loss) per share - continuing operations (US dollars)	2.00	0.70	(0.98)
Basic and diluted earnings/(loss) per share - discontinued operation (US dollars)	-	0.05	(0.99)

(1) These amounts reflect adjustments made in connection with the change in classification of packaging expenses between cost of sales and distribution expenses.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
Assets			
Current assets:			
Cash and cash equivalents	1,154	1,647	1,897
Short-term financial investments	19	11	21
Trade accounts receivable	485	432	649
Accounts receivable from related parties	22	10	15
Restricted financial asset	1	2	-
Inventories	867	650	815
VAT recoverable	78	58	64
Income tax recoverable	14	36	29
Other current assets	86	91	122
Assets held for sale	82	-	-
Total current assets	2,808	2,937	3,612
Non-current assets:			
Long-term financial investments	231	53	86
Investments in associates and joint ventures	55	26	81
Property, plant and equipment	3,135	2,611	3,336
Intangible assets	221	225	377
Deferred tax assets	27	7	44
Other non-current assets	6	8	17
Total non-current assets	3,675	2,930	3,941
Total assets	6,483	5,867	7,553
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable	491	421	500
Accounts payable to related parties	15	9	16
Short-term debt finance	673	507	774
Income taxes payable	21	6	9
Other taxes and social security payable	95	77	100
Dividends payable	6	2	2
Other current liabilities	457	275	334
Liabilities related to assets held for sale	38	-	-
Total current liabilities	1,796	1,297	1,735
Non-current liabilities:			
Long-term debt finance	1,340	1,945	2,654
Deferred tax liabilities	115	141	120
Retirement benefit liabilities	67	53	48
Other non-current liabilities	124	163	169
Total non-current liabilities	1,646	2,302	2,991
Equity:			
Share capital	2,753	2,753	2,753
Treasury shares	(236)	(236)	(236)
Additional capital	296	296	313
Translation reserve	(2,246)	(2,318)	(1,974)
Retained earnings	2,450	1,758	1,954
Other reserves	9	-	-
Total equity attributable to shareholders of PAO Severstal	3,026	2,253	2,810
Non-controlling interests	15	15	17
Total equity	3,041	2,268	2,827
Total equity and liabilities	6,483	5,867	7,553

SUMMARY CASH FLOW DATA

	Year ended 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
Net cash from operating activities - continuing operations.....	1,477	1,867	1,930
Net cash (used in)/from operating activities - discontinued operation	-	(14)	108
Net cash from operating activities	1,477	1,853	2,038
Net cash (used in)/from investing activities - continuing operations	(663)	(304)	1,297
Net cash used in investing activities - discontinued operation	-	-	(95)
Net cash (used in)/from investing activities	(663)	(304)	1,202
Net cash used in financing activities - continuing operations	(1,329)	(1,702)	(1,684)
Net cash used in financing activities - discontinued operation	-	-	(367)
Net cash used in financing activities.....	(1,329)	(1,702)	(2,051)

ALTERNATIVE PERFORMANCE MEASURES

	Year ended 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
EBITDA ⁽¹⁾	1,911	2,096	2,211
Net interest expense ⁽²⁾	92	101	206
Total debt finance ⁽³⁾	2,013	2,452	3,428
Net debt ⁽⁴⁾	859	805	1,531
Certain ratios			
EBITDA/Interest expense ⁽⁵⁾	12.3	10.4	8.6
EBITDA/Net interest expense ⁽⁶⁾	20.8	20.8	10.7
Net debt/EBITDA ⁽⁷⁾	0.4	0.4	0.7
Total debt finance/EBITDA ⁽⁸⁾	1.1	1.2	1.6
EBITDA margin ⁽⁹⁾	32.3%	32.8%	26.7%
<i>EBITDA by reporting segments⁽¹⁾</i>			
Severstal Russian Steel.....	1,543	1,683	1,651
Severstal Resources.....	397	412	539
<i>EBITDA margin by reporting segments⁽¹⁰⁾</i>			
Severstal Russian Steel.....	28.4%	28.8%	21.9%
Severstal Resources.....	34.4%	33.2%	29.1%

Notes:

- (1) The Group defines EBITDA as profit from operations plus depreciation and amortisation of productive assets (including the Group's share in depreciation and amortisation of associates and joint ventures) adjusted for gain/(loss) on disposals of property, plant and equipment and intangible assets and for share in associates' and joint ventures' non-operating income/(expenses).

- EBITDA is presented as a supplemental measure of the Group's operating performance, which the Group believes is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the steel industry.
- EBITDA has limitations as an analytical tool, and investors should not consider it in isolation, or as a substitute for analysis of the Group's operating results as reported under IFRS. Some of these limitations are as follows:
 - EBITDA does not reflect the impact of financing costs, which can be significant and could further increase if the Group incurs more debt, on the Group's operating performance.
 - EBITDA does not reflect the impact of income taxes on the Group's operating performance.
 - EBITDA does not reflect the impact of depreciation and amortisation on the Group's operating performance. The assets of the Group's businesses which are being depreciated, depleted and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA, EBITDA does not reflect the Group's future cash requirements for these replacements. EBITDA also does not reflect the impact of gain/(loss) on disposal of property, plant and equipment and intangible assets.
 - Other companies in the steel and mining industries may calculate EBITDA differently or may use it for different purposes than the Group, limiting its usefulness as a comparative measure.
- The Group relies primarily on its IFRS operating results and uses EBITDA only supplementally. See the Annual Financial Statements beginning on page F-2 of this Base Prospectus. EBITDA is not defined by, or presented in accordance with, IFRS. EBITDA is not a measurement of the Group's operating performance under IFRS and should not be considered as an alternative to profit, operating profit, net cash provided by operating activities or any other measure of performance under IFRS or as an alternative to cash flow from operating activities or as a measure of the Group's liquidity. In particular, EBITDA should not be considered as a measure of

discretionary cash available to the Group to invest in the growth of its business.

- (2) Net interest expense consists of interest expense and interest income.
- (3) Total debt finance is a measure of indebtedness and borrowing capacity which is equal to short-term and long-term debt finance.
- (4) Net debt is a measure of indebtedness and borrowing capacity which is equal to the total debt finance less cash and cash equivalents.
- (5) EBITDA/Interest expense is a measure of the Group's ability to meet its interest expenses which is equal to EBITDA divided by the interest expense.
- (6) EBITDA/Net interest expense is a measure of the Group's ability to meet its net interest expenses which is equal to EBITDA divided by the net interest expense.
- (7) Net debt/EBITDA is a measure of financial leverage to demonstrate the Group's ability to repay its debt obligations which is equal to the net debt divided by EBITDA.
- (8) Total debt finance/EBITDA is a measure of financial leverage to demonstrate the Group's ability to repay its debt obligations which is equal to the total debt finance divided by EBITDA.
- (9) EBITDA margin is a measure of operating profitability which is equal to EBITDA divided by total revenues.
- (10) EBITDA margin by reporting segment is a measure of operating profitability for such segment which is equal to EBITDA divided by revenues for such segment.

EBITDA Reconciliation

	Year ended 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
Profit from Operations	1,517	1,703	1,602
Add:			
Depreciation and amortisation of productive assets.....	342	366	558
Loss on disposal of property, plant and equipment and intangible assets...	52	13	11
Share in associates' and joint-ventures' depreciation and amortisation and non-operating expenses	0	14	40
EBITDA.....	1,911	2,096	2,211

EBITDA by reporting segments reconciliation

Severstal Russian Steel

	Year ended 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
Profit from Operations	1,311	1,432	1,263
Add:			
Depreciation and amortisation of productive assets.....	227	227	340
Loss on disposal of property, plant and equipment and intangible assets...	5	10	8
Share in associates' and joint-ventures' depreciation and amortisation and non-operating expenses	0	14	40
EBITDA by reporting segment.....	1,543	1,683	1,651

Severstal Resources

	Year ended 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
Profit from Operations	235	269	318
Add:			
Depreciation and amortisation of productive assets.....	115	140	218
Loss on disposal of property, plant and equipment and intangible assets...	47	3	3
Share in associates' and joint-ventures' depreciation and amortisation and non-operating expenses	-	-	-
EBITDA by reporting segment.....	397	412	539

EBITDA margin by reporting segments reconciliation

Severstal Russian Steel

	Year ended 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
EBITDA by reporting segment.....	1,543	1,683	1,651
Divide by:			
Segment revenues	5,426	5,836	7,549
EBITDA margin by reporting segment.....	28.4%	28.8%	21.9%

Severstal Resources

	Year ended 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
EBITDA by reporting segment.....	397	412	539
Divide by:			
Segment revenues	1,154	1,240	1,850
EBITDA margin by reporting segment.....	34.4%	33.2%	29.1%

Net Interest Expense reconciliation

	Year ended 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
Interest expense	(155)	(202)	(257)
Less:			
Interest income	63	101	51
Net interest expense	(92)	(101)	(206)

Total Debt Finance reconciliation

	As at 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
Short-term debt finance	673	507	774
Plus:			
Long term debt finance	1,340	1,945	2,654
Total debt finance	2,013	2,452	3,428

Net Debt reconciliation

	As at 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
Total debt finance	2,013	2,452	3,428
Less:			
Cash and cash equivalents	1,154	1,647	1,897
Net debt	859	805	1,531

EBITDA/Interest expense reconciliation

	Year ended 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
EBITDA	1,911	2,096	2,211
Divide by:			
Interest expense	155	202	257
EBITDA/Interest expense	12.3	10.4	8.6

EBITDA/Net interest expense reconciliation

	Year ended 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
EBITDA	1,911	2,096	2,211
Divide by:			
Net interest expense	92	101	206
EBITDA/Net interest expense	20.8	20.8	10.7

Net debt/EBITDA reconciliation

	Year ended 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
Net debt	859	805	1,531
Divide by:			
EBITDA	1,911	2,096	2,211
Net debt/EBITDA	0.4	0.4	0.7

Total debt finance/EBITDA reconciliation

	Year ended 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
Total debt finance	2,013	2,452	3,428
Divide by:			
EBITDA	1,911	2,096	2,211
Total debt finance/EBITDA	1.1	1.2	1.6

EBITDA margin reconciliation

	Year ended 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
EBITDA	1,911	2,096	2,211
Divide by:			
Total revenues	5,916	6,396	8,296
EBITDA margin	32.3%	32.8%	26.7%

OPERATING RESULTS

The following tables set forth, in summary form, the operating results of the Group for the years ended 31 December 2016, 2015 and 2014. The information presented below should be read in conjunction with “Business”.

Crude steel output and sales volumes by products—Severstal Russian Steel ⁽¹⁾

	Year ended 31 December		
	2016	2015	2014
	(thousand tonnes)		
Output volumes			
Crude steel	11,630	11,451	11,302
Sales volumes by products			
Semi-finished products	724	489	403
Rolled products	8,121	8,393	8,286
Hot-rolled coil	4,080	3,990	3,774
Hot-rolled plate	692	714	840
Cold-rolled coil	964	1,336	1,449
Galvanised and metallic coated coil	560	624	592
Long products	1,439	1,312	1,197
Colour coated coil	386	417	434
Downstream products	1,870	1,992	1,904
Metalware products	641	613	639
Large diameter pipes	389	548	402
Other tubes, pipes, formed shapes	840	831	863
Total steel products	10,715	10,874	10,593

(1) Includes intersegment sales.

Sales volumes by products—Severstal Resources ⁽¹⁾

Sales volumes by products	Year ended 31 December		
	2016	2015	2014
	(thousand tonnes)		
Raw coking coal	-	9	58
Coking coal concentrate	4,147	5,666	5,371
Steam coal	2,040	2,134	1,657
Iron ore pellets	10,842	10,604	10,618
Iron ore concentrate	4,103	4,143	4,430

(1) Includes intersegment sales.

RISK FACTORS

An investment in any Notes involves a high degree of risk. Prospective investors should consider carefully the risks set forth below in this Base Prospectus prior to making any investment decision with respect to any such Notes. The risks described below could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Investors should note that the risks described below are not the only risks the Group faces. The Group has described only the risks that they consider to be material. However, there may be additional risks that the Group currently considers not to be material or of which the Group is not currently aware, and any of these risks could have the effects set forth above.

RISK FACTORS RELATING TO THE GROUP AND THE STEEL AND MINING INDUSTRIES

The Group's business is dependent on the global economic environment

The global economic downturn which began in 2008 has had an extensive adverse impact on the steel industry. The substantial contraction in industrial activity in 2009 had a significant impact on both pricing and demand for steel products and iron ore. While many economies have subsequently recovered from the economic crisis, growth in many markets remains slow, and many markets which previously had seen very high growth have exhibited slower growth in recent years. The global economic environment remained unstable in 2015 with global GDP growth slowing to 2.4 percent from a growth of 2.6 percent in 2014, and further declined to 2.3 percent in 2016. The slowdown has been attributed to slowing growth rates in emerging and developing economies, among other developments. In particular, China has recently seen a substantial decline in its rate of growth, which has contributed to a significant decline in commodity prices generally, and the prices of iron ore and steel in particular. There is a risk of a possible cyclical downturn in the Chinese economy and other developing markets and a stagnation of European and US economies, which would result in a global economic downturn and impact the steel and other industries.

The global economic environment is subject to a number of uncertainties, including mounting government deficits, discontinuation of certain stimulus programmes, potential inflation or deflation, continuing high levels of unemployment, political tensions over global trade of goods, labour and capital mobility, terrorism and concerns over the stability of the monetary and political union in the EU. Financial markets and the supply of credit are likely to continue to be impacted by concerns surrounding the sovereign debt of Greece and potentially other EU countries, the possibility of further credit rating downgrades of, or defaults on, such sovereign debt, as well as concerns about a slowdown in growth in certain economies. In June 2016, a majority of voters in the United Kingdom elected to withdraw from the EU in a national referendum. In early February 2017, the parliament of the United Kingdom voted in favour of advancing legislation that would give the prime minister the authority to initiate the formal process of leaving the EU. As a result, there remains significant uncertainty about the future relationship between the United Kingdom and the EU. There is a possibility of trade barriers resulting from the United Kingdom leaving the EU which may affect the macroeconomic environment in Europe. See “— *An increase in existing trade barriers or the imposition of new trade barriers in the Group's principal export markets could cause a significant decrease in the demand for its products in those markets.*” The referendum has also given rise to calls for the governments of other EU member states to consider withdrawal. In certain parts of the EU, candidates from opposition parties are gaining popularity and the upcoming elections in Germany, France and The Netherlands may cause further uncertainty and instability on the financial markets. In addition, policy positions taken by the new U.S. presidential administration may result in turbulence in the financial markets and lead to greater uncertainty regarding the status of trade relations between the US and some of its largest trade partners, including the US's existing trade agreements. Such developments could also lead to an increase of the already high level of protectionism globally, including in the steel industry. This could lead to the introduction of higher anti-dumping tariffs, stricter countervailing measures and increased policing of the US steel import market. The worsening of such trade relations, in particular between the US and China, could result in negative repercussions in these countries and have a knock-on effect on global trade and the economic environment.

These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to fund their capital and liquidity requirements and operate in certain financial markets. Any of these factors could depress economic activity, commodities markets and restrict access to capital. If the global economic conditions deteriorate, the resulting contraction in demand for many of the Group's products and the tightening of the credit markets could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The steel and mining industries are cyclical, which may result in adverse fluctuations in the demand for and the prices of the Group's products

The industries in which a large proportion of the Group's customers operate, such as the construction, oil and gas and automotive industries, are cyclical in nature, which can result in adverse fluctuations in the demand for and price of steel products. Demand for the raw materials necessary for the production of steel products, such as iron ore and coal, is generally correlated with the demand for steel products. Particular economic and market factors may also have a significant effect on certain parts of the Group's operations, such as an economic downturn in Russia, Europe, the CIS or China leading to a decrease in activity by its customers and resulting in a decrease in demand for the Group's steel products. The global economic downturn which began in 2008 resulted in a deceleration in steel demand and a decline in steel prices, and steel prices are still below 2008 levels.

Adverse fluctuations in the demand for the Group's products or the supply of competing products may result in overproduction or underproduction, increased costs or general uncertainty in the industry, any of which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Further, the continuing adverse global economic conditions, overcapacity in the steel industry, significant decline in raw materials prices and substantially higher levels of Chinese exports, together with a substantial decline in China's rate of growth, led to a decline in steel prices in 2015. In response to these developments and deteriorating conditions of local producers, the United States and the EU have imposed anti-dumping duties on steel products imported from China and Russia (including some of the Group's products). More expansive and stricter trade barriers could be introduced in the future as a result of any policy shifts in the US or other countries (see "*An increase in existing trade barriers or the imposition of new trade barriers in the Group's principal export markets could cause a significant decrease in the demand for its products in those markets*"). The decline in steel prices was compounded with depressed demand for steel products in both the Russian domestic market and export markets causing revenues of Russian steel producers, including the Group's, to fall in 2015. While steel prices recovered to some extent during 2016 driven by growth in raw materials prices and increased buying activity amidst restocking by commodity traders, no assurance can be given that economic conditions will not deteriorate again with resulting adverse effects on steel prices.

The demand for steel products and global steel production capacity have been strongly influenced by the developing world, particularly China, as well as India and other emerging markets. Recent increases in steel prices in the Chinese market were supported by a number of local production restrictions and relatively high prices for raw materials. Following substantial declines in raw material prices in late 2015 and early 2016, capacity reductions by Chinese steel producers, consolidation plans and continued investments in infrastructure have improved the outlook for the steel supply-demand balance in China during 2016. Spot hard coking coal prices have more than tripled from August to November 2016 due to Chinese output restrictions and temporary supply disruptions. Despite these recent improvements in the pricing environment, as a vertically-integrated producer, the Group's performance may be adversely affected by future declines in both raw material and steel prices, which in the global market may fluctuate in line with stock replenishment cycles in China, and which may be intensified by cyclical and seasonal peaks and troughs in the Chinese construction industry. Raw material prices are also affected by the exchange rates of the Australian Dollar, Brazilian Real and Canadian Dollar to the US dollar. A hike of the interest rate by the US Federal Reserve may decrease the value of these currencies which is likely to cause a decrease in production costs attributable to raw materials. Declines in raw materials prices and the resulting declines in steel prices due to the factors described above could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group's largest market in terms of revenues is Russia, and a continued economic downturn in Russia could have a material adverse effect on its business and financial condition

The Group derived 64.3 percent of its total revenues from sales to customers in Russia in 2016. Therefore, the Group is vulnerable to economic conditions in Russia.

Domestic steel demand depends on the state of the Russian economy. The Russian economy has experienced significantly fluctuating growth rates over the last two decades, including recent significant declines. According to Rosstat, in 2014 Russia's GDP growth rate slowed to 0.6 percent, declined by 2.8 percent in 2015 and further declined by 0.2 percent in 2016. Industrial production demonstrated similar dynamics, marginally increasing by 1.7 percent in 2014, subsequently decreasing by 3.4 percent in 2015 and increasing by 1.1 percent in 2016. Investments in fixed assets, construction and industrial production in Russia have decreased following a rapid fall of oil prices in the world markets beginning in the second half of 2014, and may continue to further decline as a result of uncertainty regarding the macroeconomic prospects of the Russian economy. Although the World Bank has recently projected GDP growth to recover to 1.5 percent in 2017, which may lead to a rise in domestic steel demand, there can be no assurance that the Russian economy will see such recovery.

In general, a significant portion of the Group's products in Russia are used in the construction, pipes and tubes, oil and gas and automotive industries, which are particularly vulnerable to general economic downturns. A material downturn in the Russian economy could have a negative effect on the businesses of some of the Group's customers and reduce demand for the Group's products. A potential reduction in domestic demand would result in a decline in the Group's domestic sales volumes and there can be no assurance that the Group would be able to compensate for lost sales volumes through an increase in its export sales, whether due to a lack of demand in export markets or other factors, including trade barriers (see "*An increase in existing trade barriers or the imposition of new trade barriers in the Group's principal export markets could cause a significant decrease in the demand for its products in those markets*"). In addition, export sales are less profitable for the Group, and, as a result, an increasing share of export sales would adversely affect the Group's profits. Furthermore, should the conditions of the Russian economy worsen or remain unstable and recessionary trends continue in the long-term, the Group may become subject to higher counterparty risk and an increase in payment defaults by customers which will negatively impact its revenues and cash flow, as well as increase costs needed to manage bad debt. Any of the above factors may have a material adverse effect on the Group's business, results of operations and financial condition, its ability to service its payment obligations under the Loan Agreements and the value of the Notes.

The Group will require a significant amount of cash to fund its capital expenditure programme. If the Group is unable to generate this cash through operations or external sources, this programme may not be completed on schedule or at all

Steel production and mining are capital intensive businesses. The Group has undertaken a capital expenditure programme focused on the modernisation and development of its existing steel production and mining facilities. See "*Business—Severstal Russian Steel—Capital Expenditure Programme*" and "*Business—Severstal Resources—Capital Expenditure Programme*") for more details on the Group's capital expenditure programme.

The Group plans to rely on cash generated from its operations, and, to a lesser extent, external financing, to fund its capital expenditure programme. Although the depreciation of the Rouble has had a positive impact on the Group's capital expenditures, as more than half of the related costs are denominated in Roubles, there can be no assurance that the Group will be able to generate adequate cash from operations to fund the programme or that external financing, if necessary, will be available on reasonable terms. If the Group's cash flows were to decline, and the Group is not able to obtain external financing at an acceptable cost or in the amounts required, the Group may be unable to fund its current capital expenditures and/or future projects, acquisitions or other planned investments may be substantially delayed or interrupted. An intensive capital expenditure programme may place constraints on a company's ability to use cash flows to service its debt. Moreover, capital expenditure programmes are subject to a variety of potential problems and uncertainties, including changes in economic conditions, delays in completion or delivery, cost overruns and defects in design or construction, which may require additional cash investments. No assurance can be given that the Group's capital projects will be completed on schedule and within budget or that expected operational improvements will be fully realised as currently envisioned.

A failure or delay of the Group's capital expenditure programme or any significant increases in financing costs that may be incurred to fund the programme could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The steel industry is highly competitive, and the Group may not be able to compete successfully

The markets for steel and steel products are highly competitive. Primary competitive factors include product sophistication, quality, price, technical innovation, payment terms and customer service. Steel producers are also in competition with producers of substitute materials, particularly in the automotive, construction and packaging industries. The Group's competitors include major international steel producers, some of which are larger or have greater capital resources than the Group or, in some cases, have lower costs than the Group. Competitors may have competitive advantages in terms of location and access to key suppliers and transport routes. The Group's competitive position may also be affected by the recent trend towards consolidation in the steel industry. Low capacity utilisation across the global steel market creates a highly competitive environment which has exerted, and may in the future continue to exert, downward pressure on prices of certain of the Group's products. There can be no assurance that the Group will be able to compete effectively in the future. See "*Industry—Competition*". Failure by the Group to compete effectively for any of these reasons could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group's mining operations are subject to hazards and risks that could lead to unexpected production delays, increased costs, damage to property, loss of mining assets, investigations by state authorities and injury or death to persons

The Group's mining operations include open-pit and underground mining, both of which involve significant hazards and risks. Hazards associated with the Group's open-pit mining operations include flooding of the open pit, collapses of the open-pit wall, accidents related to the operation of large open-pit mining and rock transportation equipment, accidents related to the preparation and ignition of large scale open-pit blasting operations, production disruptions due to weather and hazards related to the disposal of mineralised wastewater, such as groundwater and waterway contamination. Hazards associated with the Group's underground mining operations include underground fires and explosions, including those caused by flammable gas, cave-ins or ground falls, shifts in tectonic plates, discharges of gases and toxic chemicals, flooding, sinkhole formation and ground subsidence and other accidents and conditions resulting from drilling and removing and processing material from an underground mine. These hazards may result, and have in the past resulted, in significant injury and death to the Group's employees and damage to equipment or other property, including a temporary or permanent loss of mining assets, production delays, increased production costs, and increased capital expenditures to repair or replace equipment or property, as well as claims from affected employees and environmental and other authorities for any alleged breaches of applicable laws or regulations.

The Group's mining operations have experienced significant accidents in recent periods, including major accidents that have resulted in fatalities and disruptions to operations. During the period between 2014 and 2016, the Group experienced 325 work-related lost time injuries at its production facilities, 94 of which occurred in 2014, 82 in 2015 and 149 in 2016.

The Group's lost time injury frequency rate (**LTIFR**), which is a ratio of the number of injuries to man-hours worked multiplied by one million, was 1.11, 0.99 and 1.77 for the years ended 31 December 2014, 2015 and 2016, respectively (excluding PBS Coals and Severstal International for LTIFR in 2014).

In particular, on 11 February 2013, there was an accident involving an explosion at the Vorkutinskaya mine that resulted in 19 fatalities. Further, on 25 February 2016, a series of methane explosions at Vorkutaugol's Severnaya mine resulted in the deaths of 30 miners and a further methane explosion occurred on 28 February 2016 during the rescue operation that caused the death of five rescue workers and one miner. Several more methane explosions occurred in the following days that did not result in any harm to personnel. The mining operations at Severnaya mine have been suspended since the accident and the Group has taken a decision to seal off Severnaya mine to avoid the risk of airflow, which may cause further underground fires and explosions in the mine. The decision was made by a commission of Vorkutaugol representatives and Russian authorities. The Group is currently evaluating the process of sealing off Severnaya mine. With the Severnaya mine sealed-off, total coking coal sales (including intersegment sales) at Vorkutaugol decreased by 28 percent from 5.7 million tonnes in 2015 to 4.1 million tonnes in 2016. Such a decrease resulted in the need to source more coal for Severstal Russian Steel's operations from external suppliers. Consequently, the Group's self-sufficiency in coking coal was reduced from 96 percent in 2015 to 70 percent in 2016. The Group is also considering the extraction of the Severnaya mine's ore through the adjacent Komsomolskaya mine. The process of such extraction, if implemented, is expected to commence in 2020. Loss on disposal of property, plant and equipment of US\$41 million and an impairment loss of US\$12 million was recognised in the reporting period in relation to all relevant property, plant and equipment of the Severnaya mine. Criminal proceedings were initiated by Russian authorities to establish any criminal wrongdoing in connection with the accidents at the Vorkutinskaya and Severnaya mines and these investigations are ongoing. Moreover, while the Group has employed safety procedures at all of its mines and strives to maintain its safety requirements and procedures at the highest standards, given the frequency of safety incidents at the Group's mining operations it cannot be ruled out that another safety incident could occur in the future.

The accident at the Severnaya mine and any further safety incidents involving the Group's mining operations and the outcome of the investigations discussed above could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group may experience equipment failure or other unanticipated events, which may result in significant interruption in manufacturing processes, production curtailment and shutdowns

The Group's manufacturing processes depend on critical pieces of steel making and mining equipment, such as furnaces, continuous casters and rolling equipment, and electrical equipment, such as transformers, underground equipment, excavators, trucks and beneficiation equipment. This equipment may, on occasion, be out of service as a result of malfunction or defect. In addition, the Group's facilities are subject to the risk of damage due to unanticipated events, such as fires, explosions or adverse weather conditions.

In the event of equipment failure or damage to its facilities, the Group may experience loss of revenues or customers due to material plant shutdowns or periods of reduced production and may require large capital expenditures to repair or

replace faulty machinery or to repair damaged facilities, and if the equipment failure or damage to facilities extends to injuries to employees or has an environmental impact, other costs or liabilities may arise out of those circumstances. The Group maintains property and business interruption insurance customary for businesses in the steel industry, nonetheless, any loss of revenues or customers or large unexpected capital expenditures resulting from equipment failure or other unanticipated events could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group's business entails significant health, safety and environmental liability risks

The Group operates industrial facilities in which heavy metals or hazardous substances that are liable to present significant risks to the health or safety of workers, the general population and to the environment are present. In this respect, the Group has in the past incurred and may in the future incur liability for injury or damages to persons or property or for the pollution of the environment. In spite of safety and monitoring procedures implemented by the Group at each production site, employees, and in some cases the employees of other companies and service providers, may become exposed to such substances and some employees may have developed specific pathologies from such exposure, which may lead them to file claims against the Group in future years. Although the Group has made provisions for such future potential liability, there can be no assurance that the amounts covered by such provisions will be sufficient in the future due to the intrinsic uncertainties involved in projecting expenditures and liabilities relating to health, safety and the environment. It is possible that the assumptions used to determine these provisions will need to be adjusted in the future due to future changes in regulations, changes in the interpretation or application of regulations by the relevant authorities, or, with respect to issues related to restoration of the environment, changes in technical, hydrological or geological restrictions, or the discovery of pollution that is not yet known. It is possible that the Group's current insurance policies will be insufficient to cover the costs of any such future material liability. See “—*The Group's existing and future insurance coverage may not be sufficient to cover costs arising from hazards and other operational risks arising from its steel and mining operations*”. Any such liability shortfalls could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

New or more stringent environmental or health and safety laws and regulations or stricter enforcement of existing environmental or health and safety laws and regulations in the countries in which the Group operates may have a significant negative effect on the Group's operating results.

The Group operates in an industry which affects the environment and is subject to increasingly stringent regulatory requirements. The Group's steel making plants and mining operations involve potential environmental problems including the generation of pollutants, greenhouse gases and the storage and disposal of wastes and other hazardous materials. Pollutant emissions and discharges, as well as disposed wastes, contain such substances as benzopyrene, nitrogen and sulphur oxides, sulphates, phenols and sludges (including those containing chrome, copper, nickel and zinc). Pollution risks and associated clean-up costs are often impossible to assess until audits of compliance with environmental standards have been performed and the extent of liability under environmental laws can be clearly determined. In addition to its Russian operations, the Group has operations in the EU and must comply with the environmental regulations in those jurisdictions. Environmental regulations are being revised in the Russian Federation and elsewhere, and the Group regularly evaluates its obligations in line with new or amended legislation. New and stricter environmental requirements are being imposed from time to time, and the Group expects that the global trend towards stricter environmental laws and regulations will continue. For example, the introduction of prospective international obligations on greenhouse gases regulations, including the Paris Agreement expected to apply from 2020, may have an adverse impact on the Group's operations. Russia is a signatory to the Paris Agreement and a plan for its ratification in Russia is currently under development. According to a Decree of the Russian Government dated 2 April 2014 Russian companies will be obliged to report on their greenhouse gas emissions to the state authorities starting from 2017. A draft bill amending the Federal Law No. 7-FZ “On the Protection of the Environment” is under parliamentary review which will, among other things, establish certain requirements regarding the level of greenhouse gas emissions. The Group is planning to report its greenhouse gas emissions to the state authorities for 2016 during the course of the first six months of 2017.

In addition, the competent authorities have made, are making or may in the future make specific requests that the Group carries out environmental improvement works, such as cleaning up and rehabilitating sites, and controlling emissions at sites where it is currently operating, or where it has operated in the past (including at sites it has disposed of), at neighbouring sites or at sites where the Group stored or disposed of waste, or reimburses costs for the relevant works. The Group may be required to incur significant costs to fulfil these obligations. The Group is also subject to health and safety laws, regulations and standards, including workplace health and safety requirements.

The Group's compliance with these environmental, health and safety laws and regulations requires a commitment of significant financial resources. These laws and regulations may furthermore allow governmental authorities and private parties to bring lawsuits based upon damages to property and injury to persons resulting from environmental, health and safety incidents and other impacts of the Group's past and current operations, and could lead to the imposition of

substantial fines, penalties, other civil or criminal sanctions, the curtailment or cessation of operations, orders to pay compensation, orders to remedy the effects of violations and/or orders to take preventative steps against possible future violations.

Any significant increase in the cost of complying with applicable environmental rules and regulations, as well as obligations arising from any breach of such rules or regulations, could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

An increase in existing trade barriers or the imposition of new trade barriers in the Group's principal export markets could cause a significant decrease in the demand for its products in those markets

The risk of protectionism has grown in recent years as a consequence of production overcapacity and a global downturn in the steel industry. Increasing trade barriers are transforming the dynamics of the global steel market, with global steel trade routes adjusting, growing localisation of trade within regions rather than international markets, as well as pressure on steel producers that rely on exports.

Some of the Group's products which it exports to foreign markets (including the EU, the Group's principal export market) are subject to various trade barriers. In 2016, the European Commission introduced five-year anti-dumping duties against Russian cold-rolled steel products ranging from 18.7 percent to 36.1 percent, with a 34 percent duty imposed on the Group's products. The Group believes that the relevant anti-dumping investigations were conducted by the EU authorities with violations of the applicable EU regulations. As a result, the Group is considering the possibility to appeal the introduction of such duties in the relevant legal institutions and settlement bodies of the EU and the World Trade Organisation (the **WTO**). There can be no assurance that the Group will be successful in any appeal process or that further EU anti-dumping duties will not be introduced. There is currently an ongoing investigation by the European Commission concerning imports of certain hot-rolled flat products of iron, non-alloy or other alloy steel originating in Brazil, Iran, Russia, Serbia and Ukraine which could result in the introduction of anti-dumping duties on such products leading to the loss of their competitiveness on the EU markets. A provisional determination in these proceedings is currently scheduled for May 2017. Furthermore, in early January 2017, the European Commission introduced regulations requiring the registration of imports of certain hot-rolled flat steel products originating from Russia and Brazil. If the abovementioned proceedings result in the introduction of anti-dumping duties on Russian hot-rolled steel products, such registration of imports would allow the levy of anti-dumping duties retroactively from the date on which the registration requirement came into effect. See "*Regulatory Matters—Anti-dumping proceedings*".

Currently, the following US anti-dumping measures apply to Russian hot-rolled products: a 53.8 percent anti-dumping duty for the Group's hot-rolled plates and a 73.6 percent anti-dumping duty on the Group's hot-rolled coils and sheets. However, anti-dumping duties for plates are suspended pursuant to the Agreement Suspending the Antidumping Investigation of Certain Cut-to-Length Carbon Steel Plate from the Russian Federation entered into by the US Department of Commerce and certain Russian steel producers in 2002. To the Group's knowledge, it is the only Russian exporter that is able to sell its products in the US market for hot-rolled plate pursuant to this agreement. In relation to US anti-dumping duties on hot-rolled coils and sheets, the Group has made a request to the US Department of Commerce for the administrative review of this measure in order to recalculate the anti-dumping duty that applies to the Group's products. Although the Group believes that the sale of its hot-rolled coils and sheets were conducted at fair prices and should not have triggered the imposition of any anti-dumping measures, the US Department of Commerce in January 2017 found that the Group had failed to cooperate with the review and assigned a preliminary anti-dumping rate of 184.56 percent to the Group's products which was originally calculated 17 years ago on the basis of trade relations and conditions prevailing at that time when the US Department of Commerce treated Russia as a non-market economy. The Group has made extensive efforts to prove its position during the review process, will continue to participate in the administrative review and plans to appeal the final results in the US Court of International Trade. See "*Regulatory Matters—Anti-dumping proceedings*".

In addition, in 2016, the United States International Trade Commission completed anti-dumping and countervailing investigations against Russian cold-rolled products with no anti-dumping or countervailing measures imposed as a result. US steel producers have appealed this decision in the United States Court of International Trade and the Group has, in order to protect its legitimate interests, joined these appellate proceedings. Substantive hearings are scheduled to start in March 2017 and, although the Group does not expect the decision of the US authorities to be reversed as a result of this appeal, no assurance can be given that this will not happen. In addition, policy positions taken by the new U.S. presidential administration may result in turbulence in the financial markets and lead to greater uncertainty regarding the status of trade relations between the US and some of its largest trade partners, including the US's existing trade agreements. Such developments could also lead to an increase of the already high level of protectionism globally, including in the steel industry. This could lead to the introduction of higher anti-dumping tariffs, stricter countervailing measures and increased policing of the US steel import market.

In addition, other countries have introduced or are considering introducing anti-dumping measures against the Group's products: (i) Mexico applies anti-dumping duties ranging from 15 to 36.8 percent on hot-rolled and cold-rolled steel products from Russia; (ii) Thailand has imposed anti-dumping duties ranging from 24.2 to 35.17 percent and safeguard measures ranging from 21.13 to 41.64 percent on hot-rolled steel products; (iii) India has imposed safeguard measures of 18 percent on hot-rolled coils and is currently conducting anti-dumping and safeguard investigations on hot-rolled coils and sheets; and (iv) Brazil is currently conducting anti-dumping investigations against hot-rolled flat steel products from Russia.

Trade barriers affect the demand for the Group's products by effectively increasing the prices for those products compared to domestically available products. An increase in existing trade barriers, or the imposition of new trade barriers, could cause a significant decrease in the demand for the Group's products in its principal export markets and force it to seek other markets which may be less profitable or have high entry costs, any of which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group's existing and future insurance coverage may not be adequate

Although the Group believes that, with respect to each of its production facilities, it maintains insurance at levels generally in line with the relevant local market standards, some of its business divisions do not have comprehensive business interruption insurance and most of the Group's business divisions do not maintain environmental liability insurance. In particular, Severstal Russian Steel maintains only limited levels of insurance against business interruption, but does not have insurance against third-party liabilities for property or environmental damage. The Group would therefore suffer significant losses in the event of damage to or destruction of any of its principal operating assets in Russia or in the event that any claim is brought against the Group relating to personal injury, death or property damage caused by the Group's operations in Russia. In addition, no assurance can be given that the Group will be able to maintain existing insurance or obtain additional insurance coverage at commercially reasonable rates, which could lead to future shortfalls between the Group's liability and its insurance coverage. Any such liability shortfalls could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Increased energy costs or an interruption in the Group's electricity or natural gas supply could materially adversely affect its business and results of operations

Energy costs make up a significant portion of the Group's cost of production. In 2016, energy costs amounted to approximately 22.8 percent of the costs of sale of Severstal Resources and 9.9 percent of the costs of sale of Severstal Russian Steel. The Group's Russian operations obtain most of their natural gas needs from PAO Novatek (*Novatek*), Russia's largest privately-owned natural gas producer, and to a lesser extent from the subsidiaries of PAO Gazprom (*Gazprom*), a government controlled entity and the dominant producer and monopoly transporter of natural gas within Russia. Domestic natural gas prices are regulated by the Russian Government and have been rising in recent years in line with a restructuring plan for the Russian gas sector aimed at achieving a comparable level of gas prices in the domestic and international markets. The Group sources its electricity from its own power stations and from a regional energy company that procures electricity from the wholesale electricity market. In 2016, wholesale electricity prices in Russia increased by approximately 8.5 percent. Based on the latest statements by the Russian Government, electricity and gas price increases are forecast to track the anticipated level of inflation in 2017.

Any substantial increases in energy costs could adversely affect the Group's future profitability to the extent it is unable to pass on higher costs to its customers. Any interruptions or suspensions in the Group's electricity or natural gas supply could cause production delays, force the Group to seek alternative suppliers or change its technological processes to accommodate other energy sources, any of which could result in lost revenues, lower profitability or higher production costs. These factors could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Any significant change in prices or supply of raw materials may cause the Group's financial results to vary, which could have a material adverse effect on its results of operations

The Group requires substantial amounts of raw materials in the steel production process, in particular coal and iron ore. Severstal Resources is one of the largest producers of hard coking coal and iron ore pellets in Russia. Although Severstal Russian Steel has a secure supply of iron ore and coal from Severstal Resources with approximately 69 percent of iron ore and 54 percent of coal sourced from Severstal Resources in 2016, Severstal Russian Steel sources a portion of its iron ore and coal requirements from third party suppliers when materials with different chemical features are required, to take advantage of favourable prices, as well as in cases of any disruptions in the mining operations of Severstal Resources. A disruption in mining operations at Severstal Resources' facilities that causes production volumes to fall may force Severstal Russian Steel to seek alternative sources of iron ore or coal which could in turn negatively affect the cost

synergies available from the Group's vertical integration. For example, as a result of the incident at the Severnaya mine in February 2016, the Group's self-sufficiency in coking coal was reduced from 96 percent in 2015 to approximately 70 percent in 2016.

In addition, the availability of other necessary raw materials such as scrap may be negatively affected by a number of factors largely beyond the control of the Group, including interruptions in production by suppliers, supplier allocation to other purchasers, price fluctuations and transport costs. In addition, the Group's operations require substantial amounts of other raw materials, including various types of limestone, alloys, refractories, oxygen, fuel and gas, the price and availability of which are also subject to market conditions. The Group may not be able to adjust its prices to recover the costs of significant increases in the prices of such raw materials. Any significant change in the prices or supply of raw materials could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group's stated mineral reserves and resources are only an estimate based on a range of assumptions and there can be no assurance that the anticipated tonnage or grades can be achieved

Estimates of the Group's iron ore and coal reserves and resources contained in this Base Prospectus are subject to considerable uncertainties. See "*Presentation of Financial and Other Information—Mining Reserves*". Such estimates were based on interpretations of geological data obtained from sampling techniques and projected rates of production. Sampling techniques and projections are inherently uncertain and variances in reserve and resource estimates under different methodologies may be difficult to determine and evaluate. This Base Prospectus contains reserves and resources estimates stated in accordance with the JORC reporting standards, the guidelines of Samrec and taken from official documents certified in compliance with the Russian Classification, all of which permit a number of assumptions to be made. However, as with all mineral deposits and resources, there is no certainty that the levels set out in the reserves reports are accurate, and reserves may be below the projected level.

In addition, a substantial amount of time is required to bring reserves and resources into the production phase given that construction might last up to 4-5 years after the feasibility report. If the Group's actual production of iron ore and coal in the future is significantly less than the Group's planned production based on these estimates of its reserves, the Group may not be able to supply iron ore and coal to its steel operations at an economically feasible price or at all, which would have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Significant depreciation or appreciation of the Rouble and fluctuations in foreign currency exchange rates may materially adversely affect the Group's results of operations

The Rouble experienced significant depreciation against the US dollar in 2014 and 2015, due to a substantial decrease in oil prices, slowing growth and contraction of Russia's GDP, the imposition of economic sanctions and capital outflows. The Rouble depreciated by 71.9 percent from RUB32.73 per US\$1.00 as of 31 December 2013 to RUB56.26 per US\$1.00 as of 31 December 2014). In 2015, the Rouble / US\$ exchange rate has fluctuated significantly, ranging from RUB49.18 per US\$1.00 to RUB72.88 per US\$1.00. In 2016, the Rouble / US\$ exchange rate experienced some stabilization but remained volatile at certain times, and amounted to RUB59.19 per US\$1.00 on 8 February 2017.

The Group, like many large multinational companies, faces a partial mismatch of the currencies in which its revenues and costs are denominated. As a result, the Group is to some extent vulnerable to erosion of profitability if the currencies in which its costs are denominated appreciate against the currencies in which its revenues are denominated. The mix of the Group's revenues and costs is such that depreciation of the Rouble against the US dollar tends to result in a decrease in the Group's costs relative to its revenues (thereby increasing its profitability), while appreciation of the Rouble against the US dollar tends to result in an increase in the Group's costs relative to its revenues (thereby decreasing its profitability). In addition, typically at least half of the Group's cash held with banks is denominated in US dollars and to a lesser extent in euros. Any significant appreciation of the Rouble against the US dollar, in the absence of an increase in domestic demand for steel products, may materially adversely affect the Group's financial condition and results of operations. At the same time, although a depreciation of the Rouble generally reduces the Group's Rouble-denominated costs in US dollar terms, it may also negatively affect the Group in a number of ways, including, among other things, by increasing inflation and having a negative effect on the Russian economy and the Group's clients which in turn leads to reduced demand for the Group's products, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

In addition, the Group is exposed to translational and transactional foreign currency exchange rate risks. Translational foreign currency exchange rate risks are the result of translating assets and liabilities denominated in currencies other than US dollars into US dollar amounts for financial reporting purposes. Transactional foreign currency exchange rate risks arise as a result of payments the Group makes or receives that involve foreign currency exchange. Currently, the Group's international operations are balanced with most of their revenues, borrowings and expenses denominated in the

same currency. The Group's Russian operations have revenues denominated predominantly in roubles, US dollars and euros, with meaningful fluctuations year-on-year. Expenses are mostly in roubles and borrowings are mostly in US dollars and to a lesser extent in euros. As the Group reports its financial results in US dollars and must frequently exchange or translate foreign currency into roubles or roubles into foreign currency, fluctuations in foreign currency exchange rates could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Company is the largest employer in Cherepovets, and as a result may be limited in its ability to make rapid and significant reductions in the number of its employees

The Company is by far the largest employer in Cherepovets. While the Company does not have any specific legal or social obligations or responsibilities with respect to the Cherepovets city and surrounding region, its ability to reduce the number of its employees may nevertheless be subject to political and social considerations. Any inability to make planned reductions in employee headcount in response to reduced demand or otherwise or to make changes to the Group's operations could have a material adverse effect on the Group's business, financial condition, results of operations and future prospects.

Despite the Group having no current plans to make any acquisitions, no assurance can be given that the Group will be able to successfully integrate any companies it may decide to acquire in the future or identify suitable acquisition targets

The Group is currently not planning to make any sizeable acquisitions. However, the Group does not rule out that it may consider acquisitions in the future. The Group's approach towards acquisitions is cautious and prudent as the Group prioritises its objective of maintaining financial stability amid high volatility in commodity and financial markets.

The success of past, current and future acquisitions will depend on the Group's ability to manage the assimilation of the acquired assets or companies into its operations despite the inherent difficulties, such as existing operational inefficiencies, cultural differences, redundancies of personnel, incompatibility of equipment and information technology, production failures or delays, loss of significant customers, problems with minority shareholders in acquired companies and their material subsidiaries, the potential disruption of the Group's own business, the assumption of liabilities relating to the acquired assets or businesses, the possibility that indemnification agreements with the sellers of such assets may be unenforceable or insufficient to cover potential liabilities, the impairment of relationships with employees and counterparties as a result of difficulties arising out of integration, poor records or internal controls and difficulty in establishing immediate control over cash flows. Furthermore, there can be no assurance that the Group will be able to achieve the target synergies in its operations with recent or planned acquisitions. Additionally, the value of any business the Group acquires or invests in may be lower than the amount that the Group pays for it, which, for example, could be related to a decline in the position of that business in the market or markets where it operates or to a decline in the market generally. Developed markets, such as Western Europe and the United States, may offer lower margins, as a general matter, compared to Russia and the CIS. The Group may not be able to identify suitable acquisition targets, and future acquisitions may not be available to the Group on terms as favourable as in the past.

The Group may in the future face significant competition for potential acquisitions. When making acquisitions it may not be possible for the Group to conduct a detailed investigation of the nature of the assets being acquired due to, for example, time constraints in making the acquisition decision and other factors. The Group may also become responsible for additional liabilities or obligations not foreseen by the Group at the time of an acquisition, including in particular any financial liabilities entered into by previous management prior to completion.

Any or all of these difficulties, if they materialise, could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group's competitive position and future prospects are heavily dependent on the experience and expertise of its Majority Shareholder, senior management and technical personnel

The Majority Shareholder, who is also the Chairman of the Company's Board of Directors, and senior management team have been and, the Group believes, will continue to be important in the implementation of the Group's strategy and the operation of the Group's day-to-day activities. The experience, personal connections and relationships of members of senior management are important to the conduct of its business. There can be no assurance that these individuals will continue to make their services available to the Group in the future. The Group partially maintains key man insurance covering its senior managers. Moreover, competition for management and technical personnel, such as steel and mining engineers, with relevant expertise is intense due to the small number of qualified individuals, and this situation could seriously affect the Group's ability to retain its existing senior management and technical personnel and attract additional suitably qualified senior management and technical personnel. The loss or diminution in the services of members of the Group's senior management team or technical personnel or an inability to attract and retain additional senior

management and technical personnel could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Severe weather conditions could affect the Group's business and financial results

Severe weather conditions in Russia can affect the Group's ability to produce and transport its products. Although the Group's production processes are generally unaffected by changes in climate throughout the year, operational or shipment interruptions relating to severe weather conditions (such as flooding) have occurred in the past and can occur in the future. Severe weather conditions can negatively affect distribution of the Group's products and therefore revenues from international sales. A substantial part of the Group's sales by volume from its Russian steel operations sold internationally are routed through the port of St. Petersburg, which experiences occasional shutdowns due to bad weather and can only be fully utilised during the summer navigation period, when the Gulf of Finland is not frozen over. Any of these events in the future could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Disruption in rail transport and increased rail costs could significantly hinder the Group's operations and product distribution in Russia

The Group's Russian operations depend on the Russian railway system and rely predominantly on the rail freight network operated by JSC Russian Railways (***Russian Railways***) for transport of raw materials and deliveries of its steel products to its facilities, consignment agents and customers. Russian Railways is the predominant company in the Russian railway sector which, together with its subsidiaries, owns the country's largest fleet of freight rolling stock. It also plays a monopolistic role as the sole railway infrastructure operator, and it enjoys a near monopoly in the provision of locomotive services. The physical infrastructure and other assets owned and operated by Russian Railways, particularly its rail network, largely date back to Soviet times and have, in many cases, not been adequately maintained.

The Russian railway system is subject to risks of disruption as a result of the declining physical condition of the facilities, a shortage of railcars, the limited capacity of border stations and load shedding, including those due to poorly maintained railcars and train collisions. In particular, the rolling stock of Russian Railways is generally in a poor state of repair. While the Group owns and leases railcars, and rents additional railcars, such assets are sufficient for only a portion of the Group's total transportation requirements. There is a risk of reduction of investment programs for updating the rolling stock of Russian Railways, which could lead to a shortage of available working rolling stock, a disruption in transportation of the Group's raw materials and products and increased costs of rail transport. There can be no assurance that the age and insufficient funding and maintenance of a substantial part of the Russian railway network and other infrastructure operated by Russian Railways will not in the future lead to material disruptions of the Group's business or increase the Group's costs of doing business.

In addition, the Russian Government sets rail tariffs and may further increase these tariffs, as it has done in the past. From 2013 to 2015 average railway tariffs for freight increased by 7 percent. There was no indexation in 2014, and a 10 percent increase in 2015. With effect from 1 January 2016, average railway tariffs for freight grew by 9 percent. Past and future increases in railway tariffs for freight have resulted and will continue to result in significant increases in the Group's transportation costs. Both the privatisation of Russian Railways and its cost of upgrading its rolling stock and other facilities could further contribute to increased tariffs.

The Group considers alternative delivery methods (such as river and motor transport) where practicable. Any disruption in transportation or increase in tariffs could significantly increase the Group's costs, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Group's business could be adversely affected if it fails to obtain or renew necessary licences or fails to comply with the terms of its licences

The Group's business, both in and outside Russia, depends on the continuing validity of its licences, the issuance to it of new licences and its compliance with the terms of its licences, including subsoil licences for the Group's mining operations in Russia. Regulatory authorities exercise considerable discretion in the timing of licence issuance and renewal and in monitoring of licensees' compliance with licence terms. Requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Moreover, legislation on subsoil rights remains internally inconsistent and vague, and the acts and instructions of licensing authorities and procedures by which licences are issued are often arguably inconsistent with legislation.

In certain circumstances, state authorities in Russia may seek to interfere with the issuance of licences, for example, by initiating legal proceedings alleging that the issuance of a licence violates the civil rights or legal interests of a person or legal entity. The licensing process may also be influenced by outside commentary, political pressure and other extra legal

factors. In the case of subsoil licences, unsuccessful applicants may bring direct claims against the issuing authorities that the licence was issued in violation of applicable law or regulation. If successful, such proceedings and claims may result in the revocation or invalidation of the licence. Accordingly, licences that the Group requires may be invalidated or may not be issued or renewed. Licences that are issued or renewed may not be issued or renewed in a timely fashion or may involve conditions that restrict the Group's ability to conduct its operations or to do so profitably. As part of their obligations under licensing regulations and the terms of their licences, the Group's Russian subsidiaries are also required to comply with numerous industrial standards, maintain production levels, recruit qualified personnel, maintain necessary equipment and a system of quality control, monitor the Group's operations, maintain appropriate filings and, upon request, submit appropriate information to licensing authorities, which are entitled to control and inspect their activities. In most cases, a licence may be suspended or terminated if the licensee does not comply with the "significant" or "material" terms of the licence. However, the Ministry of Natural Resources and Ecology of Russia has not issued any new interpretive guidance on the meaning of "significant" or "material" terms of licences. Court decisions on the meaning of these terms have been inconsistent and, under the Russian legal system, do not have significant value as precedents for future judicial proceedings. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights of subsoil licensees. As a result, while the Group seeks to comply with the terms of its subsoil licences and believes that it is currently in material compliance with the terms of such licences, there can be no assurance that its licences will not be suspended or terminated. In the event that the licensing authorities in Russia discover a material violation by a member of the Group, that member of the Group may be required to suspend its operations or to incur substantial costs in eliminating or remedying the violation, which could have an adverse effect on the Group's business or results of operations.

Any or all of these factors may affect the Group's ability to obtain, maintain or renew necessary licences. If the Group is unable to obtain, maintain or renew necessary licences or is only able to obtain or renew them with newly introduced material restrictions, it may be unable to benefit fully from its reserves, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

In addition, the Group's business outside of Russia also depends on the continuing validity of permits, the issuance to them of new permits and compliance with the terms of such permits, which may involve uncertainties and costs to the Group.

The Group's business depends on good relations with its employees. A breakdown in these relations and/or restrictive labour and employment laws could have a material adverse impact on the Group

Although the Group believes its labour relations with its employees are good, there can be no assurance that a work slowdown or a work stoppage will not occur at any of the Group's operating units or exploration prospects. At most of the Group's business units, there are collective bargaining agreements in place with labour unions. The rate of unemployment in the key cities of the Group's industrial operations is lower than the average level in the Russian Federation. However, any future work stoppages, disputes with employee unions or other labour related developments or disputes, including renegotiation of collective bargaining agreements, could result in a decrease in the Group's production levels and adverse publicity and/or an increase in costs, which could have a material adverse effect on the Group's business, results of operations and financial condition and the value of the Notes.

The Company is beneficially controlled by a single person, whose interests could conflict with those of the Noteholders

The Company is beneficially controlled by Mr. Alexey Mordashov (the **Majority Shareholder**), who as at 31 December 2016, controlled indirectly 79.2 percent of the Company's shares. See "*Principal Shareholders*". As a result, the Majority Shareholder has the ability to exert significant influence over certain actions requiring shareholder approval, including, but not limited to, increasing or decreasing the authorised share capital of the Company (and disapplying pre-emptive rights), the election of directors, declaration of dividends, the appointment of management and other policy decisions. While transactions with the Majority Shareholder and his affiliates can benefit the Company, the interests of the Majority Shareholder could at times conflict with the interests of Noteholders. Although the Group has in the past sought and continues to conclude related party transactions on an arm's length basis, conflicts of interest may arise between the Group, its affiliates and the Majority Shareholder or his affiliates, resulting in the conclusion of transactions on terms not determined by market forces. See "*Management*" and "*Related Party Transactions*". Any such conflict of interest could adversely affect the Group's business, financial condition and results of operations, future prospects and the value of the Notes.

The Group has engaged and may continue to engage in related party transactions and major transactions

The Group has engaged in transactions with certain of its shareholders, including the Majority Shareholder, directors and executive officers and companies controlled by them or in which they or the Group own an interest (see "*Related Party*

Transactions”). The Group believes that these related party transactions have been and will continue to be concluded at arm’s length. However, there can be no assurance that the terms on which these related party transactions are conducted have not and will not differ significantly from the terms on which third-party transactions have been and are conducted. The practice of related party transactions may result in transactions conducted on terms less favourable to the Group than would otherwise have been negotiated with third parties and could have a material adverse effect on the Group’s business, financial condition, results of operations, future prospects and the value of the Notes. In addition, the Company and other entities of the Group have engaged in large value transactions which under applicable Russian law are categorised as “major transactions” and which require approval by the board of directors or, depending on the size of the relevant transaction, by the shareholders of the company that is entering into such transaction. The Group believes that those “major transactions” which the Group entities enter into are properly authorised. However, there can be no assurance that all procedural requirements have been complied with in connection with the approval of such transactions. A “major transaction” which has not been properly authorised may be challenged by a company or any of its shareholders.

Political and economic instability, corruption, changes in government or in economic policy and arbitrary government actions could adversely affect the Group’s business and its overall financial condition.

Like other large multinational companies, the Group sells its products throughout the world and produces them in many countries. The Group has facilities in a variety of countries, including, among others, Russia, Europe and Africa. Some of these have experienced, and continue to experience, a great deal of economic, political and social instability. In addition, the Group operates in geographic areas that are known to have a high risk of corruption, and it is subject to the anti-corruption laws and regulations of the countries in which it sells its products, operates or otherwise has a nexus, including the UK Bribery Act. The Group has in place policies and internal controls to promote and achieve compliance with such laws and regulations, and it has conducted training of its employees and sales task force. The Group requires all of its employees to fully comply with its anti-corruption and anti-bribery policies.

In addition, the Group recently began the process of substantially updating and further developing such policies with the view of enhancing its internal control systems and compliance procedures. Nonetheless, the Group cannot guarantee that its employees, agents or other representatives will not engage, or it will not be reported that they have engaged, in improper conduct for which the Group may be held responsible. In particular, criminal investigations on the allegations of bribery have been opened and are ongoing in relation to the former chief executive officers of Severstal Management and Vorkutaugol, both of whom resigned in November 2016. While no similar allegations, to the knowledge of the Group, have been made against other employees of the Group, and the Group is cooperating with the authorities in the ongoing investigations, no assurances as to the ultimate result of such investigations can be made. Criminal investigations against such former management may have repercussions for the Group such as fines or further investigations into the Group’s activities, including criminal investigations into the conduct of former or existing employees of the Group, and reputational risks. Furthermore, such investigations, changes in government or in economic policy, unlawful, arbitrary or selective government action, corruption or the occurrence of armed conflicts, territorial disputes, terrorist activities or social unrest may result in a material adverse effect on the Group’s business, disrupt the Group’s operations or increase the Group’s costs.

Weaknesses in the tax systems and legislation of some countries in which the Group operates create an uncertain environment for its business activity and could subject the Group to additional material tax liabilities

The Group operates in various jurisdictions. Tax legislation that is currently in effect in some of these jurisdictions is in its infancy and not well developed and is subject to varied interpretations by the local authorities. Despite the Group’s efforts to comply with the applicable tax legislation, the selective application of the relevant tax laws at the discretion of the local authorities complicates tax planning and business decisions within the Group. Furthermore, it puts the arrangements and structures in place at risk of being challenged by the local tax authorities based on the adverse selective interpretation by them of the applicable tax legislation (with the possibility of the application of new interpretations of tax laws and regulations retroactively), which could have a material adverse effect on the Group’s business, financial position, results of operations, prospects and the value of the Notes. See “—*Risk Factors Relating to Russia—Russian tax law and practice are not fully developed and are subject to frequent changes*”.

As at 31 December 2016, the actual and potential contingent claims for taxes, fines and penalties made by the Russian tax authorities to certain Group entities amounted to approximately US\$400 million. Management of the Group does not agree with the tax authorities’ claims and believes that the Group has complied with the existing legislation in all material respects. The management of the Group is unable to assess the ultimate outcome of the claims and the outflow of financial sources to settle such claims, if any. The Group’s management believes that it has made adequate provisions for other probable tax claims. See Note 31 of the Annual Financial Statements on page F-81 for further information.

RISK FACTORS RELATING TO RUSSIA

Emerging markets such as Russia are subject to greater risks than more developed markets, including significant economic, political, social, legal and legislative risks; in addition, financial turmoil in Russia could disrupt the Group's business, as well as negatively affect the value of the Notes

Generally, investment in emerging markets is suitable only for sophisticated investors who are familiar with and who fully appreciate the significance of the risks involved in investing in emerging markets and prospective investors are urged to consult with their own legal and financial advisers before making an investment in the Notes. Investors in emerging markets such as Russia should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should note that emerging markets such as Russia are subject to rapid change and that the information set out in this Base Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in debt or equity markets of all emerging market countries as investors move their money to more stable, developed markets. Financial problems or an increase in the perceived risks associated with investing in emerging economies may adversely affect the level of foreign investment, which may, in turn, adversely affect the economies in those countries. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. As a result, financial turmoil in Russia could seriously disrupt the Group's business and its ability to service its payment obligations under the Loan Agreements, as well as result in a decrease in the value of the Notes.

Changes in the political situation inside Russia or Russia's involvement in conflicts with other countries could create an uncertain operating environment, hinder the Group's long-term plans and adversely affect the value of the Group's investments in Russia

In the past, ethnic, religious, historical and other divisions inside Russia have led to tensions and, in certain cases, military conflict and terrorist attacks. If such an event were to occur in the future, it could result in significant political consequences, including the imposition of a state of emergency in some or all of Russia or heightened security measures, which may disrupt normal economic activity.

In the past such conflicts occurred between Russia and its neighbours. For example, in August 2008, Russia and Georgia were involved in an armed conflict involving South Ossetia and Abkhazia. The conflict ended with Russian recognition of the independence of South Ossetia and Abkhazia. Russian stock exchanges experienced heightened volatility, significant overall price declines and capital outflow following these events and the international capital markets temporarily closed to Russia. Furthermore, differing views on the Georgia conflict, the ongoing armed conflict in Eastern Ukraine, the ongoing and recent participation of the armed forces of the Russian Federation in the Syrian conflict, have had an impact on the relationship between the Russian Federation, the EU, the United States and certain former Soviet Union countries and, if prolonged, could adversely affect business relationships among these countries and adversely affect the Russian economy.

The political instability and armed conflict in Ukraine, heightened levels of tension between Russia and other states, imposition by the United States, the European Union and other countries of sanctions and other restrictive measures, and the imposition by Russia of sanctions, including import and travel restrictions, has had in the past, and may continue to have in the future, an adverse effect on the Russian economy and demand for commodities (see “—*The current political and economic crisis in Ukraine and related sanctions imposed by the US and the EU may have a material adverse effect on the Group*”).

If existing conflicts remain unresolved, or new disturbances or hostilities arise, the Group may be unable to access capital, or access capital on terms reasonably acceptable to it, which may have a material adverse effect on the Group's business, results of operations, financial condition, its ability to service its payment obligations under the Loan Agreement or the value of the Notes.

A reversal of reform policies or government policies targeted at specific individuals or companies could have an adverse effect on the Group's business as well as investments in Russia more generally

The political and economic situation in Russia has been negatively affected by the global financial crisis, the economic sanctions imposed by the United States and the EU and the on-going economic recession. Moreover, in December 2011 and in 2012, there were public protests alleging voting irregularities in federal parliamentary and presidential elections and demanding political reform. Any significant further increases in political instability, a struggle over the direction of future reforms, or a reversal of the reform process, could lead to another deterioration in Russia's investment climate that might constrain the Group's ability to obtain financing in the international capital markets, limit its sales in Russia or otherwise have a material adverse effect on the Group's business, results of operations, financial condition, its ability to

service its payment obligations under the Loan Agreements and as a consequence the Issuer's ability to make payments under or the value of the Notes.

In the past, Russian authorities have prosecuted some Russian companies, their executive officers and their shareholders on tax evasion and related charges. In some cases, the result of these prosecutions has been the imposition of prison sentences for individuals and significant claims for unpaid taxes. Any similar actions by governmental authorities could lead to further negative effect on investor confidence in Russia's business and legal environment, which could have a material adverse effect on the Group's ability to raise equity and debt capital in the international markets, as well as the Group's business, results of operations, financial condition, its ability to service its payment obligations under the Loan Agreement and as a consequence the Issuer's ability to make payments under the Notes or the value of the Notes.

The current political and economic crisis in Ukraine and related sanctions imposed by the US and the EU may have a material adverse effect on the Group

In late 2013 and the first half of 2014, deteriorating economic conditions and general social unrest culminated in a wide-scale crisis provoking armed confrontations between various political groups in Ukraine. In March 2014, following a public referendum the Crimea peninsula and the city of Sevastopol became new separate constituents of the Russian Federation.

Following these events, a number of countries imposed various sanctions against Russia and refused to recognise the referendum in Crimea, and the subsequent accession of Crimea and Sevastopol to the Russian Federation, as legal. The United States and the EU (as well as other states, such as Canada, Switzerland, Australia and Japan) have imposed sanctions on a number of Russian and Ukrainian persons and entities, including current and former officials and individuals, companies, banks and businessmen, with the consequences that entities and individuals in the US and EU cannot do business with them or provide funds or economic resources to them, with assets in the relevant sanctioning jurisdictions subject to seizure and the individuals to visa bans. In addition, the US and EU have applied "sectoral" sanctions. These sanctions have imposed restrictions on the ability of several Russian leading banks to access capital markets or otherwise obtain funding from persons in the US and EU. Similar sanctions have been imposed on leading companies in the oil and gas sector and on defence companies. Moreover, the EU and US prohibited the provision, exportation, or re-exportation, directly or indirectly, of goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation and that involve certain companies in the Russian energy sector. The current sanctions regime is a result of multiple extensions by the US and EU in the term and scope of sanctions, the most recent of which were taken in December 2016 (in relation to the EU sanctions) and January 2017 (in relation to the US sanctions). The US executive order implementing sectoral sanctions also permits sanctions to be applied against companies in the metals and mining sectors. It is currently unclear how long these sanctions will remain in place and whether new sanctions may be imposed. Furthermore, in December 2016, the US introduced sanctions against Russia's intelligence services, the Main Intelligence Agency (GRU) and the Federal Security Service (FSB), as well as other entities and individuals associated with GRU in connection with certain allegations of tampering with the political process in the United States by those entities.

Some Group entities, as well as the Issuer, are EU persons and are therefore required to comply with the EU sanctions, including not conducting business with any sanctioned persons. None of the proceeds of the issue of any Notes will be used to fund activities or persons that are subject to sanctions introduced by the US and the EU. Other Group entities, including the Borrower, are neither US persons nor EU persons, and therefore are restricted in dealings with sanctioned persons only to the extent those dealings are subject to US and/or EU jurisdiction, such as through the involvement of US and/or EU persons or entities, business conducted on the territory of the US or EU, clearing in US dollars, or some other nexus to the relevant jurisdiction. However, there can be no assurance that compliance issues under applicable US and/or EU regulation, measures or similar laws and regulations will not arise with respect to the Group or its personnel. Non-compliance with applicable sanctions could result in, among other things, the inability of the relevant Group entities to contract with the US and/or EU governments or their agencies, civil or criminal liability of such entities and/or their personnel under US and/or EU law, the imposition of significant fines and negative publicity and reputational damage. In addition, should the Group's dealings with sanctioned counterparties become material, the Group's ability to transact with US or EU persons could be affected, even though such dealings would comply with applicable law. As a result, the ability of members of the Group to raise funding from international financial institutions or the international capital markets could be restricted.

The sanctions imposed by the US and the EU in connection with the Ukraine crisis so far have had an adverse effect on the Russian economy, to which the Group is exposed significantly, prompting downgrades of the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access international capital markets. The governments of the US and certain EU member states, as well as certain EU officials have indicated that they may consider additional sanctions should tensions in Ukraine continue. Tensions between Russia and EU and the

US have further increased recently as a result of the conflict in Syria, and there can be no assurance that the governments of the EU and US or other countries will not impose further sanctions on Russia related to the Syrian conflict.

Further confrontation in Ukraine and any escalation of tensions between Russia and the US and/or the EU related to the conflicts in Ukraine or Syria, the imposition of further sanctions, or continued uncertainty regarding the scope thereof, could have a prolonged adverse impact on the Russian economy. These impacts could be more severe than those experienced to date. In particular, should either the US or the EU expand their respective sanctions to include existing or future clients, suppliers or other counterparties of the Group, a large sector of the Russian economy or otherwise, such an expansion could result in the Group's dealings with designated persons, if any, being materially adversely impacted, the suspension or potential curtailment of business operations between the Group and the designated persons could occur, and substantial legal and other compliance costs and risks on the Group's business operations could emerge. All of the above could have a material adverse impact on the Group's business, financial condition, results of operations or prospects.

Although the Group has no reason to believe that it or its shareholders may be specifically targeted by the US or EU sanctions, there can be no assurance that this will not occur. If US or EU sanctions targeting the Russian metals and mining sector and/or the Group and its shareholders are imposed, such sanctions will likely have a material adverse impact on the Group in a number of ways. For example, the Group might become unable to deal with persons or entities bound by the relevant sanctions, including financial institutions and rating agencies, transact in US dollars, raise funds from investors, or access international capital markets generally, use international settlement, clearing and/or information exchange systems, and/or the Group's existing funds might be blocked. In these circumstances, the Group may be unable to effect payments to discharge any of its obligations under the Loans, which would constitute an event of default thereunder and under the Notes consequently. In addition, investors in possession or control of the Notes, who are subject to the jurisdiction of any relevant sanctions regimes may be required to block those Notes and may be restricted in their ability to sell, transfer or otherwise deal in or receive distributions with respect to the Notes, which could make such Notes partially or completely illiquid. Potential Noteholders may be deterred from buying the Notes for the same reason. This would adversely affect the market value of the Notes, and could result in reduced liquidity in the trading market for the Notes and have a material adverse effect on their market value.

Economic instability in Russia could adversely affect the Group's business

Any of the following risks, which the Russian economy has experienced at various times in the past and some of which occurred during the global financial and economic crisis, may have a significant adverse effect on the investment climate in Russia and, in turn, may be a significant burden on the Group's operations:

- volatility and/or significant declines in GDP;
- high levels of inflation or hyperinflation;
- increases in, or high, interest rates;
- an unstable currency and instability in the local currency market;
- high state debt relative to gross domestic product;
- lack of reforms in the banking sector and a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- the use of fraudulent bankruptcy actions in order to take unlawful possession of property;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- tax evasion;
- the "black" and "grey" market economies;
- budget deficits;
- capital flight;

- corruption and the penetration of organised crime into the economy;
- sudden price declines in the natural resource sector;
- dependence of the economy on exports of commodities;
- significant declines and volatility in the stock market;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

While the situation globally has to a certain extent stabilised since the global financial and economic crisis, the Russian economy began to experience a new slowdown in 2013. GDP growth fell from 3.4 percent in 2012 to 1.3 percent in 2013 and amounted to 0.6 percent in 2014 and contracted by 2.8 percent in 2015 and by 0.2 percent in 2016, according to Rosstat. The conditions and outlook for the Russian economy deteriorated significantly during 2014 as a result of the sharp decline in oil prices and continued to worsen in 2015 following further depression in oil prices and the imposition of economic sanctions by the United States and the EU. In 2014, the net capital outflows increased to US\$151.5 billion, according to the CBR. Net capital outflows amounted to US\$57.5 billion in 2015 and US\$15.4 billion in 2016, according to the CBR. Inflation grew from 6.5 percent in 2013 to 11.4 percent in 2014, reached 12.9 percent in 2015 and declined to 5.4 percent in 2016, and the Rouble depreciated significantly against a number of currencies, including the US dollar during 2014 and 2015. In December 2016, the CBR forecasted that with an average price of US\$40 per barrel of Urals oil in 2017, Russia's GDP will increase by 0.5 up to 1.0 percent and net capital outflow in Russia will amount to US\$13 billion in 2017 as compared to US\$15.4 billion in 2016.

Russia produces and exports large quantities of crude oil, natural gas and other mineral resources, which makes the Russian economy particularly vulnerable to world markets' prices of commodities. There was a dramatic decrease in the price of oil from when it reached its peak in the summer of 2008, resulting in sharp decreases in state revenues, which in turn had a significant negative impact on the Russian economy. The price of oil has been particularly volatile in recent years reaching a peak in March 2012 and significantly decreasing in the second half of 2014 from US\$112.36 per barrel of Brent Crude oil on 30 June 2014 to US\$55.27 per barrel on 31 December 2014 and continued to decrease in 2015 reaching US\$37.28 per barrel on 31 December 2015 but subsequently increasing to US\$57.49 per barrel on 31 December 2016. Any significant disruptions of major exploration and development projects in the Russian oil and gas sector as a result of technological failures, restrictions on obtaining necessary technologies or services from foreign suppliers as a result of sanctions or insufficient funding may result in decreased productivity, reductions in output of such commodities and ultimately lead to lower federal budget revenues. These developments could have a material adverse effect on the Russian Government's ability to provide financial support to Russian companies, and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Any deterioration in the general economic conditions in Russia could adversely influence the level of demand for various products, including those provided by the Group, and therefore could have a material adverse effect on the Group's business, financial condition, results of operations and future prospects.

Inflation in Russia could increase the Group's costs

The Russian economy has recently experienced relatively high rates of inflation. According to Rosstat, the inflation rate was 11.4 percent in 2014, 12.9 percent in 2015 and 5.4 percent in 2016. A number of the Group's costs relating to its Russian operations, such as wage costs, maintenance costs, construction costs and utilities costs, are sensitive to rises in general price levels in Russia and, as a result, the Group has in the past experienced inflation-driven increases in some of its production costs. However, due to competitive pressures, the Group may not be able to raise prices sufficiently to preserve operating margins.

Accordingly, high rates of inflation could increase the Group's costs and there can be no assurance that the Group will be able to maintain or increase its operating margins to cover such costs and failure to do so could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Instability of global financial markets could affect the Russian economy

Russia's economy was adversely affected by the global financial and economic crisis and could be adversely affected by market downturns and economic crises or slowdowns elsewhere in the world in the future. In particular, the disruptions in the global financial markets have had a severe impact on the liquidity of Russian entities, the availability of credit and the terms and cost of domestic and external funding for Russian entities. This could adversely influence the level of customer demand for various goods and services, including those provided by the Group. These developments, as well as

adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment, or a decline in oil, gas or other commodities prices (such as, for example, steel or precious metals) could slow or disrupt the Russian economy and adversely affect the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Introduction of currency restrictions may limit the Group's ability to execute its strategy or operate its business or could otherwise adversely affect the Russian capital markets

Despite recent liberalisation, there can be no assurance that Russia's currency regulation and control regime will not impose new restrictions or prohibitions. Restrictions or prohibitions on hard currency payments and operations could limit the Group's ability to invest in its capital improvement programmes, pursue attractive acquisition opportunities or purchase raw materials or sell its products internationally. In addition, such restrictions or prohibitions may limit an investor's ability to repatriate earnings from securities of Russian issuers, including the Group, or otherwise have a negative impact on the Russian capital markets. The consequences of any new restrictions or prohibitions could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Russian banking system remains underdeveloped with a limited number of creditworthy Russian banks, and another banking crisis could place severe liquidity constraints on the Group's business

Russia's banking and other financial systems are not well developed or regulated. There are currently a limited number of creditworthy Russian banks, most of which are headquartered in Moscow. Although the CBR has the mandate and authority to suspend banking licences of insolvent banks, many insolvent banks still operate. In 2016, the CBR has revoked the banking licences of 97 Russian banks. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still does not meet internationally accepted norms. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to the current worldwide credit market downturn and economic slowdown. For example, the revocation of Master Bank's banking licence (Master Bank was a major Moscow-based bank and the 41st largest bank in Russia as of 1 October 2013 by deposits according to RIA Rating) and subsequent numerous revocations of licences of banks, including Bank Russian Credit in July 2015 and Vnesheprombank in January 2016, raised some concerns about the stability of the Russian banking system and the ability of the State Deposit Insurance Agency to service any further pay-outs to insured depositors should any similar bank collapses occur in the near future. It also adversely affected liquidity on the domestic market.

Liquidity constraints which emerged in the Russian banking sector in 2013 continued in 2014 and the first half of 2015. Liquidity shortage was aggravated by the restricted access for many Russian banks to the EU and US capital markets as a result of sanctions imposed by the EU and US in relation to the events in Ukraine. The second half of 2014 was marked by the continuous depreciation of the Rouble against foreign currencies, especially Euro and US Dollar, with the most acute stage of depreciation falling on December 2014. In order to strengthen the Rouble, the CBR increased the key interest rate from 10.5 percent to 17.0 percent in December 2014, which resulted in substantial short-term volatility and liquidity shortages on domestic financial and interbank markets. Consequently, funding costs have increased throughout the entire Russian financial system and have put substantial strain on Russian banks' ability to manage interest rate risks, raise financing and prudently allocate available liquidity. The resulting higher interest rates have also negatively affected the banking sector's profitability, as well as led to a deterioration in the creditworthiness of Russian consumer and corporates. Although the CBR proceeded to gradually reduce its key interest rate to 11 percent throughout the first half of 2015 and further lowered the key interest rate to 10.5 percent in June 2016 and to 10.0 percent in September 2016, there can be no assurance that further increases will not occur.

The Group maintains significant cash deposits with major state-owned Russian banks with 89 percent of the Group's cash and cash equivalents held on deposit with two Russian banks as at 31 December 2016 (see Note 30 of the Annual Financial Statements). The Group's business and financial position could be adversely affected by any further deterioration and increased instability of the Russian banking sector. The revocation of the licenses or insolvency of any major banks in which the Group maintains its accounts and uses for settlement operations could result in losses for the Group. Furthermore, any funding shortages or other banking disruptions experienced by the Group's major bank partners could have a material adverse effect on its ability to execute planned developments or to obtain the financing required for the Group's operations, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Crime and corruption could disrupt the Group's ability to conduct its business and could materially adversely affect the Group's financial condition and results of operations

Organised criminal activity in Russia has reportedly increased significantly since the dissolution of the Soviet Union in 1991, particularly in large metropolitan centres. In addition, the Russian and international press have reported high levels

of official corruption in Russia and other CIS countries, including the bribery of officials for the purpose of initiating investigations by state agencies, obtaining licences or other permissions or in order to obtain the right to supply goods or services to state agencies. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further interests of the state and individual officials. Additionally, published reports indicate that a significant number of Russian media regularly publish slanted articles in return for payment.

The proliferation of organised or other crime, corruption and other illegal activities that disrupt the Group's ability to conduct its business effectively, or any claims that it has been involved in corruption, or illegal activities (even if false) that generate negative publicity, could have an adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity

Russia is still developing an adequate legal framework required for the proper functioning of a market economy. The recent nature of much of Russian legislation and the rapid evolution of the Russian legal system may place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities and inconsistencies in their application. In addition, Russian legislation sometimes leaves substantial gaps in the regulatory infrastructure.

Among the risks of the current Russian legal system are:

- inconsistencies among (i) federal laws, (ii) decrees, orders and regulations issued by the president, the Russian Government, federal ministries and regulatory authorities and (iii) regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- the relative inexperience of judges and courts in interpreting new principles of Russian legislation, particularly business and corporate law;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- a high degree of unchecked discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

The foregoing factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Additionally, court claims are often used to further political aims. The Group may be subject to these claims and may not be able to receive a fair hearing.

These weaknesses in the Russian legal system could affect the Group's ability to enforce its legal rights in Russia, including rights under contracts, or to defend itself against claims by others, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Russia's property law is subject to uncertainty and inconsistency

The legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real estate to the same extent as is common in some of the more developed market economies of North America and Europe. Land use and title systems rely on complex traditional ownership systems. As a result, the title of land that the Group might invest in may be unclear or in doubt. Moreover, the validity of the Group's right to title or use of its properties may be successfully challenged or invalidated due to technical violations or defects in title. Such instability creates uncertainties in the operating environment in the emerging market nations, which could hinder the Group's long-term planning efforts and may prevent the Group from carrying out its business strategy effectively and efficiently. If the real property owned or leased by the Group is found not to be in compliance with all applicable approvals, consents, registrations or other regulations, the Group may lose the right to use such real property, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Shareholder liability under Russian legislation could cause the Company to become liable for the obligations of its subsidiaries

Under Russian law, the Company may be primarily liable for the obligations of its Russian subsidiaries jointly and severally with such entities if: (i) the Company has the ability to make decisions for such Russian subsidiaries as a result of its ownership interest, the terms of a binding contract or in any other way; and (ii) the relevant Russian subsidiary

concluded the transaction giving rise to the obligations pursuant to the Company's instructions or with the consent of the Company, save for (a) voting of a parent company on approval of a transaction as shareholder or participant of the subsidiary in the general meeting or (b) approval of transaction to be entered by the subsidiary given by the parent's corporate bodies under the charter of the parent and/or of the subsidiary. In addition, the Company may have secondary liability for the obligations of its Russian subsidiaries if the subsidiary becomes insolvent or bankrupt as a result of the action of the Company. Accordingly, the Company could be liable in some cases for the debts of its subsidiaries, which could have a material adverse effect on the Group's business, results of operations, financial condition, its ability to service its payment obligations under the Loan Agreements and as a consequence the Issuer's ability to make payments under or the value of the Notes.

The lack of independence of certain members of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Group or the Noteholders from obtaining effective redress in a court proceeding and could materially adversely affect the value of the Notes

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia are also less than complete. The Russian court system in the past has been and may still be understaffed and underfunded. Russia, along with many western European states, such as Germany and France, is a civil law jurisdiction and, as such, judicial precedents generally have no binding effect on subsequent decisions. Enforcement of court judgments by law enforcement agencies can sometimes be time consuming because of the large number of outstanding court judgments. Additionally, court claims are often used in furtherance of political aims. The Group may be or may become subject to such claims and may not be able to receive a fair trial.

There are also legal uncertainties relating to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that, due to the lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation, or in the event that the Group's business is reorganised. Expropriation or nationalisation of any of the Group's entities, their assets or portions thereof, or their break-up into separate companies, potentially without adequate compensation, could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Russian Government may impose export tariffs on Russian steel and mining producers, which could adversely affect the demand for its products

Historically, the Russian Government has considered adopting export tariffs on certain steel and mining products, potentially including products produced by the Group. Certain of the Group's major customers, as well as other major consumers of steel products, have presented, and may in the future present, to the Russian Government initiatives to introduce export duties in order to affect the pricing of steel and mining products in the domestic market. No decision has been made to this effect but the low risk of such export tariffs being adopted remains present in the long-term. In addition, any other forms of price regulation, such as introducing price ceilings, export quotas or cost-based pricing, could lead to lower revenues from the Group's steelmaking operations. Any of the above factors could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The accession of the Russian Federation to the World Trade Organisation may lead to changes in the business and legal environment in Russia

The Russian Federation officially became a member of the WTO on 22 August 2012. The accession may lead to significant changes in Russian legislation including, among others, the regulation of foreign investments in Russian companies and competition laws, as well as changes in the taxation system and customs regulations in Russia. In addition, implementation of the WTO rules may result in an increase in competition in the markets where the Group operates. Although during 2012-2015 Russia adopted certain changes to its legislation related to its accession to the WTO (for example, regulation of intellectual property), it is unclear yet if and when all necessary legislative changes related to the accession will take place. If further new legislation is implemented in Russia as a result of its accession to the WTO, such legislation could have a material adverse effect on the Group's business, results of operations, financial condition, its ability to service its payment obligations under the Loan Agreements and as a consequence the Issuer's ability to make payments or the value of the Notes.

The Group is subject to anti-monopoly laws enforced by the FAS, which may result in certain limitations being imposed on the Group's activities, the violation of which may result in civil, administrative and even criminal liability

The Federal Law No. 135-FZ "On Protection of Competition" dated 26 July 2006, which came into force on 26 October 2006, (the **Competition Law**) generally prohibits any concerted action, agreement or coordination of business activity

that results or may result in, among other things, (a) price fixing, discounts, extra charges or margins; (b) coordination of auction bids; (c) partition of a commodity market by territory, volume of sales or purchases, types of goods, customers or suppliers; (d) refusal to enter into contracts with buyers (customers) for reasons other than economic or technological reasons; (e) imposing unfavourable contractual terms; (f) fixing disparate prices for the same goods, for reasons other than economic or technological reasons; (g) creation of barriers to entering or exiting a market; and (h) restriction of competition in any other way. There is no established court practice on what concerted actions or coordination of business activity is and courts interpret these concepts inconsistently. As a result, there is significant uncertainty as to what actions may be viewed as violation of the Competition Law. In a number of precedents, Russian courts found concerted actions where market participants acted in a similar way within the same period of time, although, arguably, there have been legitimate economic reasons for such behaviour and the behaviour was not aimed at restriction of competition. Therefore, there is a risk that the Group can be found in violation of the Competition Law if its market behaviour, vis-à-vis its customers or suppliers is viewed as being similar to behaviour of the Group's competitors and perceived by the FAS as a purported restriction of competition. Such broad interpretations of the Competition Law may result in the FAS imposing substantial limitations on the Group's activities, may limit operational flexibility and may result in civil, administrative and even criminal liability.

Furthermore, the Group has expanded its operations through the acquisition of companies that are incorporated and operating in Russia or assets that are located in Russia, such as the mining companies that currently comprise Severstal Resources. Some of these acquisitions are, or were, subject to the prior approval or subsequent notification requirements of the FAS, or its predecessor agencies. Certain portions of these requirements are vaguely worded and there can be no assurance that the Group will be able to comply fully or that the FAS will not challenge the Group's past compliance, which could result in administrative sanctions, required divestitures or limitations on operations.

The FAS has ample powers to investigate perceived violations of the Competition Law, has become active in policing marketing, sales and supply strategies of major participants of the Russian steel industry and has previously brought charges against certain market participants alleging concerted actions in violation of the Competition Law.

If the Group's activities are found to be in violation of the Competition Law in any of the cases described above or in any other cases, the Group could be subject to penalties or ordered to change its business operations in a manner that increases costs or reduces profit margin and revenue, which can adversely affect the Group's business, financial condition and results of operations.

In the event that the title to any Russian company acquired by the Group through privatisation, bankruptcy sale or by other means is successfully challenged, the Group may lose its ownership interest in that company or its assets

Almost all of the Group's steel making and mining assets in Russia consist of companies that have been privatised or that the Group acquired through bankruptcy proceedings or directly or indirectly from others who acquired them through privatisation or bankruptcy proceedings, and the Group may seek to acquire additional companies that have been privatised or that have undergone bankruptcy proceedings. In view of some analysts, privatisation legislation in Russia is vague, internally inconsistent and in conflict with other elements of Russian legislation. Although the statute of limitations for challenging transactions entered into in the course of privatisations is currently three years, privatisations may still be vulnerable to challenge, including through selective action by governmental authorities motivated by political or other extra legal considerations.

If any of the Group's acquisitions is challenged as having been improperly conducted and the Group is unable to defend itself successfully, the Group may lose its ownership interests, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Russian tax law and practice are not fully developed and are subject to frequent changes

A significant part of the Group assets and operations is located in Russia and, therefore, weaknesses in the Russian tax system could adversely affect the Group.

The Russian subsidiaries of the Group are subject to a broad range of taxes and charges imposed at the federal, regional and local levels, including but not limited to, corporate income tax, value added tax (**VAT**), property tax and payroll related social security contributions.

Russian laws and regulations related to these taxes, such as the Tax Code of the Russian Federation (the **Russian Tax Code**) have been in force for a relatively short period in comparison with tax laws and regulations in more developed market economies. The implementation of Russian tax laws and regulations is often unclear or inconsistent. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in the continual changes to the tax legislation, some of which applies retroactively and occurs with little notice.

Although Russia's tax climate and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed or interpreted in the future in a manner adverse to the stability and predictability of the Russian tax system. The possibility exists that the Russian Government may impose arbitrary or onerous taxes, levies, fines and penalties in the future, which could adversely affect the business of the Group, financial condition or results of operations. Additionally, there have been cases perceived as utilisation of tax claims as a tool for significant state intervention in certain key industries.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Russian Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and applications of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax laws and regulations may exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and tax risks and leading to the inconsistent enforcement of these tax laws and regulations in practice. Furthermore, taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws and regulations differently. In some instances, the Russian tax authorities have applied new interpretations of tax laws and regulations retroactively. Private clarifications to specific taxpayers' queries with respect to particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities. Moreover, there can be no assurance that Russian legislation and regulations will not be altered, in whole or in part, or that Russian tax authorities and/or Russian courts or other regulatory authorities will not interpret these rules and regulations in such a way that the arrangements described in this Base Prospectus would be subject to tax treatment different from the treatment described herein, whether retroactively or otherwise, or would be adversely affected in some other way. During the past several years the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax reviews of Russian companies operating in various industries.

In practice, taxpayers often have to resort to court proceedings to defend their positions against the Russian tax authorities. In the absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may be inconsistent or contradictory. The Russian tax system is, therefore, impeded by the fact that, at times, it still relies heavily on the inconsistent judgments of local tax officials and fails to address many of the existing problems. It is, therefore, possible that transactions and activities of the Group that have not been challenged in the past may be challenged in the future, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In its Decision No. 138-O of 25 July 2001 the Constitutional Court of the Russian Federation introduced the concept of "a taxpayer acting in a bad faith" without clearly stipulating the criteria for its interpretation and application. Similarly, this concept is not defined in the Russian tax legislation or other branches of Russian legislation. Nevertheless, in practice this concept has been used by the Russian tax authorities in order to deny, for instance, the taxpayer's right to rely on the letter of the tax law. Based on the available practice the Russian tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is at times unfavourable to taxpayers.

On 12 October 2006 the Plenum of the Supreme Arbitrazh Court of the Russian Federation issued Ruling No. 53 (the **Ruling**) which introduced a concept of the "unjustified tax benefit" defined mainly by reference to specific examples of such tax benefits (such as tax benefits received in connection with transactions that lack reasonable business purpose), which may lead to the disallowance of their application. Based on the available court practice it is apparent that the Russian tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of the Ruling was to combat the abuse of tax law, based on tax disputes relating to its application in cases which were brought to courts and are available to date, it can be concluded that the Russian tax authorities have started applying the "unjustified tax benefit" concept in a broader sense than may have been initially intended by the Supreme Arbitrazh Court. The available court practice is rather contradictory.

Tax declarations together with related documentation are subject to review and investigation by a number of the Russian authorities, empowered by Russian law to impose fines and penalties on taxpayers. Generally, tax returns together with the related documentation remain open and subject to inspection by the Russian tax authorities in the course of on-site tax audits for a period of three years immediately preceding the year in which the decision to conduct a tax audit is taken. Tax audits can however go beyond this general three-year term to cover the tax period for which an amended tax return (if any) has been filed. The fact that a year has been reviewed by the Russian tax authorities does not prevent further review of that year, or any tax return and other documentation applicable to that year, from any further reviews during the three-year limitation period. In particular, a repeat tax audit may be conducted (i) by a higher level tax authority as a measure of control over the activities of lower level tax authorities, or (ii) in connection with the reorganisation/liquidation of a taxpayer, or (iii) as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable. Therefore, previous tax audits do not necessarily preclude subsequent claims relating to the audited period.

The Russian Tax Code provides for the possible extension of the three-year statute of limitations for liabilities for tax offences if the taxpayer is deemed to obstruct the performance of the tax review and this has become an insurmountable obstacle for the tax review. Because the terms “obstructed” and “insurmountable obstacle” are not specifically defined in Russian tax law or any other branches of Russian law, the Russian tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax audit with obstruction by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three-year limitation period. Therefore, the statute of limitations is not entirely effective with respect to liability for payment of taxes in Russia. If as a result of such extended review it is concluded that the Russian subsidiaries of the Group had significant tax underpayments for respective tax periods, it may have a material adverse effect on the Group’s business, financial condition and results of operations. Tax audits may also impose additional administrative burden on the Group by diverting the attention of its management and financial personnel, requiring resources for defending the Group’s tax filing position, including for any tax litigation.

In addition, according to the legal position expressed by the Plenum of the Higher Arbitrazh Court of the Russian Federation in Resolution No. 57 dated 30 July 2013, Russian taxes which were not withheld on payments to foreign recipients and respective penalties may be collected from a Russian taxpayer who failed to act as a tax agent.

The concept of a consolidated taxpayer (a **Tax Group**) was incorporated into the Russian Tax Code and became effective from 1 January 2012. These rules introduce consolidated tax reporting that enables the consolidation of the financial results of Russian companies for corporate tax purposes which form one group.

In addition, the Russian Federation, like a number of other countries in the world, is actively involved in discussing measures against tax evasion by the use of low tax jurisdictions and aggressive tax planning structures. Some of these measures have been introduced into the Russian tax law by Federal Law No. 376-FZ dated 24 November 2014 (as amended from time to time) (the **Anti-Offshore Law**) came into force starting 1 January 2015.

The Anti-Offshore Law introduced into the Russian Tax Code “controlled foreign companies” rules pursuant to which undistributed profits of certain organisations (as defined by the Anti-Offshore Law) as well as foreign structures not being legal entities (such as funds, partnerships), controlled by Russian tax residents (both legal entities and individuals) should be subject to taxation in Russia provided certain criteria are met.

Furthermore, the Anti-Offshore Law introduced the concept of tax residency for legal entities (as described in more detail in the next section) and the concept of beneficial ownership.

The beneficial ownership concept, which is broadly in line with the concept developed by the Organisation for Economic Co-operation and Development (the **OECD**), has also been introduced in the Russian Tax Code by the Anti-Offshore Law. In particular, the Anti-Offshore Law establishes that treaty relief should be available to foreign legal entities provided they have the actual right to receive income (i.e. they qualify as a “beneficial owner of income”).

Introduction of these new rules and concepts by the Anti-Offshore Law is likely to impose additional administrative burden on the Group. No assurance can currently be given as to how the above concepts will be applied in practice, their potential interpretation by the Russian tax authorities and the possible impact (including, additional tax liability, if any) on the Group.

In addition, on 1 July 2015, the Convention on Mutual Administrative Assistance in Tax Matters developed by the Council of Europe and the OECD came into effect. This convention enables the Russian tax authorities to obtain information for tax purposes from foreign countries, including certain offshore jurisdictions. On 12 May 2016 Russia signed the Multilateral Competent Authority Agreement on the exchange of financial account information, thereby joining the Standard for Automatic Exchange of Financial Account Information (Common Reporting Standard, the **CRS**). The procedures for exchange of information established by the CRS are to be used by the Russian tax authorities in addition to application of the procedures of the exchange of information established by the applicable double tax treaties. In January 2017, Russia signed the Multilateral Competent Authority Agreement for Country-by-Country Reporting which is aimed at increasing transparency by certain multinational enterprises.

These facts create tax risks in Russia that may be substantially more significant than typically found in countries with more developed tax systems. Furthermore, the Russian tax legislation is consistently becoming more sophisticated.

Historically, the Group and the main Russian entities of the Group have been paying significant amounts of tax due to the scale of their operations. These factors, coupled with the potential for state budget deficits, raise the risk of the imposition of additional taxes, levies, fines and penalties on the Group. The introduction of new taxes or levies or introduction of amendments to current taxation rules may have a substantial impact on the overall amount of tax liabilities of the respective entities. Although the Group undertakes measures aimed at minimising tax risk and the approach to management of tax liabilities and tax risks within the Group has been conservative, there is no assurance that the Russian

entities of the Group would not be required to make substantially larger tax payments in the future, which may affect the financial results of the Group. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing it and its Russian subsidiaries to significant additional taxes, levies, fines and penalties and enforcement measures, and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's effective tax rate and financial condition could be affected by the Russian tax status of the non-Russian subsidiaries of the Group

The Group operates in various jurisdictions and includes companies incorporated outside of Russia. Russian tax laws currently in effect are not well developed as far as taxation of foreign companies in Russia or operations of Russian companies abroad are concerned. The Russian Tax Code contains a concept of permanent establishment in Russia as a means for taxing foreign legal entities which carry out regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities. However, the practical application of the concept of a permanent establishment under Russian law is not well developed and foreign companies having even limited operations in Russia, which would not normally satisfy the conditions for creating a permanent establishment under international rules, may be at a risk of being treated as having a permanent establishment in Russia and be liable to Russian taxation and have obligations to withhold Russian taxes from payments to foreign individuals and legal entities as a tax agent. There were a few precedents where the Russian tax authorities sought to challenge the Russian tax status of foreign companies and some of their attempts were successful. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities and/or courts to their interpretation and application, the Group might become subject to additional taxation in Russia in respect of its operations outside Russia.

If the permanent establishment risk is concerned, the amount of income subject to taxation in Russia should be determined as income attributable to a permanent establishment. In particular, pursuant to the transfer pricing rules, the amount of income of a foreign entity that is attributable to its Russian permanent establishment is to be measured based on the functions undertaken by this Russian permanent establishment, accepted economic (commercial) risks attributable to such activity and the assets deployed. In order to determine the amount of income of a foreign entity attributable to its permanent establishment in Russia, the Russian tax authorities may perform a functional analysis of an activity undertaken by a foreign entity in the territory of Russia.

Also, as mentioned in the previous section, the Anti-Offshore Law introduced the concept of tax residency of legal entities. Under this concept, legal entities would be deemed Russian tax residents if their place of management is located in Russia. In addition the carrying out of various routine functions in Russia for the benefit of a foreign legal entity may under certain circumstances lead to the recognition of the foreign entity as Russian tax resident. If a foreign legal entity is recognised as a Russian tax resident it would become liable to Russian taxation in a manner similar to taxation of Russian companies (based on its worldwide income), including the obligations to withhold Russian taxes from payments to foreign individuals and legal entities.

The Group cannot rule out that as a result of these changes or further changes in the approach of the Russian tax authorities and/or the courts to the application of permanent establishment or tax residency rules, the non-taxable status of some or all foreign companies of the Group in Russia may be challenged and such foreign companies might be deemed to become Russian tax residents, subject to all applicable Russian taxes which could have a material adverse effect on the business, prospects, financial condition and results of operations of the Group.

Interest payments on any Loan may become subject to Russian withholding tax

In general, interest payments on borrowed funds made by a Russian legal entity to a non-Russian legal entity or organisation having no registered presence and/or no permanent establishment in Russia are subject to Russian profits tax withholding ("withholding tax") at the rate of 20 percent (or such other tax rate as could be effective as of the date of payment) which could be reduced or eliminated under the terms of an applicable double tax treaty subject to compliance with the respective treaty clearance formalities by the recipient of interest. In particular, the Convention between the Grand Duchy of Luxembourg and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital signed on 28 June 1993 (the **Convention**) envisages exemption of interest income from Russian withholding tax provided that certain criteria specified therein are satisfied by the recipient of interest. One of these criteria is that the recipient should be deemed as the actual (beneficial) owner of income.

The concept of beneficial ownership has been introduced into the Russian Tax Code by the Anti-Offshore Law. In accordance with the Russian tax law, beneficial owner is defined as the person who based on direct or indirect participation in an entity, control over the entity or due to other reasons has the right to use and dispose of the relevant income for his/her own benefit. Functions undertaken and risks borne by such person are taken into account when determining the beneficial ownership to income. A person cannot be regarded as a beneficial owner if he/ she (1) has

limited authorities to use or dispose the income, (2) acts as an intermediary and has no additional functions or risks, (3) is obliged to pass the income to a third party that has no treaty benefits.

Notwithstanding anything to the contrary above, no Russian withholding tax obligations should arise for the Russian companies in Eurobond structures, including the transaction described in this Base Prospectus, by virtue of the release from tax agent obligations envisaged by the Federal Law No. 97-FZ dated 29 June 2012 “On introduction of amendments to part one and part two of the Tax Code of the Russian Federation and Article 26 of Federal law on banks and banking activity” (**Law No. 97-FZ**). Law No. 97-FZ, as amended by the Federal Law No. 327-FZ dated 28 November 2015 provides that Russian borrowers should be fully released from the obligation to withhold Russian income tax from interest payments made on debt obligations provided that the following conditions are all simultaneously met:

- (1) interest is paid on debt obligations of Russian entities that arose in connection with the placement by foreign entities of “issued bonds”, defined as bonds or other debt obligations
 - (a) listed and/or admitted to trading on one of the specified foreign exchanges, and/or
 - (b) that have been registered in the specified foreign depository/clearing organisations.

The lists of qualifying foreign exchanges and foreign depository/clearing organisations were approved by Order No. 12-91/pz-n of the Federal Financial Markets Service dated 25 October 2012 (the **Order**). The Irish Stock Exchange and the clearing systems Euroclear and Clearstream, Luxembourg were included in the above-mentioned lists.

- (2) there is a double tax treaty between Russia and the jurisdiction of tax residence of the recipient of interest of the loan (i.e., the Issuer) which can be confirmed by a tax residency certificate issued by the competent authorities of his/ her country of residence for tax purposes and effective as of the moment of income payment.

On this basis the Company believes that the respective conditions set out by Law No. 97-FZ should be satisfied and on that basis the Company should be released from withholding tax agent obligations with respect to interest payable on the Loan.

If interest payable on any Loan becomes subject to Russian withholding tax (as a result of which the Issuer will reduce interest payable under the corresponding Series of the Notes by the amount of such withholding taxes), the Company will be obliged (subject to certain conditions) under the terms of the relevant Loan Agreement to increase the amounts payable by it under the relevant Loan (“gross up”) as may be necessary to ensure that the net amount of payments received by the Issuer will not be less than the amounts it would have received in the absence of such withholding. It is currently unclear, however, whether provisions of the relevant Loan Agreement obliging the Company to gross up interest payable on the Loans will be enforceable under the Russian law as currently in effect. If the Company fails to increase interest payable on the relevant Loan, such failure will constitute an Event of Default pursuant to the relevant Loan Agreement.

If the Company is obliged to increase payments on any Loan (as described above), it may (without premium or penalty), subject to certain conditions, prepay the relevant Loan in full. In such case, all outstanding Notes of the corresponding Series will each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of the redemption. See “*Terms and Conditions of the Notes*”.

Sale or other disposal of the Notes in Russia by a non-tax resident Noteholder who is an individual may become subject to Russian personal income tax reducing the value of the Notes

Where proceeds from the sale or other disposal of the Notes are deemed to be received from a source within Russia by a Noteholder, who is an individual not qualifying as a Russian tax resident for the purpose of Russian personal income tax, Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of such sale or other disposal) will apply to the gross amount of the sales or other disposal proceeds realised upon the sale or other disposal of the Notes decreased by any available duly documented cost deductions (including the acquisition costs of the Notes and other expenses relating to the acquisition holding and sale or other disposal of the Notes), provided that the duly executed supporting documentation is available to the person obliged to calculate and withhold Russian personal income tax in a timely manner. Furthermore, sales or other disposal proceeds attributable to accrued interest, if deemed to be received by such Noteholders from Russian sources, can be subject to Russian personal income tax at the rate of 30 percent (or such other tax rate as could be effective at the time of such sale or other disposal), even if the sale or other disposal results in a loss.

Russian personal income tax rate may technically be reduced or eliminated under provisions of an applicable double tax treaty concluded between Russia and the country of tax residency of a particular Noteholder, subject to timely compliance by that Noteholder with the respective treaty clearance formalities in practice.

In order to apply for tax exemption or payment of tax at a reduced tax rate under the respective double tax treaty a Non-Resident Noteholder–Individual which has the actual right to receive income should confirm his/ her tax residency status to the tax agent. For these purposes a Non-Resident Noteholder–Individual resident in a country that has a double tax treaty with Russia can provide to the tax agent a passport of a foreign citizen or other document that is deemed to be an identification document under the Federal law or an applicable international treaty. If this document is not sufficient to prove the residency status, the tax agent will request the Non-Resident Noteholder–Individual to provide a tax residency certificate issued by the competent authorities in his/ her country of residence for tax purposes.

The imposition or the possibility of imposition of Russian personal income tax could adversely affect the value of the Notes. Please see “*Taxation*”.

RISK FACTORS RELATING TO THE NOTES

Risk Factors Relating to the Issuer

The Issuer is governed by the laws of The Grand Duchy of Luxembourg.

Insolvency laws

The Issuer has its “centre of main interests” (within the meaning of E.U. Council Regulation No. 1346/2000 of May 29, 2000 on insolvency proceedings) and its “central administration” (within the meaning of the Luxembourg law of 10 August 1915, on commercial companies, as amended (the ***Companies Act 1915***) in Luxembourg. Accordingly, insolvency proceedings with respect to the Issuer may proceed under, and be governed by, the Luxembourg insolvency laws. The insolvency laws of Luxembourg may not be as favourable to investors’ interests as those of other jurisdictions with which investors may be familiar and may limit the ability of holders of the Notes to enforce their rights in respect of the Notes. Insolvency proceedings may have a material adverse effect on the Issuer’s business, assets and obligations. The following is a brief description of certain aspects of insolvency laws in Luxembourg.

Under Luxembourg law, the following types of proceedings (altogether referred to as “insolvency proceedings”) may be opened against an entity having its “centre of main interests” in Luxembourg or an establishment within the meaning of the E.U. Council Regulation No. 1346/2000 of May 29, 2000 on insolvency proceedings (in relation to secondary proceedings):

- bankruptcy proceedings (faillite), the opening of which may be requested by the relevant Luxembourg company or by any of its creditors. Following such a request, the courts having jurisdiction may open bankruptcy proceedings, if that Luxembourg company (a) is in default of payment (cessation des paiements) and (b) has lost its commercial creditworthiness (ébranlement de crédit). If a court finds that these conditions are satisfied, it may also open bankruptcy proceedings, absent a request made by such Luxembourg company or a creditor. The main effect of such proceedings is the suspension of all measures of enforcement against the Luxembourg company, except, subject to certain limited exceptions, for secured creditors and the payment of creditors in accordance with their rank upon the realisation of assets;
- controlled management proceedings (gestion contrôlée), the opening of which may only be requested by the relevant Luxembourg company and not by its creditors; and
- composition proceedings (concordat préventif de la faillite), which may be requested only by the relevant Luxembourg company (having received prior consent of a majority of its creditors representing three quarters of all uncontested claims or claims admitted provisionally) and not by its creditors. The court’s decision to admit a company to the composition proceedings triggers a provisional stay on enforcement of claims by creditors.

In addition to these proceedings, the ability of the holders of Notes to receive payment under the Notes may be affected by a decision of a court to grant a reprieve from payments (sursis de paiements) or to put the relevant Luxembourg company into judicial liquidation (liquidation judiciaire). Judicial liquidation proceedings may be opened at the request of the public prosecutor against companies pursuing an activity in violation of criminal laws or in serious violation of the Luxembourg Code of Commerce or of the laws governing commercial companies. The conduct of such liquidation proceedings will generally follow the same rules as those applicable to bankruptcy proceedings.

The liability of the Issuer as issuer of the Notes will, in the event of a liquidation of the entity following bankruptcy or judicial liquidation proceedings, rank after the cost of liquidation (including any debt incurred for the purpose of such

liquidation) and those debts of the Issuer that are entitled to priority under Luxembourg law. Preferential debts under Luxembourg law for instance include, among others:

- certain amounts owed to the Luxembourg tax authorities;
- value added tax and other taxes and duties owed to the Luxembourg Customs and Excise;
- social security contributions; and
- remuneration owed to employees.

Article 20 of the Luxembourg law dated 5 August 2005 concerning financial collateral arrangements, as amended (the “**Collateral Act 2005**”) provides that all Luxembourg law collateral arrangements (pledges, security assignments and repo agreements) over claims and financial instruments falling within the scope of the Collateral Act 2005, as well as all enforcement measures and valuation and enforcement measures agreed upon by the parties in accordance with this law, are valid and enforceable even if entered into during the hardening period against third parties, commissioners, receivers, liquidators and other similar persons notwithstanding the insolvency proceedings (save in the case of fraud).

Article 24 of the Collateral Act 2005 provides that foreign law security interests over claims or financial instruments granted by a Luxembourg company will be valid and enforceable as a matter of Luxembourg law notwithstanding any Luxembourg insolvency proceedings, if such foreign law security interests are similar to a Luxembourg security interest falling within the scope of the Collateral Act 2005 and even if entered into during the hardening period (save in case of fraud).

Article 21 (2) of the Collateral Act 2005 provides that where a financial collateral arrangement has been entered into after the opening of liquidation proceedings or the coming into force of reorganisation measures or the entry into force of such measures, such arrangement is enforceable against third parties, administrators, insolvency receivers, liquidators and other similar organs if the collateral taker proves that it was unaware of the fact that such proceedings had been opened or that such measures had been taken or that it could not reasonably be aware of it.

During insolvency proceedings, all enforcement measures by unsecured creditors are suspended. Other than as described above, the ability of secured creditors to enforce their security interests may also be limited, particularly in the event of controlled management proceedings automatically causing the rights of secured creditors to be frozen until a final decision has been taken by a Luxembourg court as to the petition for controlled management, and may be affected thereafter by a reorganisation order given by the court. A reorganisation order requires the prior approval by more than 50% of the creditors representing more than 50% of the relevant Luxembourg company’s liabilities in order to take effect.

Furthermore, investors should note that declarations of default and subsequent acceleration (such as acceleration upon the occurrence of an event of default) may not be enforceable during controlled management proceedings, excluding declarations of default, subsequent acceleration and any similar enforcement actions in connection with any financial collateral agreement falling within the scope of the Collateral Act 2005.

Transactions that may be challenged or set aside

Luxembourg insolvency laws may also affect transactions entered into or payments made by a Luxembourg entity (such as the Issuer) during the period before bankruptcy, the so-called “suspect period” (*période suspecte*), which is a maximum of six months (and 10 days, depending on the transaction in question) preceding the judgment declaring bankruptcy, except that in certain specific situations the Luxembourg court may set the start of the suspect period at an earlier date (if the bankruptcy judgment was preceded by another insolvency bankruptcy judgment under Luxembourg law, in which case the court may set the maximum of up to six months prior to the filing for such controlled management). In particular:

- pursuant to Article 445 of the Luxembourg Code of Commerce (Code de commerce), specified transactions (such as, in particular, the payment of debts which have not fallen due, whether payment is made in cash or by way of assignment, sale, set-off or by any other means; the payment of debts which have fallen due by any means other than in cash or by bill of exchange; the sale of assets without consideration or with substantially inadequate consideration) entered into during the suspect period (or the 10 days preceding it) must be set aside or declared null and void, if so requested by the insolvency receiver;
- pursuant to Article 446 of the Luxembourg Code of Commerce, payments made for matured debts as well as other transactions concluded for consideration during the suspect period are subject to cancellation by the court upon

proceedings instituted by the insolvency receiver if they were concluded with the knowledge of the bankrupt party's cessation of payments; and

- in the case of bankruptcy, Article 448 of the Luxembourg Code of Commerce and article 1167 of the Luxembourg Civil Code (action paulienne or actio pauliana) gives the insolvency receiver (acting on behalf of the creditors) the right to challenge any fraudulent payments and transactions, including the granting of security with an intent to defraud, made prior to the bankruptcy, without any time limit. The conditions governing the actio pauliana are the following: (i) the creditor must prove that the act he challenges actually caused him some harm; (ii) the creditor must prove the fraudulent intent of his debtor, which may be inferred; and (iii) the creditor's claim must precede the transaction challenged for fraud.

The transactions potentially subject to avoidance also include those entered into by the Issuer in connection with the issue of the Notes. If challenged successfully, the Note Guarantee issued by the Issuer may become unenforceable and any amounts received must be refunded to the insolvent estate.

In principle, a bankruptcy order rendered by a Luxembourg court does not result in automatic termination of contracts except for *intuitu personae* contracts, that is, contracts for which the identity of the company or its solvency were crucial. The contracts, therefore, subsist after the bankruptcy order. However, the insolvency receiver may choose to terminate certain contracts. As of the date of adjudication of bankruptcy, no interest on any unsecured claim will accrue vis-à-vis the bankruptcy estate.

Insolvency proceedings may therefore have a material adverse effect on the relevant Luxembourg company's business and assets and the Luxembourg company's respective obligations under the Notes.

Finally, international aspects of Luxembourg bankruptcy, controlled management or composition proceedings may be subject to the E.U. Insolvency Regulation.

Risk Factors Relating to the Notes and the Trading Market

Before making their investment decision, potential investors in the Notes should read the terms of the Facility Agreement, and in particular the covenants and events of default, and certain exclusions therefrom, which in substance will define the limits of a Noteholder's rights and remedies. See "*Facility Agreement*".

Payments under each Loan Agreement are structurally subordinated to existing indebtedness of the Group's subsidiaries, and these subsidiaries may incur further such indebtedness in the future

The obligations of the Company under each Loan Agreement are structurally subordinated to the existing obligations of the Company's subsidiaries. In addition, subject to certain limitations set forth in the Loan Agreements, the Company and its subsidiaries may be able to incur substantial additional debt in the future, including debt that may be secured or structurally senior to the debt under each Loan. Any such additional debt incurred by the Company's subsidiaries would be structurally senior to the obligations of the Company under each Loan Agreement. As at 31 December 2016, the Group had approximately US\$2.0 billion of total debt finance. Secured indebtedness of the Company or any of its subsidiaries may also rank effectively senior to the obligations of the Company under each Loan Agreement. The incurrence of such additional indebtedness by the Company or its subsidiaries could have an adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

The Company may be unable to repay its obligations under a Loan Agreement

At maturity, the Company may not have the funds to fulfil its obligations under a Loan Agreement and may not be able to arrange for additional financing. If the maturity date of a Loan occurs at a time when other arrangements prohibit the Company from repaying that Loan, the Company would try to obtain waivers of such prohibitions from the lenders under those arrangements, or the Company could attempt to refinance the borrowings that contain the restrictions. If the Company could not obtain the waivers or refinance these borrowings, the Company would be unable to repay that Loan.

Noteholders' recourse against the Issuer is limited

The Issuer is only obliged to make payments under a Series of Notes to the Noteholders in an amount equivalent to sums of principal, interest and/or additional amounts (if any) actually received by or for the account of the Issuer under the relevant Loan Agreement, less any amount in respect of Reserved Rights. Consequently, if the Company fails to fully satisfy its obligations under a Loan Agreement, the Noteholders of the corresponding Series of Notes will receive less than the scheduled amount of principal, interest and/or additional amounts (if any) on the relevant due date.

Noteholders have no direct recourse against the Company

Except as otherwise disclosed in “*Terms and Conditions of the Notes*” and in the Trust Deed, no proprietary or other direct interest in the Issuer’s rights under or in respect of the Loan Agreements or the Loans exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreements or have direct recourse against the Group, except through action by the Trustee under the Security Interests (as defined in “*Terms and Conditions of the Notes*”). Neither the Issuer nor the Trustee under the Assigned Rights (as defined in “*Terms and Conditions of the Notes*”) shall be required to monitor the financial performance or status of the Group or to enter into proceedings to enforce payment under a Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payments of principal and/or interest by the Company under each Loan Agreement to, or to the order of, the Trustee or the Principal Paying Agent will satisfy the Issuer’s obligations in respect of the Notes. Consequently, Noteholders will have no further recourse against the Issuer or the Group after such payment is made.

The debt agreements that the Group has entered into include covenants that may restrict the Group from making certain business decisions and/or carrying out its business strategy

Certain of the Group’s debt instruments contain restrictions limiting its flexibility in operating its business. Depending on the debt instrument, such restrictions may limit the Group’s ability to:

- create liens;
- engage in mergers, acquisitions and reorganisation procedures;
- dispose of assets;
- change business substantially;
- provide guarantees or other security; or
- incur additional indebtedness.

These restrictions could hinder the Group’s ability to carry out its business strategy and the Group’s ability to make payments on the Loans.

In addition, a breach of a Loan Agreement or the terms of other debt instruments could cause a default under the terms of the Group’s other financing arrangements, causing all debt under those financing arrangements to become due. No assurance can be given that if the indebtedness under the relevant Loan Agreement were to be accelerated, the assets of the Group would be sufficient to generate the funds necessary to repay the relevant Loan, and thus the corresponding Series of Notes, in full in satisfaction of its obligations under the relevant Loan Agreement.

The Group may prepay the loans under the Loan Agreements

Under the terms of each Loan Agreement, the Company may, subject to certain conditions, prepay the relevant Loan if it is required to increase its payments for tax reasons if the increased payment obligation results from any change in the applicable tax laws or treaties or from the change in application of existing tax laws or treaties or from enforcement of the security provided for in connection with the corresponding Series of Notes. The Company may also prepay a Loan if it is required to indemnify the Issuer in respect of certain increased costs to the Issuer (as may be set forth in the relevant Loan Agreement). In the event that it becomes unlawful for the Issuer to allow a Loan to remain outstanding under the relevant Loan Agreement, to allow the corresponding Series of Notes to remain outstanding, to maintain or give effect to any of its obligations under the relevant Loan Agreement and/or to charge or receive or be paid interest at the rate then applicable to the relevant Loan, the Company may be required by the Issuer to prepay the relevant Loan in full. In case of any such prepayment, all outstanding Notes of such Series of Notes would be redeemable at par together with accrued interest.

There is no active trading market for the Notes

There may not be an existing market for the Notes at the time they are issued. Although each Series of Notes is expected to be listed on the Irish Stock Exchange and traded on the Main Securities Market, an active trading market in the Notes

may not develop or be maintained after listing. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes. In addition, Securities markets, in recent periods, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

Ratings of the Notes

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Where a Series of Notes is rated, the rating assigned to the Notes will be specified in the applicable Final Terms or Series Prospectus.

Changes to the credit ratings of Russia, the Company or the Programme may adversely affect the value of the Notes

Outstanding Eurobonds of Russia are rated “Ba1” by Moody’s, “BB+” by Standard & Poor’s and “BBB-” by Fitch. Series of Notes issued under this Programme may be rated or unrated. The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms or Series Prospectus, and if such Series of Notes is rated, it will be rated by Standard & Poor’s, Fitch and/or Moody’s, as indicated in such applicable Final Terms or Series Prospectus. During the course of 2014, international rating agencies Standard & Poor’s and Moody’s downgraded their foreign currency sovereign debt rating for the Russian Federation to “BBB” – and “Baa2”, respectively, with negative outlook. On 26 January 2015 Standard & Poor’s cut its long-term foreign currency sovereign bond rating for the Russian Federation to “BB+” with negative outlook, and on 20 February 2015 Moody’s cut its sovereign debt rating for the Russian Federation to “Ba1” with negative outlook; each of these ratings is below “investment grade”. On 22 April 2016 Moody’s affirmed its sovereign debt rating for the Russian Federation at “Ba1” with negative outlook. On 16 September 2016 Standard & Poor’s affirmed its sovereign debt rating for the Russian Federation at “BB+” and revised its outlook from negative to stable. On 12 January 2015 Fitch downgraded its foreign currency sovereign debt rating for the Russian Federation to “BBB-” with negative outlook. On 14 October 2016 Fitch affirmed its sovereign debt rating for the Russian Federation at “BBB-” and revised its outlook from negative to stable. A change in the credit rating of one or more other Russian corporate borrowers could also adversely affect the trading price of the Notes.

The foregoing credit ratings and any credit rating(s) set out in the applicable Final Terms or Series Prospectus do not mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. The significance of each rating should be analysed independently from any other rating. Any changes in the credit ratings of the Company or the Notes could adversely affect the value of the Notes and the price that a subsequent purchaser will be willing to pay for the Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or to the review by, or regulation of, certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments to it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited

Except in limited circumstances, the Notes will be issued only in global form with interests therein held through the facilities of Euroclear, Clearstream, Luxembourg and/or DTC. Ownership of beneficial interests in the Notes is shown on, and the transfer of that ownership is effected only through, records maintained by Euroclear, Clearstream, Luxembourg and/or DTC or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear, Clearstream, Luxembourg and/or DTC

can only act on behalf of their participants, which, in turn, act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear, Clearstream, Luxembourg and/or DTC systems may be impaired.

The United States federal income tax characterisation of the Notes is uncertain

No authority directly addresses the US federal income tax characterisation of securities like the Notes and the Issuer has not and will not seek a ruling from the US Internal Revenue Service (**IRS**) as to their characterisation for such purposes. Although the matter is not free from doubt, to the extent relevant for US federal income tax purposes, the Issuer intends to take the position that a beneficial owner of a Note will be treated for such purposes as the beneficial owner of a debt instrument that is not a contingent payment debt instrument. No assurance can be given that the IRS will not assert, or a court would not sustain, a position regarding the characterisation of the Notes that is contrary to this treatment. Alternative characterisations include treatment of the Notes as equity in the Issuer, as contingent payment debt instruments subject to special rules relating to accrual of original issue discount (**OID**) and contingent interest, or as other types of financial instruments. Prospective investors should seek advice from their own tax advisors as to the consequences to them of investing in the Notes, including their treatment for US federal income tax purposes.

Further notes of a Series of Notes issued in additional offerings by the Issuer may not be fungible for US federal income tax purposes with the Notes issued in the original offering of that Series of Notes

If the further notes of a Series of Notes are not fungible for US federal income tax purposes with the Notes issued in the original offering of that Series of Notes, US holders of those notes may be required to accrue OID (or a different amount of OID) on the further notes into income. In such case, because the further notes may not be distinguishable from the previously outstanding Notes, the market value of all of the Notes may be adversely affected. See “*Taxation—Certain US Federal Income Tax Considerations—Further Notes*”.

USE OF PROCEEDS

The gross proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to the Company. The gross proceeds of such Loan will be used by the Company for general corporate purposes unless otherwise specified in the relevant Loan Agreement. In connection with the receipt of such Loan, the Company will pay an arrangement fee, as reflected in the relevant Loan Agreement.

EXCHANGE RATE INFORMATION

The official currency of Russia, where the majority of the Group's assets are located, is the Rouble. However, the Annual Financial Statements are reported in US dollars. As a result, fluctuations in the value of the Rouble against the US dollar may affect these results when translated into US dollars. See *“Risk Factors—Risk Factors Relating to the Group and the Steel and Mining Industries— Significant depreciation or appreciation of the Rouble and fluctuations in foreign currency exchange rates may materially adversely affect the Group's results of operations”*, and *“Operating and Financial Review—Key Factors Affecting the Group's Financial Results—Exchange rate movements”*.

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Rouble and the US dollar, based on the official exchange rate quoted by the CBR. Fluctuations in the exchange rates between the Rouble and the US dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Annual Financial Statements and other information presented in this Base Prospectus.

Year ended 31 December	RUB per US\$1.00			
	High	Low	Period average ⁽¹⁾	Period end
2011	32.68	27.26	29.38	32.20
2012	34.04	28.95	31.09	30.37
2013	33.47	29.93	31.85	32.73
2014	67.79	32.66	38.40	56.26
2015	72.88	49.18	60.92	72.88
2016	83.59	60.27	67.02	60.66
January 2017	60.66	59.15	59.96	60.16
February 2017 (through 8 February 2017)	60.31	58.71	59.53	59.19

(1) The average is calculated as a geometric average in respect of each day during relevant period.

No representation is made that the rouble amounts referred to in this Base Prospectus could have been or could be converted into US dollars at the above exchange rates or at any other rate.

CAPITALISATION

The following table sets forth on a consolidated basis the Group's cash and cash equivalents, short-term debt finance and capitalisation as at 31 December 2016. Prospective investors should read this table in conjunction with "*Selected Consolidated Financial Information*", "*Operating and Financial Review*" and the Annual Financial Statements which are included in this Base Prospectus beginning on page F-2.

	As at 31 December 2016 Actual
	(US\$ millions)
Cash and cash equivalents	1,154
Short-term debt finance	673
Long-term debt finance	1,340
Equity	
Share capital	2,753
Treasury shares	(236)
Additional capital	296
Translation reserve	(2,246)
Retained earnings	2,450
Other reserves	9
Total equity attributable to shareholders of PAO Severstal	3,026
Non-controlling interests	15
Total equity	3,041
Total capitalisation⁽¹⁾	4,381

(1) Total capitalisation is the sum of long-term debt and total equity.

There has been no material change in the Group's total capitalisation since 31 December 2016 other than the offering of the convertible bonds by the Group as described in "*Recent Developments*".

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth, in summary form, the consolidated statements of financial position, the income statements and other information relating to the Group. Such information has been derived from the Annual Financial Statements of the Group prepared in accordance with IFRS. The Report of KPMG appear elsewhere in this Base Prospectus. The financial information presented below should be read in conjunction with the Annual Financial Statements, the Report of KPMG and “*Operating and Financial Review*”.

CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December		
	2016	2015 ⁽¹⁾	2014 ⁽¹⁾
(Amounts expressed in millions of US dollars, except as otherwise stated)			
Revenue			
Revenue — third parties	5,812	6,323	8,181
Revenue — related parties	104	73	115
	<u>5,916</u>	<u>6,396</u>	<u>8,296</u>
Cost of sales	(3,573)	(3,810)	(5,474)
Gross profit	2,343	2,586	2,822
General and administrative expenses	(279)	(290)	(419)
Distribution expenses	(462)	(518)	(683)
Other taxes and contributions	(54)	(68)	(96)
Share of associates’ and joint ventures’ gain/(loss)	14	(1)	(24)
	<u>(52)</u>	<u>(13)</u>	<u>(11)</u>
Loss on disposal of property, plant and equipment and intangible assets			
Net other operating income	7	7	13
Profit from operations	1,517	1,703	1,602
Impairment of non-current assets	(135)	(183)	(292)
Net other non-operating income/(expenses)	12	(51)	(102)
Profit before financing and taxation	1,394	1,469	1,208
Finance cost, net	(160)	(123)	(208)
Foreign exchange gain/(loss)	483	(624)	(1,806)
Profit/(loss) before income tax	1,717	722	(806)
Income tax (expense)/benefit	(97)	(160)	11
Profit/(loss) from continuing operations	1,620	562	(795)
Profit/(loss) from discontinued operation	-	41	(801)
Profit/(loss) for the period	1,620	603	(1,596)
Attributable to:			
shareholders of PAO Severstal	1,621	605	(1,595)
non-controlling interests	(1)	(2)	(1)
Basic and diluted weighted average number of shares outstanding during the period (millions of shares)	810.6	810.6	810.6
Basic and diluted earnings/(loss) per share (US dollars)	2.00	0.75	(1.97)
Basic and diluted earnings/(loss) per share - continuing operations (US dollars)	2.00	0.70	(0.98)
Basic and diluted earnings/(loss) per share - discontinued operation (US dollars)	-	0.05	(0.99)

(1) These amounts reflect adjustments made in connection with the change in classification of packaging expenses between cost of sales and distribution expenses.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
Assets			
Current assets:			
Cash and cash equivalents	1,154	1,647	1,897
Short-term financial investments	19	11	21
Trade accounts receivable	485	432	649
Accounts receivable from related parties	22	10	15
Restricted financial asset	1	2	-
Inventories	867	650	815
VAT recoverable	78	58	64
Income tax recoverable	14	36	29
Other current assets	86	91	122
Assets held for sale	82	-	-
Total current assets	2,808	2,937	3,612
Non-current assets:			
Long-term financial investments	231	53	86
Investments in associates and joint ventures	55	26	81
Property, plant and equipment	3,135	2,611	3,336
Intangible assets	221	225	377
Deferred tax assets	27	7	44
Other non-current assets	6	8	17
Total non-current assets	3,675	2,930	3,941
Total assets	6,483	5,867	7,553
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable	491	421	500
Accounts payable to related parties	15	9	16
Short-term debt finance	673	507	774
Income taxes payable	21	6	9
Other taxes and social security payable	95	77	100
Dividends payable	6	2	2
Other current liabilities	457	275	334
Liabilities related to assets held for sale	38	-	-
Total current liabilities	1,796	1,297	1,735
Non-current liabilities:			
Long-term debt finance	1,340	1,945	2,654
Deferred tax liabilities	115	141	120
Retirement benefit liabilities	67	53	48
Other non-current liabilities	124	163	169
Total non-current liabilities	1,646	2,302	2,991
Equity:			
Share capital	2,753	2,753	2,753
Treasury shares	(236)	(236)	(236)
Additional capital	296	296	313
Translation reserve	(2,246)	(2,318)	(1,974)
Retained earnings	2,450	1,758	1,954
Other reserves	9	-	-
Total equity attributable to shareholders of PAO Severstal	3,026	2,253	2,810
Non-controlling interests	15	15	17
Total equity	3,041	2,268	2,827
Total equity and liabilities	6,483	5,867	7,553

SUMMARY CASH FLOW DATA

	Year ended 31 December		
	2016	2015	2014
	(Amounts expressed in millions of US dollars, except as otherwise stated)		
Net cash from operating activities - continuing operations.....	1,477	1,867	1,930
Net cash (used in)/from operating activities - discontinued operation	-	(14)	108
Net cash from operating activities	1,477	1,853	2,038
Net cash (used in)/from investing activities - continuing operations	(663)	(304)	1,297
Net cash used in investing activities - discontinued operation	-	-	(95)
Net cash (used in)/from investing activities	(663)	(304)	1,202
Net cash used in financing activities - continuing operations	(1,329)	(1,702)	(1,684)
Net cash used in financing activities - discontinued operation	-	-	(367)
Net cash used in financing activities.....	(1,329)	(1,702)	(2,051)

OPERATING AND FINANCIAL REVIEW

The following is a discussion of the Group's financial condition and results of operations as at and for the years ended 31 December 2016, 2015 and 2014, and of the material factors that the Group believes are likely to affect its financial condition and results of operations. You should read this section in conjunction with the Annual Financial Statements included in this Base Prospectus beginning on page F-2. The Annual Financial Statements have been prepared in accordance with IFRS.

In addition, the following discussion contains certain forward-looking statements that reflect the Group's plans, estimates and beliefs. The Group's actual results may differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Base Prospectus, including "Risk Factors" and "Forward-Looking Statements".

Overview of the Group

The Group is a vertically-integrated steel and steel-related mining company that sells high quality metal and mining products to customers across the world. In 2016, the Group's total output of crude steel was 11.6 million tonnes. The Group operates a full production cycle which includes iron ore, coal, scrap collection, steel mills and rolled product plants, downstream production and distribution businesses. The Group's primary production facilities are located in Russia. With a focus on high value-added products in attractive niche markets, sales of which represented approximately 42 percent of the Group's total metal sales volume for 2016, the Group's corporate strategy is to become a global industry leader in terms of EBITDA and to sustain a leading position in terms of both profitability margins and return on investment as a vertically-integrated steel and steel-related mining company.

THE GROUP'S ANNUAL FINANCIAL STATEMENTS AND SCOPE OF CONSOLIDATION

The Annual Financial Statements have been prepared in accordance with IFRS as issued by the IASB, in effect at the time of the preparation of the Annual Financial Statements.

The Annual Financial Statements include the accounts of the Group's subsidiaries from the date that control effectively commenced until the date that control effectively ceased. Acquisitions of controlling interests in companies that were previously under the control of the Majority Shareholder of the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the Majority Shareholder. Acquisitions by the Majority Shareholder of additional interests in the acquired companies, after control over those companies has been obtained by the Majority Shareholder, are treated as if those additional interests were acquired by the Group. Intra Group balances, transactions, unrealised gains and losses arising from such transactions have been eliminated in the Annual Financial Statements.

The list of the Group's significant subsidiaries, associates and joint ventures with effective ownership interests as at 31 December 2016, 2015 and 2014 is included in the Annual Financial Statements.

Starting from 1 January 2016, the Group presented its Financial Statements in millions of US dollars and for the years ended 31 December 2015, 2014 and 2013 the Group presented its Financial Statements in thousands of US dollars.

Segment Reporting for the Years Ended 31 December 2016, 2015 and 2014

As at 31 December 2016, the Group had two reportable segments, in accordance with IFRS 8 "Operating Segments" for the purposes of the Annual Financial Statements: Severstal Resources segment and Severstal Russian Steel segment. The Group sold the entire Severstal International business division in September 2014.

The discussion relating to the years ended 31 December 2016, 2015 and 2014 follows the reporting segment structure consistent with the Annual Financial Statements.

Severstal Resources segment

The Severstal Resources segment's operations include: iron ore production and coal production. Severstal Resources forms the basis of the Group's balanced and vertically-integrated business model. Severstal Resources' overall production volumes are able to satisfy all of the iron ore requirements and approximately 70 percent of coking coal requirements of Severstal Russian Steel, without taking into account the chemical features of the particular iron or coal ore mix required.

Severstal Russian Steel segment

The Severstal Russian Steel segment 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 from steel production facilities located in the Russian Federation. It sells steel products on 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.

As at 31 December 2016, Redaelli Tecna S.p.A., an Italian steel company and a subsidiary of the Group included in the Severstal Russian Steel reporting segment, was classified as assets held for sale in the Annual Financial Statements following the decision to sell the entire 100.0 percent stake to a third party.

Severstal International (discontinued)

In September 2014, the Group sold its 100.0 percent stakes in Severstal Dearborn LLC and Severstal Columbus LLC comprising, together with their subsidiaries and investments in joint ventures and associates, the Severstal International reporting segment.

KEY FACTORS AFFECTING THE GROUP'S FINANCIAL RESULTS

The Group's results are affected by a variety of factors, including, but not limited to, the following:

Discontinued operation and assets held for sale

Discontinued operation is disclosed when a component of the Group has either been disposed of during the reporting period or is classified as held for sale at the reporting date and represents a separate major line of business or geographical area of operations. A discontinued operation is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification.

The Group's 100.0 percent stakes in Severstal Dearborn LLC and Severstal Columbus LLC which, together with their subsidiaries and investments in joint ventures and associates comprised the Severstal International reporting segment, were sold in September 2014.

For periods covered in the Annual Financial Statements, the Group's discontinued operation represents the Severstal International reporting segment, following the management's decision to dispose of this business. Redaelli Tecna S.p.A. was classified as assets held for sale as at 31 December 2016 following the management's decision to sell this business within 12 months after the reporting date.

Demand and price for steel in the markets in which the Group operates

The majority of the Group's operations are, or were in the periods under review, based in Russia, the United States and the EU. As a result, macroeconomic trends in these regions and region specific factors significantly influence the Group's performance. As a vertically-integrated producer, the Group's results of operations are generally adversely affected by lower prices for raw materials and steel, and positively affected by increases in prices of these products. Weaker economic conditions generally result in declining demand for steel and raw materials used in steel production and result in lower prices of these commodities.

The demand for steel products and global steel production capacity has been strongly influenced by the developing world, particularly China, as well as India and other emerging markets. Further, for the year ended 31 December 2016, 64.3 percent of the Group's total revenues came from sales to Russian customers. As the result, any significant declines in the Russian economy, depreciation of the Rouble and other economic conditions have an adverse effect on the Group's financial results.

The global economic downturn which began in 2008 resulted in a deceleration in steel demand and a decline in steel prices, and steel prices are still below 2008 levels. In 2014, the economies around the world grew slowly or stagnated. In 2014 Russia's GDP growth rate slowed to 0.6 percent. As a result, the Group's revenues in 2014 fell reflecting the economic decline or reduced growth rates in markets such as Russia, the EU and China. The continuing adverse global economic conditions, overcapacity in the steel industry, significant decline in raw materials prices and substantially higher levels of Chinese exports of steel, together with a substantial decline in China's rate of growth, led to a decline in steel prices in 2015. In 2015, Russia's GDP declined by 2.8 percent and domestic finished steel consumption fell by 8 percent, decreasing by 14 percent in the long steel sector and by 5 percent in the flat steel sector (although the decline

was partially offset by a growing demand for steel used in pipes). The above developments had a negative effect on the Group's revenues in 2015.

In 2016, Russian steel domestic and export prices followed the dynamics of Chinese steel product benchmarks. Severstal Russian Steel's average selling prices were substantially lower in 2016 compared to 2015 mainly due to weaker demand in the first calendar quarter of 2016. A recovery in steel prices began in the second calendar quarter of 2016. There were two spikes in steel prices during the course of 2016. The first one occurred in the second calendar quarter of 2016 as a result of the Chinese government's measures to support the construction industry and positive expectations regarding an improvement in the supply and demand balance. China announced plans to cut its steel production capacity by 100 to 150 million tonnes over the next five years to reduce the size of its steel industry and reduce a long-term capacity excess. The second peak occurred in the fourth calendar quarter of 2016 due to an increase in raw material prices (coking coal prices increased significantly due to supply disruptions and production restrictions in China) and solid steel demand which led to an expansion of the spread between steel and raw material prices. Moreover, capacity cuts in China and pollution control initiatives further improved the outlook for the steel supply and demand balance. The recovery in steel prices that began in the second quarter of 2016 was not able to fully compensate the decreased demand for steel products in Russia throughout 2016 and, as a result, the Group's revenues were lower in 2016 as compared to 2015.

The following table sets forth certain information for Russia as at and for the dates indicated:

	Year ended 31 December		
	2014	2015	2016 ⁽²⁾
Russia			
GDP growth/decline ⁽¹⁾	0.6%	(2.8%)	(0.2%)
Percent change in consumer price index ⁽¹⁾	11.4	12.9	5.4

Source:

(1) Russian Federal State Statistics Service.

(2) Preliminary estimates of Russian Federal State Statistics Service.

Exchange rate movements

The majority of the Group's operations are based in Russia and Europe. The functional currency is determined separately for each of the Group's entities. For all of the Group's Russian entities, the majority of costs and significant portion of revenues are denominated in roubles, and accordingly, their functional currency is the Rouble.

Transactions in foreign currencies are translated to the functional currency of each entity at the foreign exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency of each entity at the foreign exchange rate as at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity at the foreign exchange rate as at the date of the transaction. Foreign exchange gains and losses arising on translation are recognised in the income statement.

Within Russia, official exchange rates are determined daily by the CBR. Market rates may differ from the official rates although these differences are generally within narrow ranges. However, any conversion of rouble amounts into US dollars should not be construed as a representation that rouble amounts have been, could be or will in the future be, convertible into US dollars at the exchange rates used, or at any other exchange rate.

In late 2014, the Rouble depreciated significantly against the US dollar (Rouble having depreciated by 71.9 percent from RUB32.73 per US\$1.00 as at 31 December 2013 to RUB56.26 per US\$1.00 as at 31 December 2014). In 2015, the Rouble continued to depreciate against the US dollar (Rouble having depreciated by 29.5 percent from RUB56.26 per US\$1.00 as at 31 December 2014 to RUB72.88 per US\$1.00 as at 31 December 2015). In 2016, the Rouble / US\$ exchange rate was very volatile, reaching RUB60.66 as at 31 December 2016 but strengthened by 16.8 percent from 31 December 2015.

The Group's results are impacted by the movements of the currencies in which it incurs costs against the US dollar. The depreciation of the Rouble against the US dollar contributed to a general decrease in costs (in US dollar terms) throughout the period under review. See also *"Exchange Rate Information"*, *"Quantitative and Qualitative Disclosure on Market risk—Currency risk"* and *"Risk Factors—Risk Factors relating to the Group and the Steel and Mining Industries—Significant depreciation or appreciation of the Rouble and fluctuations in foreign currency exchange rates may materially adversely affect the Group's results of operations"*.

Costs

The Group's cost of production is principally affected by prices of raw materials used in steelmaking, energy costs, transportation costs and labour costs.

The Group requires substantial amounts of raw materials in the steel production process, in particular iron ore, coal and scrap. In furtherance of the Group's vertical integration strategy, it has consolidated Severstal Resources primarily to secure a supply of iron ore and coking coal concentrate at competitive market rates and, to a significant extent, largely to insulate it, on a consolidated basis, from the impact of increases in prices of iron ore and coal. Management believes that cost competitiveness in every region where the Group produces steel is a vital element to strengthen the Group's position over the cycle and industry leading margins. The Group, however, continues to rely on external suppliers for a number of its raw materials.

In addition, the Group's operations require substantial amounts of other raw materials, including various types of limestone, alloys, refractories, oxygen, fuel and gas, the price and availability of which are also subject to market conditions.

The Group also consumes large volumes of electricity and natural gas, which are largely supplied to Severstal Russian Steel and Severstal Resources by monopoly providers in Russia. In recent years the natural gas and electricity tariffs in Russia have been steadily increasing, and the Group does not expect this trend to change. Severstal Russian Steel's electricity, gas (including natural gas) and other energy costs accounted for approximately 10.1 percent of Severstal Russian Steel's cost of sales in the year ended 31 December 2015, and 9.9 percent in the year ended 31 December 2016. Severstal Resources' electricity, gasoline and other energy costs accounted for approximately 23.2 percent of Severstal Resources' cost of sales in the year ended 31 December 2015, and 22.8 percent in the year ended 31 December 2016. The rates of increase may be higher than the rates at which the Group is able to increase its steel prices. In addition, competition in the railway transport industry in Russia is limited and the Group is, in part, dependent on the monopoly railway service provider for delivery of both raw materials and products. The Russian monopoly railway service providers regularly increase tariffs for their services at a rate that may be higher than the rate at which the Group is able to increase the price of its steel products.

Furthermore, the depreciation of the Rouble against the US dollar has resulted in some of the Group's costs, such as labour costs, to decrease in US dollar terms throughout the period under review.

Recent Developments

Since 31 December 2016, the following significant developments have occurred:

- In January 2017, the Group entered into a definitive agreement to sell to a third party 100 percent of the shares in Redaelli Tecna S.p.A., an Italian steel company, included in the Severstal Russian Steel reporting segment. The preliminary cash consideration receivable by the Group under this sale agreement amounts to EUR50 million (US\$53 million at the transaction exchange rate date), subject to certain adjustments upon the deal closure. The expected loss on the disposal has been preliminary estimated at the amount of US\$30 million and recognised in the Annual Financial Statements as impairment of goodwill and property, plant and equipment in the amount of US\$25 million and US\$5 million, respectively. Completion of the transaction is expected in the first half of 2017, subject to receipt of applicable regulatory approvals and other closing conditions agreed between the parties.
- On 9 February 2017, the Company has announced that it has priced an offering of U.S.\$250 million principal amount of senior unsecured convertible bonds due 2022, issued by Abigrove Limited, a wholly-owned subsidiary of the Company, and guaranteed by the Company. The Bonds will not pay any coupon (zero-coupon). Subject to a cash settlement option at the discretion of the issuer of the bonds, the bonds are convertible into the GDRs of the Company listed on the London Stock Exchange. The initial conversion price has been set at U.S.\$20.33 per GDR, representing a conversion premium of 35 percent above the reference price of U.S.\$15.06 (being the volume weighted average price of a GDR between launch and pricing of the Bonds on 9 February 2017). Holders of these convertible bonds will have the option to require an early redemption of the convertible bonds held by them on the third anniversary of the issue date, at their principal amount. Settlement of the convertible bond offering is

expected to occur on or around 16 February 2017. The net proceeds of the issue will be used for the general corporate purposes of Severstal.

OPERATIONAL OUTLOOK

Since 31 December 2016, the Group has continued to perform generally in line with management's expectations.

According to the World Bank, global GDP growth is estimated to reach 2.7 percent in 2017 compared to an estimated 2.3 percent in 2016, which reflects a recovery in emerging market and developing economies. According to Worldsteel, steel consumption is expected to increase slightly in 2017, driven mainly by emerging countries while demand in China is forecast to decline. The World Bank's latest economic outlook for Russia projects real GDP to increase by 1.5 percent in 2017.

Average raw material and steel prices are expected to increase in 2017 compared to the average level in 2016 mainly due to a Chinese initiative to cut capacity, relatively elevated steel production and consumption and consequently an improved supply demand balance. The global steelmaking utilisation rate is expected to be above 70 percent in 2017 representing a slight increase compared to 2016.

According to Metal Expert, Russian steel consumption is expected to recover in 2017 by approximately 2.0 percent driven by stabilization in oil prices, an improvement in the rouble exchange rate and the Russian economy in general. Domestic steel prices in 2017 are expected to be higher than in 2016 reflecting global trends in steel and raw materials pricing. The Group's capital expenditures continue to be generally in line with the Group's capital expenditure programme.

DESCRIPTION OF THE GROUP'S INCOME STATEMENT LINE ITEMS

The following discussion provides a description of the composition of the principal line items on the Group's income statement for the periods presented.

Revenue

The Group generates revenue primarily through the manufacture and sale of a wide range of iron and steel products: cold-rolled sheet, colour-coated sheet, metalware products, large diameters pipes, long products, hot-rolled strip and plate, pellets and iron ore, large group of coke products and by-products and sale of other raw materials.

Cost of sales

Cost of sales includes raw materials, consumables, energy costs, repair and maintenance expenses, labour costs and taxes on labour costs, services and the majority of depreciation and amortisation charges.

Gross profit

Gross profit represents the Group's total revenue less cost of sales. Gross margin is gross profit divided by revenue.

General and administrative expenses

General and administrative expenses consist of a wide range of administrative costs and the cost of general management and related depreciation and amortisation. General and administrative expenses primarily include labour costs and taxes on labour costs, IT expenses, consulting services, insurance expenses and security expenses.

Distribution expenses

Distribution expenses consist primarily of expenses related to selling activities of the Group. Distribution expenses include transportation expenses, freight, commercial credit insurance, depreciation of assets related to selling activities and other distribution expenses.

Other taxes and contributions

Other taxes and contributions consist of taxes other than income tax. Primarily indirect taxes and contributions include extraction taxes on the extracted coal and iron ore concentrate and property tax payable on property, plant and equipment used in operations.

Share of associates' and joint ventures' gain/(loss)

Associates are those enterprises in which the Group has significant influence, but does not have control over the financial and operating policies.

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Annual Financial Statements include the Group's share of the total recognised gains and losses of associates and joint ventures accounted for on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the carrying amount of the associate and joint venture, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate and joint venture. Where a Group entity transacts with an associate and joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate or joint venture; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Loss on disposal of property, plant and equipment and intangible assets

Loss on disposals of property, plant and equipment and intangible assets arises when the derecognition of an item of property, plant and equipment and intangible assets occurs and the loss is calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Net other operating income

Net other operating income consist primarily of gain/(loss) from the sale of inventory, cost of restructuring and reduction of staff, fines and penalties for breach of contracts and changes in provision for contingencies.

Profit from operations

Profit from operations is calculated by subtracting net operating expenses from gross profit.

Impairment of non-current assets

The carrying amounts of the Group's non-current assets are reviewed annually to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

Net other non-operating income/(expenses)

Net other non-operating income/(expenses) consist primarily of social expenditure, charitable donations and loss on disposal of subsidiaries.

Profit before financing and taxation

Profit before financing and taxation is calculated by subtracting net non-operating expenses from profit from operations.

Finance costs, net

Finance cost comprises interest income, interest expense, including amortisation of transaction costs, gain/(loss) on remeasurement and disposal of financial investments and other finance costs. Interest income consists primarily of interest earned on bank deposits and originated loans. Interest expense consists primarily of interest accrued on the Group's borrowings (including public debt presented by bonds and private debt consisting of bank borrowings, finance leases and loans from related parties), interest expense on pension liability and expense on dismantlement provisions. Gain/(loss) on remeasurement and disposal of financial investments comprises dividend income (except for dividends from equity associates and joint ventures), realised and unrealised gains on financial assets at fair value through profit or loss, realised gains and impairment losses on available-for-sale and held-to-maturity investments. Other finance costs include costs incurred for bank operating services and other related charges.

Foreign exchange gain/(loss)

Foreign exchange gain/(loss) arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in the income statement in the period in which they arise.

Profit/(loss) before income tax

Profit/(loss) before income tax is profit before financing and taxation adjusted by finance cost and foreign exchange gain/(loss).

Income tax (expense)/benefit

Taxes on income include current income taxes, deferred income taxes and corrections to prior years' current tax charges. Current income taxes include all domestic and foreign income taxes which are calculated in accordance with the rules established by the taxation authorities in the jurisdictions in which the Group operates. Deferred income taxes reflect the temporary differences between the carrying values of assets and liabilities and their respective tax bases, as well as unused tax loss and tax credit carry-forwards, on which deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which those assets can be utilised. The Group's overall income tax rate varies due to different tax rates in jurisdictions where the Group conducts business, the proportion of income earned in each such jurisdiction and the varying tax treatment of costs and expenses.

Profit/(loss) from continuing operations

Profit/(loss) from continuing operations is profit/(loss) before income tax less income tax (expense)/benefit.

Profit/(loss) for the period

Profit/(loss) for the period is calculated by adding profit or subtracting loss from discontinued operation to profit/(loss) from continuing operations.

RESULTS OF OPERATIONS

For the years ended 31 December 2015 and 2016

The following discussion is based on, and should be read in conjunction with, the Group's Annual Financial Statements, included in this Base Prospectus beginning on page F-2.

The following table sets forth the Group's consolidated income statements for the years ended 31 December 2015 and 2016:

	Year ended 31 December		Year on year change	Year on year percent change
	2015	2016		
	(US\$ millions)			
Revenue				
Revenue—third parties	6,323	5,812	(511)	(8)%
Revenue—related parties	73	104	31	42%
	6,396	5,916	(480)	(8)%
Cost of sales	(3,810)	(3,573)	237	(6)%
Gross profit	2,586	2,343	(243)	(9)%
General and administrative expenses	(290)	(279)	11	(4)%
Distribution expenses	(518)	(462)	56	(11)%
Other taxes and contributions	(68)	(54)	14	(21)%
Share of associates' and joint ventures' (loss)/profit	(1)	14	15	-
Loss on disposal of property, plant and equipment and intangible assets	(13)	(52)	(39)	-
Net other operating income	7	7	-	-
Profit from operations	1,703	1,517	(186)	(11)%
Impairment of non-current assets	(183)	(135)	48	(26)%
Net other non-operating (expenses)/income	(51)	12	63	(124)%
Profit before financing and taxation	1,469	1,394	(75)	(5)%
Finance costs, net	(123)	(160)	(37)	30%
Foreign exchange (loss)/gain	(624)	483	1,107	(177)%

Profit before income tax	722	1,717	995	138%
Income tax expense	(160)	(97)	63	(39)%
Profit from continuing operations	562	1,620	1,058	188%
Profit from discontinued operation	41	-	(41)	(100)%
Profit for the year	603	1,620	1,017	169%

Revenue

The Group's consolidated revenue decreased by US\$480 million, or 8 percent, from US\$6,396 million in the year ended 31 December 2015 to US\$5,916 million in the year ended 31 December 2016. This decrease was primarily due to a US\$410 million decrease in revenue of the Severstal Russian Steel segment and a US\$86 million decrease in revenue of the Severstal Resources segment. The decrease in revenue was partially offset by a US\$16 million decrease in intersegment revenue. Changes in the prices of the Group's various products were generally consistent with the prevailing market trends.

The Group's revenue from related parties increased by US\$31 million, or 42 percent, from US\$73 million in the year ended 31 December 2015 to US\$104 million in the year ended 31 December 2016. See "Related Party Transactions".

Revenue by product

The following table sets forth the Group's revenue by product for the years ended 31 December 2015 and 2016:

	Year ended 31 December		Year on year change	Year on year percent change
	2015	2016		
	(US\$ millions)			
Hot-rolled strip and plate	1,799	1,784	(15)	(1)%
Large diameter pipes	697	459	(238)	(34)%
Cold-rolled sheet	595	451	(144)	(24)%
Metalware products	496	488	(8)	(2)%
Shipping and handling costs billed to customers	468	419	(49)	(10)%
Long products	433	477	44	10%
Other tubes and pipes, formed shapes	387	372	(15)	(4)%
Galvanised and other metallic coated sheet ⁽¹⁾	348	322	(26)	(7)%
Colour-coated sheet	313	298	(15)	(5)%
Pellets and iron ore	301	312	11	4%
Coal and coking coal concentrate	175	105	(70)	(40)%
Semi-finished products	142	210	68	48%
Scrap	4	8	4	100%
Others	238	211	(27)	(11)%
Revenue	6,396	5,916	(480)	(8)%

(1) Hereinafter referred to as galvanised sheet.

Revenue by delivery destination

The following table sets forth the Group's consolidated revenue by delivery destination for the years ended 31 December 2015 and 2016:

	Year ended 31 December		Year on year change	Year on year percent change
	2015	2016		
	(US\$ millions)			
Russian Federation	4,195	3,805	(390)	(9)%
Europe	1,149	1,174	25	2%
CIS	408	299	(109)	(27)%
The Middle East	316	336	20	6%
China and Central Asia	104	56	(48)	(46)%
Central and South America	85	81	(4)	(5)%
Africa	76	88	12	16%

North America	53	19	(34)	(64)%
South-East Asia	10	58	48	480%
Revenue	6,396	5,916	(480)	(8)%

Revenue by segment

The following table sets forth the Group's revenue by segment for the years ended 31 December 2015 and 2016:

	Year ended 31 December		Year on year change	Year on year percent change
	2015	2016		
	(US\$ millions)			
Severstal Resources	1,240	1,154	(86)	(7)%
Severstal Russian Steel	5,836	5,426	(410)	(7)%
Intersegment transactions	(680)	(664)	16	(2)%
Revenue	6,396	5,916	(480)	(8)%

Severstal Resources segment

The Severstal Resources segment's revenue decreased by US\$86 million, or 7 percent, from US\$1,240 million in the year ended 31 December 2015 to US\$1,154 million in the year ended 31 December 2016. Included in these amounts are intersegment revenue, primarily to the Severstal Russian Steel segment, of US\$618 million in the year ended 31 December 2015 and US\$609 million in the year ended 31 December 2016. Excluding intersegment revenue, revenue of the Severstal Resources segment decreased by US\$77 million, or 12 percent, from US\$622 million in the year ended 31 December 2015 to US\$545 million in the year ended 31 December 2016.

The decrease was primarily due to a decrease in revenue by volume and a decrease in the average price per tonne in US dollar terms.

Set forth below is a discussion of the revenue, excluding intersegment revenue, of the Severstal Resources segment by product:

Pellets and iron ore. Revenue from pellets and iron ore sales increased by US\$11 million, or 4 percent, from US\$301 million in the year ended 31 December 2015 to US\$312 million in the year ended 31 December 2016. The increase was primarily due to an increase in the average price per tonne in US dollar terms.

Coal and coking coal concentrate. Revenue from coal and coking coal concentrate sales decreased by US\$70 million, or 40 percent, from US\$175 million in the year ended 31 December 2015 to US\$105 million in the year ended 31 December 2016. This decrease was primarily due to a decrease in revenue by volume to Russia and a decrease in the average price per tonne in US dollar terms.

Severstal Russian Steel segment

The Severstal Russian Steel segment's revenue decreased by US\$410 million, or 7 percent, from US\$5,836 million in the year ended 31 December 2015 to US\$5,426 million in the year ended 31 December 2016. Included in the above amounts are intersegment revenue of US\$62 million in the year ended 31 December 2015 and US\$55 million in the year ended 31 December 2016. The decrease in revenue for this segment was primarily due to a decrease in the average price per tonne in US dollar terms and a decrease in revenue by volume as described below.

Set forth below is a discussion of the revenue, excluding intersegment revenue, of the Russian Steel segment by product:

Hot-rolled strip and plate. Revenue from hot-rolled strip and plate sales decreased by US\$15 million, or 1 percent, from US\$1,799 million in the year ended 31 December 2015 to US\$1,784 million in the year ended 31 December 2016. The decrease was primarily due to a decrease in the average price per tonne in US dollar terms.

Large diameter pipes. Revenue from large diameter pipes sales decreased by US\$238 million, or 34 percent, from US\$697 million in the year ended 31 December 2015 to US\$459 million in the year ended 31 December 2016. This decrease was primarily due to a decrease in revenue by volume and a decrease in the average price per tonne in US dollar terms.

Cold-rolled sheet. Revenue from cold-rolled sheet sales decreased by US\$144 million, or 24 percent, from US\$595 million in the year ended 31 December 2015 to US\$451 million in the year ended 31 December 2016. This

decrease was primarily due to a decrease in production volumes and a corresponding decrease in sales volumes as a result of the main production equipment refurbishment.

Metalware products. Revenue from metalware products sales decreased by US\$8 million, or 2 percent, from US\$496 million in the year ended 31 December 2015 to US\$488 million in the year ended 31 December 2016. The decrease was primarily due to a decrease in the average price per tonne in US dollar terms, which was partially offset by an increase in revenue by volume to export markets.

Long products. Revenue from long products sales increased by US\$44 million, or 10 percent, from US\$433 million in the year ended 31 December 2015 to US\$477 million in the year ended 31 December 2016. This increase was primarily due to an increase in revenue by volume.

Other tubes and pipes. Revenue from other tubes and pipes sales decreased by US\$15 million, or 4 percent, from US\$387 million in the year ended 31 December 2015 to US\$372 million in the year ended 31 December 2016. The decrease was primarily due to the market-driven decrease in the average price per tonne in US dollar terms.

Galvanised sheet. Revenue from galvanised sheet sales decreased by US\$26 million, or 7 percent, from US\$348 million in the year ended 31 December 2015 to US\$322 million in the year ended 31 December 2016. The decrease was primarily due to a decrease in revenue by volume, which was partially offset by an increase in the average price per tonne in US dollar terms.

Colour-coated sheet. Revenue from colour-coated sheet sales decreased by US\$15 million, or 5 percent, from US\$313 million in the year ended 31 December 2015 to US\$298 million in the year ended 31 December 2016. The decrease was primarily due decrease in revenue by volume, which was partially offset by an increase in the average price per tonne in US dollar terms.

Semi-finished products. Revenue from semi-finished products sales increased by US\$68 million, or 48 percent, from US\$142 million in the year ended 31 December 2015 to US\$210 million in the year ended 31 December 2016. This increase was primarily due to an increase in revenue by volume.

Revenue by delivery destination

A decrease of revenue by delivery destination to Russia, CIS, China and Central Asia, Central and South America and North America in the year ended 31 December 2016 compared to the year ended 31 December 2015 was primarily due to a decrease in sales volumes and due to a decrease in the average price per tonne in US dollar terms.

Cost of sales

The Group's cost of sales decreased by US\$237 million, or 6 percent, from US\$3,810 million in the year ended 31 December 2015 to US\$3,573 million in the year ended 31 December 2016. This decrease was primarily due to a US\$216 million decrease in cost of sales of the Severstal Russian Steel segment and a US\$69 million decrease in the Severstal Resources segment, partially offset by a US\$48 million decrease in intersegment transactions.

Cost of sales by segment

The following table sets forth the Group's cost of sales by segment for the years ended 31 December 2015 and 2016:

	Year ended 31 December		Year on year change	Year on year percent change
	2015	2016		
	(US\$ millions)			
Severstal Resources segment.....	(758)	(689)	69	(9)%
Severstal Russian Steel segment	(3,703)	(3,487)	216	(6)%
Intersegment transactions	651	603	(48)	(7)%
Cost of sales	(3,810)	(3,573)	237	(6)%

Severstal Resources segment

The Severstal Resources segment's cost of sales decreased by US\$69 million, or 9 percent, from US\$758 million in the year ended 31 December 2015 to US\$689 million in the year ended 31 December 2016. This decrease was primarily due to a US\$25 million decrease in depreciation and amortisation expense, a US\$19 million decrease in fuel and energy expense and a US\$20 million decrease in labour and related tax expense.

Depreciation and amortisation expense. The decrease in depreciation and amortisation expense was due to a decrease in the depreciation charge in US dollar terms and due to the impairment of Olkon's non-current assets.

Fuel and energy expense. The decrease in fuel and energy expense was due to a decrease in the average prices for fuel and energy in US dollar terms.

Labour and related tax expense. The decrease in labour and related tax expense was due to a decrease in the average wages of employees in US dollar terms.

Severstal Russian Steel segment

The Russian Steel segment's cost of sales decreased by US\$216 million, or 6 percent, from US\$3,703 million in the year ended 31 December 2015 to US\$3,487 million in the year ended 31 December 2016. The decrease was in line with a decrease in sales volumes and was primarily due to a US\$28 million decrease in fuel and energy expense, a US\$19 million decrease in raw materials expense, a US\$17 million decrease in labour and related tax expense and a US\$145 million increase in finished goods and work-in-progress balances.

Fuel and energy expense. A decrease in fuel and energy expense was due to a decrease in prices in US dollar terms.

Raw materials expense. A decrease in raw materials expense was due to a decrease in prices of coking coal and other raw materials used in steelmaking in US dollar terms.

Labour and related tax expense. The decrease in labour and related tax expense was due to a decrease in the average wages of employees in US dollar terms.

Finished goods and work-in-progress. An increase in finished goods and work-in-progress balances was primarily due to the decrease in sales volumes and was in line with inventory increase.

Profit from operations

Compared to the prior period, the Group's profit from operations decreased by US\$186 million from US\$1,703 million in the year ended 31 December 2015 to US\$1,517 million in the year ended 31 December 2016. The decrease was due to a US\$243 million decrease in gross profit, partially offset by a US\$57 million decrease in net operating expenses.

The decrease in net operating expenses was primarily due to a US\$56 million decrease in distribution expenses, a US\$11 million decrease in general and administrative expenses and a US\$14 million decrease in other taxes and contributions, partially offset by a US\$39 million increase in loss on disposal of property, plant and equipment and intangible assets.

The following table sets forth the Group's net operating expenses for the years ended 31 December 2015 and 2016:

	Year ended 31 December		Year on year change	Year on year percent change
	2015	2016		
	(US\$ millions)			
General and administrative expenses.....	(290)	(279)	11	(4)%
Distribution expenses.....	(518)	(462)	56	(11)%
Other taxes and contributions	(68)	(54)	14	(21)%
Share of associates' and joint ventures (loss)/profit.....	(1)	14	15	-
Loss on disposal of property, plant and equipment and intangible assets.....	(13)	(52)	(39)	-
Net other operating income.....	7	7	-	-
Net operating expenses	(883)	(826)	57	(6)%

Severstal Resource segment

The Severstal Resources segment's profit from operations decreased by US\$34 million, or 13 percent, from US\$269 million in the year ended 31 December 2015 to US\$235 million in the year ended 31 December 2016. The decrease in profit from operations was due to a US\$17 million decrease in gross profit, in addition to a US\$17 million increase in net operating expenses.

The increase in net operating expenses was primarily due to a US\$44 million increase in loss on disposal of property, plant and equipment and intangible assets, was mainly due to the write off of relevant property, plant and equipment of

the Severnaya mine as a result of the incident occurred in February 2016, partially offset by a US\$14 million decrease in distribution expenses, primarily driven by a decrease in shipments, and a US\$12 million decrease in general and administrative expenses primarily due to a decrease in the average salaries in US dollar terms.

Severstal Russian Steel segment

The Russian Steel segment's profit from operations decreased by US\$121 million, or 8 percent, from US\$1,432 million in the year ended 31 December 2015 to US\$1,311 million in the year ended 31 December 2016. The decrease in profit from operations was due to a US\$194 million decrease in gross profit, as a result of the factors described above, offset by a US\$73 million decrease in net operating expenses.

The decrease in the Severstal Russian Steel segment's net operating expenses was primarily due to a US\$42 million decrease in distribution expenses, primarily driven by a decrease in shipments, a US\$15 million increase in share of associates' and joint ventures' gain and a US\$10 million decrease in other taxes and contributions.

Profit before financing and taxation

Compared to the prior period, the Group's profit before financing and taxation decreased by US\$75 million, or 5 percent, in the year ended 31 December 2016. The decrease was due to a US\$186 million decrease in profit from operations and by a US\$111 million decrease in net non-operating expenses. The decrease in profit from operations was due to the factors described above.

The following table sets forth the Group's net non-operating expenses for the years ended 31 December 2015 and 2016:

	Year ended 31 December		Year on year change	Year on year percent change
	2015	2016		
	(US\$ millions)			
Impairment of non-current assets.....	(183)	(135)	48	(26)%
Net other non-operating (expenses)/income.....	(51)	12	63	(124)%
Net non-operating expenses.....	(234)	(123)	111	(47)%

Impairment of non-current assets

Compared to the prior period, the Group's impairment of non-current assets decreased by US\$48 million, or 26 percent, in the year ended 31 December 2016.

Impairment of non-current assets for the year ended 31 December 2016 consisted of a US\$12 million impairment loss accrued at the Vorkutaugol's Severnaya mine in relation to relevant property, plant and equipment as a result of the explosion that occurred in February 2016. Additionally, an impairment loss of US\$56 million and US\$28 million was recognised in 2016 in relation to specific items of property, plant and equipment and intangible assets, respectively.

Also in 2016 the Group recognised an impairment loss of US\$30 million in relation to non-current assets of Redaelli Tecna S.p.A. based on its fair value less costs to sell.

In the year ended 31 December 2015, the Group recognised an additional impairment loss of US\$100 million related to evaluation and exploration assets of Severstal Liberia Iron Ore Ltd ("SLIO"), reducing its carrying amount to US\$nil and recognised an impairment loss of US\$80 million related to the non-current assets of Olkon.

Net other non-operating (expenses)/income

In the year ended 31 December 2016, the Group had net other non-operating income of US\$12 million, compared to net other non-operating expenses of US\$51 million in the year ended 31 December 2015.

The change was mainly due to the recognised gain on disposal of subsidiaries of US\$52 million in relation to foreign exchange translation reserves of foreign subsidiaries, which were reclassified to profit or loss from other comprehensive income upon their disposals.

Profit for the period

The Group's profit increased by US\$1,017 million from US\$603 million in the year ended 31 December 2015 to US\$1,620 million in the year ended 31 December 2016. The increase was primarily due to a US\$1,070 million decrease

in net financing expenses and a US\$63 million decrease in income tax expense, which was partially offset by a US\$75 million decrease in profit before financing and taxation and a US\$41 million decrease in profit from discontinued operation from US\$41 million gain in the year ended 31 December 2015 to nil in the year ended 31 December 2016.

Net financing (expense)/income

In the year ended 31 December 2016, the Group had net financing income of US\$323 million, compared to net financing expenses of US\$747 million in the year ended 31 December 2015. The change was primarily due to a US\$1,107 million increase in foreign exchange gains.

The increase in net finance costs of US\$37 million was primarily due to the decrease in interest income by US\$38 million in the year ended 31 December 2016 compared to the year ended 31 December 2015.

Foreign exchange gain increased by US\$1,107 million in the year ended 31 December 2016 compared to the year ended 31 December 2015, primarily due to the fact that during 2016 the Rouble appreciated against the US dollar, while during 2015 the Rouble depreciated against the US dollar.

Income tax expense

Income tax expense decreased by US\$63 million, from US\$160 million in the year ended 31 December 2015 to US\$97 million in the year ended 31 December 2016. The decrease was primarily due the reassessment of recoverability of certain previously unrecognised deferred tax assets due to a more positive outlook.

For the years ended 31 December 2014 and 2015

The following discussion is based on, and should be read in conjunction with, the Group's Annual Financial Statements, included in this Base Prospectus beginning on page F-2.

The following table sets forth the Group's consolidated income statements for the years ended 31 December 2014 and 2015:

	Year ended 31 December		Year on year change	Year on year percent change
	2014	2015		
	(US\$ millions)			
Revenue				
Revenue—third parties	8,181	6,323	(1,858)	(23)%
Revenue—related parties	115	73	(42)	(37)%
	8,296	6,396	(1,900)	(23)%
Cost of sales	(5,474)	(3,810)	1,664	(30)%
Gross profit	2,822	2,586	(236)	(8)%
General and administrative expenses	(419)	(290)	129	(31)%
Distribution expenses	(683)	(518)	165	(24)%
Other taxes and contributions	(96)	(68)	28	(29)%
Share of associates' and joint ventures' loss	(24)	(1)	23	(96)%
Loss on disposal of property, plant and equipment and intangible assets	(11)	(13)	(2)	18%
Net other operating income	13	7	(6)	(46)%
Profit from operations	1,602	1,703	101	6%
Impairment of non-current assets	(292)	(183)	109	(37)%
Net other non-operating expenses	(102)	(51)	51	(50)%
Profit before financing and taxation	1,208	1,469	261	22%
Finance costs, net	(208)	(123)	85	(41)%
Foreign exchange loss	(1,806)	(624)	1,182	(65)%
(Loss)/profit before income tax	(806)	722	1,528	(190)%
Income tax benefit/(expense)	11	(160)	(171)	-
(Loss)/profit from continuing operations	(795)	562	1,357	(171)%
(Loss)/profit from discontinued operation	(801)	41	842	(105)%
(Loss)/profit for the year	(1,596)	603	2,199	(138)%

Revenue

The Group's consolidated revenue decreased by US\$1,900 million, or 23 percent, from US\$8,296 million in the year ended 31 December 2014 to US\$6,396 million in the year ended 31 December 2015. This decrease was primarily due to a US\$1,713 million decrease in revenue of the Severstal Russian Steel segment and a US\$610 million decrease in revenue of the Severstal Resources segment. The decrease in revenue was partially offset by a US\$423 million decrease in intersegment revenue. Changes in the prices of the Group's various products were generally consistent with the prevailing market trends.

The Group's revenue from related parties decreased by US\$42 million, or 37 percent, from US\$115 million in the year ended 31 December 2014 to US\$73 million in the year ended 31 December 2015. The Group's revenue from related parties comprised 1 percent of the Group's total revenue both in the year ended 31 December 2014 and in the year ended 31 December 2015. The decrease in revenue from related parties was mainly due to a decrease in revenue from AO Air Liquide Severstal by US\$15 million and Severstal-Gonvarri-Kaluga LLC by US\$9 million.

Revenue by product

The following table sets forth the Group's revenue by product for the years ended 31 December 2014 and 2015:

	Year ended 31 December		Year on year change	Year on year percent change
	2014	2015		
	(US\$ millions)			
Hot-rolled strip and plate	2,366	1,799	(567)	(24)%
Cold-rolled sheet	805	595	(210)	(26)%
Metalware products	664	496	(168)	(25)%
Shipping and handling costs billed to customers	633	468	(165)	(26)%
Long products	601	433	(168)	(28)%
Large diameter pipes	571	697	126	22%
Other tubes and pipes, formed shapes	553	387	(166)	(30)%
Pellets and iron ore	495	301	(194)	(39)%
Galvanised and other metallic coated sheet	435	348	(87)	(20)%
Colour-coated sheet	426	313	(113)	(27)%
Coal and coking coal concentrate	222	175	(47)	(21)%
Semi-finished products	171	142	(29)	(17)%
Scrap	11	4	(7)	(64)%
Others	343	238	(105)	(31)%
Revenue	8,296	6,396	(1,900)	(23)%

Revenue by delivery destination

The following table sets forth the Group's consolidated revenue by delivery destination for the years ended 31 December 2014 and 2015:

	Year ended 31 December		Year on year change	Year on year percent change
	2014	2015		
	(US\$ millions)			
Russian Federation	5,301	4,195	(1,106)	(21)%
Europe	1,445	1,149	(296)	(20)%
CIS	548	408	(140)	(26)%
North America	365	53	(312)	(85)%
The Middle East	254	316	62	24%
Central and South America	161	85	(76)	(47)%
Africa	87	76	(11)	(13)%
China and Central Asia	68	104	36	53%
South-East Asia	67	10	(57)	(85)%
Revenue	8,296	6,396	(1,900)	(23)%

Revenue by segment

The following table sets forth the Group's revenue by segment for the years ended 31 December 2014 and 2015:

	Year ended 31 December		Year on year change	Year on year percent change
	2014	2015		
	(US\$ millions)			
Severstal Resources	1,850	1,240	(610)	(33)%
Severstal Russian Steel	7,549	5,836	(1,713)	(23)%
Intersegment transactions	(1,103)	(680)	423	(38)%
Revenue	8,296	6,396	(1,900)	(23)%

Severstal Resources segment

The Severstal Resources segment's revenue decreased by US\$610 million, or 33 percent, from US\$1,850 million in the year ended 31 December 2014 to US\$1,240 million in the year ended 31 December 2015. Included in these amounts are intersegment revenue, primarily to the Russian Steel segment, of US\$928 million in the year ended 31 December 2014 and US\$618 million in the year ended 31 December 2015. Excluding intersegment revenue, revenue of the Severstal Resources segment decreased by US\$300 million, or 33 percent, from US\$922 million in the year ended 31 December 2014 to US\$622 million in the year ended 31 December 2015. The decrease was primarily due to the market-driven decrease in the average price per tonne in US dollar terms, which was partially offset by an increase in revenue by volume as described below.

Set forth below is a discussion of the revenue, excluding intersegment revenue, of the Severstal Resources segment by product:

Pellets and iron ore. Revenue from pellets and iron ore sales decreased by US\$194 million, or 39 percent, from US\$495 million in the year ended 31 December 2014 to US\$301 million in the year ended 31 December 2015. This decrease was primarily caused by a decrease in the average price per tonne in US dollar terms, which was partially offset by the increase in revenue by volume in the domestic market.

Coal and coking coal concentrate. Revenue from coal and coking coal concentrate sales decreased by US\$47 million, or 21 percent, from US\$222 million in the year ended 31 December 2014 to US\$175 million in the year ended 31 December 2015. The decrease was primarily due to a decrease in the average price per tonne in US dollar terms, which was partially offset by the increase in revenue by volume in the domestic market.

Severstal Russian Steel segment

The Severstal Russian Steel segment's revenue decreased by US\$1,713 million, or 23 percent, from US\$7,549 million in the year ended 31 December 2014 to US\$5,836 million in the year ended 31 December 2015. Included in the above amounts are intersegment revenue of US\$175 million in the year ended 31 December 2014 and US\$62 million in the year ended 31 December 2015. This decrease was primarily due to the macroeconomic trends that negatively affected the average price per tonne in US dollar terms for steel products.

Set forth below is a discussion of the revenue, excluding intersegment revenue, of the Russian Steel segment by product:

Hot-rolled strip and plate. Revenue from hot-rolled strip and plate sales decreased by US\$567 million, or 24 percent, from US\$2,366 million in the year ended 31 December 2014 to US\$1,799 million in the year ended 31 December 2015. The decrease was primarily due to the market-driven decrease in the average price per tonne in US dollar terms, which was partially offset by the increase in revenue by volume.

Cold-rolled sheet. Revenue from cold-rolled sheet sales decreased by US\$210 million, or 26 percent, from US\$805 million in the year ended 31 December 2014 to US\$595 million in the year ended 31 December 2015. The decrease was primarily due to the market-driven decrease in the average price per tonne in US dollar terms and due to a decrease in revenue by volume.

Metalware products. Revenue from metalware products sales decreased by US\$168 million, or 25 percent, from US\$664 million in the year ended 31 December 2014 to US\$496 million in the year ended 31 December 2015. The decrease was primarily due to the market-driven decrease in the average price per tonne in US dollar terms, and due to a decrease in revenue by volume.

Long products. Revenue from long products sales decreased by US\$168 million, or 28 percent, from US\$601 million in the year ended 31 December 2014 to US\$433 million in the year ended 31 December 2015. The decrease was primarily due to the market-driven decrease in the average price per tonne in US dollar terms, which was partially offset by the increase in revenue by volume due to the further expansion of Balakovo Mill production.

Large diameter pipes. Revenue from large diameter pipes sales increased by US\$126 million, or 22 percent, from US\$571 million in the year ended 31 December 2014 to US\$697 million in the year ended 31 December 2015. The increase was primarily due to the increase in revenue by volume, primarily in the domestic market-driven by the Group participation in the Power of Siberia pipeline project, which was partially offset by the market-driven decrease in the average price per tonne in US dollar terms.

Other tubes and pipes. Revenue from other tubes and pipes sales decreased by US\$166 million, or 30 percent, from US\$553 million in the year ended 31 December 2014 to US\$387 million in the year ended 31 December 2015. The decrease was primarily due to the market-driven decrease in the average price per tonne in US dollar terms and due to the decrease in revenue by volume.

Galvanised sheet. Revenue from galvanised sheet sales decreased by US\$87 million, or 20 percent, from US\$435 million in the year ended 31 December 2014 to US\$348 million in the year ended 31 December 2015. The decrease was primarily due to the market-driven decrease in the average price per tonne in US dollar terms, which was partially offset by an increase in revenue by volume.

Colour-coated sheet. Revenue from colour-coated sheet sales decreased by US\$113 million, or 27 percent, from US\$426 million in the year ended 31 December 2014 to US\$313 million in the year ended 31 December 2015. The decrease was primarily due to the market-driven decrease in the average price per tonne in US dollar terms and due to the decrease in revenue by volume.

Semi-finished products. Revenue from semi-finished products sales decreased by US\$29 million, or 17 percent, from US\$171 million in the year ended 31 December 2014 to US\$142 million in the year ended 31 December 2015. The decrease was primarily due to the market-driven decrease in the average price per tonne in US dollar terms, which was partially offset by an increase in revenue by volume.

Revenue by delivery destination

Changes in the regional sales structure resulted in a decrease in sales to Russia, Europe, CIS, North America, Central and South America, Africa, South-East Asia and an increase in sales to China and Central Asia and the Middle East in the year ended 31 December 2015, compared to the year ended 31 December 2014, mainly due to the market-driven changes of demand and the respective reallocation of sales from one region to another.

Cost of sales

The Group's cost of sales decreased by US\$1,664 million, or 30 percent, from US\$5,474 million in the year ended 31 December 2014 to US\$3,810 million in the year ended 31 December 2015.

Cost of sales by segment

The following table sets forth the Group's cost of sales by segment for the years ended 31 December 2014 and 2015:

	Year ended 31 December		Year on year change	Year on year percent change
	2014	2015		
	(US\$ millions)			
Severstal Resources	(1,201)	(758)	443	(37)%
Severstal Russian Steel	(5,338)	(3,703)	1,635	(31)%
Intersegment transactions	1,065	651	(414)	(39)%
Cost of Sales	(5,474)	(3,810)	1,664	(30)%

Severstal Resources segment

The Severstal Resources segment's cost of sales decreased by US\$443 million, or 37 percent, from US\$1,201 million in the year ended 31 December 2014 to US\$758 million in the year ended 31 December 2015. The decrease was primarily due to a US\$149 million decrease in labour costs and related tax expenses, a US\$113 million decrease in fuel and energy expenses, a US\$76 million decrease in depreciation expenses and a US\$67 million decrease in raw materials expenses.

Labour costs and related tax expenses. The decrease in labour costs and related tax expenses of US\$149 million was primarily due to a decrease in the average wages in US dollar terms, supplemented by a decrease in the average number of employees.

Fuel and energy expenses. The decrease in fuel and energy expenses of US\$113 million was due to a decrease in fuel and energy prices in US dollar terms, supplemented by ongoing cost-cutting initiatives and programmes.

Depreciation expenses. The decrease in depreciation expenses of US\$76 million was primarily due to a decrease in depreciation charge in US dollar terms as a result of the depreciation of the Rouble against the US dollar.

Raw materials expenses. The decrease in raw materials expenses of US\$67 million was mainly due to a decrease in prices for raw materials in US dollar terms.

Severstal Russian Steel segment

The Russian Steel segment's cost of sales decreased by US\$1,635 million, or 31 percent, from US\$5,338 million in the year ended 31 December 2014 to US\$3,703 million in the year ended 31 December 2015. The decrease was primarily due to a US\$1,080 million decrease in raw materials expense, a US\$198 million decrease in fuel and energy, a US\$219 million decrease in labour costs and related tax expenses and a US\$106 million decrease in depreciation expenses.

Raw materials expense. The decrease in raw materials expense of US\$1,080 million was mainly due to a decrease in prices in US dollar terms, supplemented by overall increase in production efficiency and implemented cost-cutting initiatives.

Fuel and energy expenses. The decrease in fuel and energy expenses of US\$198 million was due to a decrease in fuel and energy prices in US dollar terms.

Labour costs and related tax expenses. The decrease in labour costs and related tax expenses of US\$219 million was primarily due to a decrease in the average wages in US dollar terms, supplemented by a decrease in the average number of employees.

Depreciation expenses. The decrease in depreciation expenses of US\$106 million was primarily due to a decrease in depreciation charge in US dollar terms as a result of the Rouble depreciation against the US dollar.

Profit from operations

The Group's profit from operations increased by US\$101 million, or 6 percent, from US\$1,602 million in the year ended 31 December 2014 to US\$1,703 million in the year ended 31 December 2015. The increase was due to a US\$337 million decrease in net operating expenses, which was partially offset by a US\$236 million decrease in gross profit due to the factors described above.

The following table sets forth the Group's net operating expenses for the years ended 31 December 2014 and 2015:

	Year ended 31 December		Year on year change	Year on year percent change
	2014	2015		
	(US\$ millions)			
General and administrative expenses	(419)	(290)	129	(31)%
Distribution expenses.....	(683)	(518)	165	(24)%
Other taxes and contributions	(96)	(68)	28	(29)%
Share of associates' and joint ventures loss	(24)	(1)	23	(96)%
Loss on disposal of property, plant and equipment and intangible assets	(11)	(13)	(2)	18%
Net other operating income.....	13	7	(6)	(46)%
Net operating expenses	(1,220)	(883)	337	(28)%

Severstal Resource segment

The Severstal Resource segment's profit from operations decreased by US\$49 million from US\$318 million in the year ended 31 December 2014 to US\$269 million in the year ended 31 December 2015. The decrease in profit from operations was due to a US\$167 million decrease in gross profit, as a result of the factors described above, which was partially offset by a US\$118 million decrease in net operating expenses.

The decrease in the Severstal Resources segment's net operating expenses was primarily due to a US\$50 million decrease in general and administrative expenses and a US\$49 million decrease in distribution expenses.

The decrease in general and administrative expenses of US\$50 million was primarily due to a decrease in the average salaries of employees in US dollar terms, supplemented by a decrease in the average number of employees, which was partially offset by an increase in consulting services costs related to the implementation of Severstal business-system project at AO Vorkutaogol.

The decrease in distribution expenses by US\$49 million was primarily due to a decrease in shipping tariffs in US dollar terms.

Severstal Russian Steel segment

The Russian Steel segment's profit from operations increased by US\$169 million, or 13 percent, from US\$1,263 million in the year ended 31 December 2014 to US\$1,432 million in the year ended 31 December 2015. The increase in profit from operations was due to a US\$247 million decrease in net operating expenses, which was partially offset by a US\$78 million decrease in gross profit, as a result of the factors described above.

The decrease in the Russian Steel segment's net operating expenses was primarily due to a US\$113 million decrease in general and administrative expenses and a US\$116 million decrease in distribution expenses.

The decrease in general and administrative of US\$113 million was primarily due to a decrease in the average salaries of employees in US dollar terms, supplemented by a decrease in the average number of employees, which was partially offset by an increase in IT expenses related to an increase of Enterprise Resource Planning system (SAP) support and maintenance expenses, and by an increase in bad debt provision in respect of the Group's counterparty Stalinvest.

The decrease in distribution expenses by US\$116 million was primarily due to a decrease in shipping tariffs in US dollar terms, which was partially offset by an increase in shipment volumes.

Profit before financing and taxation

Compared to the prior period, the Group's profit before financing and taxation increased by US\$261 million, or 22 percent, in the year ended 31 December 2015. The increase was due to a US\$101 million increase in profit from operations and a US\$160 million decrease in net non-operating expenses. The increase in profit from operations was due to the factors described above.

The following table sets forth the Group's net non-operating expenses for the years ended 31 December 2014 and 2015:

	Year ended 31 December		Year on year change	Year on year percent change
	2014	2015		
		(US\$ millions)		
Impairment of non-current assets.....	(292)	(183)	109	(37)%
Net other non-operating expenses.....	(102)	(51)	51	(50)%
Net non-operating expenses.....	(394)	(234)	160	(41)%

Impairment of non-current assets

Compared to the prior period, the Group's impairment of non-current assets decreased by US\$109 million, or 37 percent, in the year ended 31 December 2015. In the year ended 31 December 2014, the Group recognised an impairment loss of US\$154 million related to property, plant and equipment of PBS Coals and an impairment loss of US\$116 million related to evaluation and exploration assets of Severstal Liberia Iron Ore Ltd (*SLIO*).

In the year ended 31 December 2015, the Group recognised an additional impairment loss of US\$100 million related to evaluation and exploration assets of SLIO, reducing its carrying amount to US\$nil and recognised an impairment loss of US\$80 million related to the non-current assets of Olkon.

Net other non-operating expenses

Compared to the prior period, the Group's net other non-operating expenses decreased by US\$51 million, or 50 percent, from US\$102 million in the year ended 31 December 2014 to a US\$51 million in the year ended 31 December 2015. The decrease was primarily due to a \$27 million loss from the disposal of PBS Coals, the Group's subsidiary, accrued in the

year ended 31 December 2014, and due to a US\$17 million decrease in the Group's social expenditure and charitable donations in the year ended 31 December 2015.

Net financing expense

Net financing expense decreased by US\$1,267 million, or 63 percent, from US\$2,014 million in the year ended 31 December 2014 to US\$747 million in the year ended 31 December 2015. This decrease was due to a US\$85 million decrease in net finance cost from US\$208 million in the year ended 31 December 2014 to US\$123 million in the year ended 31 December 2015 and due to a US\$1,182 million decrease in recognised foreign exchange loss, from US\$1,806 million in the year ended 31 December 2014 to US\$624 million in the year ended 31 December 2015.

The decrease in net finance costs of US\$85 million was primarily due to the decrease in interest expense and due to the increase in interest income.

The decrease in interest expense of US\$55 million was in line with overall decrease in the Group's debt balances.

The increase in interest income of US\$50 million was due to the increase in interest accrued on the Group's bank deposits.

Foreign exchange loss decreased by US\$1,182 million in the year ended 31 December 2015 compared to the year ended 31 December 2014 mainly due to the decrease of the Group's debt denominated in US dollars, which was partially offset by the effect of significant Rouble depreciation against the US dollar in 2015 compared to its depreciation in 2014.

(Loss)/profit for the year

The Group's loss decreased by US\$2,199 million from the loss of US\$1,596 million in the year ended 31 December 2014 to the profit of US\$603 million in the year ended 31 December 2015. The decrease was due to a US\$1,528 million increase in profit before income tax and due to a decrease in loss from discontinued operation of US\$842 million, which was partially offset by a decrease in income tax benefit of US\$171 million. The increase in profit before income tax was primarily due to the factors described above.

Income tax benefit/(expense)

Income tax benefit decreased by US\$171 million in the year ended 31 December 2015. The decrease was primarily due to a US\$1,528 million increase in profit before income tax as a result of the factors described above, supplemented by changes in non-recognised deferred tax assets.

Discontinued operation

The Group's discontinued operation represented the Severstal International segment, which comprised Severstal Dearborn and Severstal Columbus LLC together with their subsidiaries and investments in joint ventures and associates. The recognised loss from the discontinued operation decreased by US\$842 million, or 105 percent, from a US\$801 million loss in the year ended 31 December 2014 to a US\$41 million profit in the year ended 31 December 2015.

The loss recognised in the year ended 31 December 2014 was due to the disposal of 100 percent stakes in these companies.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2016, the Group had total cash and cash equivalents of US\$1,154 million. As at 31 December 2015 and 2014, the Group had total cash and cash equivalents of US\$1,647 million and US\$1,897 million, respectively.

The Group has financed and expects to continue to finance its operations and capital expenditures primarily through the Group's operating cash flows and, to the extent required, through borrowings or capital raising activities, including going forward, the offering of notes from time to time pursuant to the Programme. Historically, a significant portion of the Group's capital expenditures related to the modernisation of the Group's producing assets. For a discussion of the Group's historical and expected capital expenditures, see "*Business—Severstal Russian Steel—Capital Expenditure Programme*" and "*Business—Severstal Resources— Capital Expenditure Programme*".

Cash Flows

For the years ended 31 December 2015 and 2016

The following table sets forth the Group's consolidated cash flow for the years ended 31 December 2015 and 2016:

	Year ended 31 December		Year on year change	Year on year percent change
	2015	2016		
	(US\$ millions)			
Net cash from operating activities				
Profit before financing and taxation	1,469	1,394	(75)	(5)%
Adjustments to reconcile profit to cash generated from operations	603	484	(119)	(20)%
Changes in operating assets and liabilities.....	23	(134)	(157)	-
Interest paid	(177)	(152)	25	(14)%
Income tax paid	(51)	(115)	(64)	125%
Net cash from operating activities—continuing operations	1,867	1,477	(390)	(21)%
Net cash used in operating activities—discontinued operation	(14)	-	14	(100)%
Net cash from operating activities	1,853	1,477	(376)	(20)%
Net cash used in investing activities				
Capital expenditures ⁽¹⁾	(439)	(525)	(86)	20%
Additions to financial investments and joint ventures, net of proceeds from disposal	7	(209)	(216)	-
Net cash inflow from disposal of subsidiaries	4	3	(1)	(25)%
Other.....	124	68	(56)	(45)%
Net cash used in investing activities.....	(304)	(663)	(359)	118%
Net cash used in financing activities				
Proceeds from debt finance.....	243	656	413	170%
Repayment of debt finance	(1,222)	(1,070)	152	(12)%
Net proceeds from other financing activities	-	6	6	-
Dividends paid.....	(723)	(921)	(198)	27%
Net cash used in financing activities.....	(1,702)	(1,329)	373	(22)%
Effect of exchange rates on cash and cash equivalents	(97)	23	120	(123)%
Net decrease in cash and cash equivalents	(250)	(492)	(242)	97%
Less cash and cash equivalents of assets held for sale at end of the period	-	(1)	(1)	-

(1) Consisting of cash outlays for purchases of property, plant and equipment and intangible assets.

Net cash from operating activities decreased by US\$376 million, or 20 percent, from a cash inflow of US\$1,853 million in the year ended 31 December 2015 to a cash inflow of US\$1,477 million in the year ended 31 December 2016.

The decrease was due to a decrease in cash inflow from operating activities – continuing operations of US\$390 million, from a cash inflow of US\$1,867 million in the year ended 31 December 2015 to a cash inflow of US\$1,477 million in the year ended 31 December 2016 partially offset by the decrease in cash outflow from operating activities – discontinued operation of US\$14 million, from a cash outflow of US\$14 million in the year ended 31 December 2015 to nil in the year ended 31 December 2016.

The decrease in cash inflow from operating activities – continuing operations mainly related to the decrease in profit before financing and taxation of US\$75 million, US\$119 million decrease in adjustments to reconcile profit to cash generated from operations, which was primarily due to a US\$48 million decrease in impairment of non-current assets, an increase in gain on disposal of subsidiaries of US\$55 million, a decrease in changes in operating assets and liabilities of US\$157 million from a cash inflow of US\$23 million to a cash outflow of US\$134 million and an increase in income tax paid of US\$64 million, which was partially offset by a decrease in interest paid of US\$25 million.

The decrease in profit before financing and taxation was due to the factors discussed above.

Compared to the prior period, the Group's impairment of non-current assets decreased by US\$48 million, or 26 percent, in the year ended 31 December 2016. Impairment of non-current assets for the year ended 31 December 2016 consisted of a US\$12 million impairment loss accrued at the Vorkutaugol's Severnaya mine in relation to relevant property, plant and equipment as a result of the explosion that occurred in February 2016. Additionally, an impairment loss of US\$56 million and US\$28 million was recognised in 2016 in relation to specific items of property, plant and equipment and intangible assets, respectively. Also in 2016 the Group recognised an impairment loss of US\$30 million in relation to non-current assets of Redaelli Tecna S.p.A. based on its fair value less costs to sell. In the year ended 31 December 2015, the Group recognised an additional impairment loss of US\$100 million related to evaluation and exploration assets of SLIO, reducing its carrying amount to nil and recognised an impairment loss of US\$80 million related to the non-current assets of Olkon.

The increase in gain on disposal of subsidiaries in the amount of US\$55 million was mainly due to the recognised gain on disposal of subsidiaries in relation to foreign exchange translation reserves of disposed foreign subsidiaries reclassified to profit or loss from other comprehensive income upon their disposals in the year ended 31 December 2016.

The decrease in changes in operating assets and liabilities was primarily affected by a US\$131 million change in trade accounts receivable, including accounts receivable from related parties, from a cash inflow of US\$102 million to a cash outflow of US\$29 million. The decrease in changes in trade receivables of US\$131 million was attributable to the Severstal Russian Steel segment and was due to an increase in volume of shipments to customers in that segment at the end of 2016.

The increase in income tax paid of US\$64 million was due to an increase in taxable profit.

The decrease in interest paid of US\$25 million was due to a decrease in debt balances.

The decrease in cash outflow from operating activities – discontinued operation of US\$14 million was due to income tax paid in respect of the disposal of the Severstal International segment in September 2014.

Net cash used in investing activities increased by US\$359 million from US\$304 million for the year ended 31 December 2015 to a US\$663 million for the year ended 31 December 2016. The increase was due to an increase in additions to financial investments and joint ventures, net of proceeds from disposal, of US\$216 million and an increase in capital expenditures of US\$86 million.

The increase in additions to financial investments and joint ventures, net of proceeds from disposal, of US\$216 million reflected purchase of short-term financial investments, mainly presented by bonds quoted on an active market.

The increase in capital expenditures of US\$86 million was in line with the approved budgeted capex program for 2016.

Net cash used in financing activities decreased by US\$373 million, or 22 percent, from a cash outflow of US\$1,702 million in the year ended 31 December 2015 to a cash outflow of US\$1,329 million for the year ended 31 December 2016. The decrease was due to a decrease in repayment of debt financing, net of proceeds, of US\$565 million, which was partially offset by an increase in dividends paid of US\$198 million.

The decrease in repayment of debt financing, net of proceeds, of US\$565 million was mainly related to an increase in debt proceeds from convertible bonds and a decrease in debt repayments year on year.

The increase in dividends paid by US\$198 million was due to an increase in the Group's dividend payout ratio.

The effect of exchange rates resulted in a US\$120 million increase in cash and cash equivalents for the year ended 31 December 2016 compared to the year ended 31 December 2015 due to the appreciation of the Russian rouble against the US dollar.

For the years ended 31 December 2014 and 2015

The following table sets forth the Group's consolidated cash flow for the years ended 31 December 2014 and 2015:

	Year ended 31 December		Year on year change	Year on year percent change
	2014	2015		
	(US\$ millions)			
Net cash from operating activities				
Profit before financing and taxation	1,208	1,469	261	22%
Adjustments to reconcile profit to cash generated from operations	982	603	(379)	(39)%
Changes in operating assets and liabilities.....	41	23	(18)	(44)%
Interest paid	(247)	(177)	70	(28)%
Income tax paid	(54)	(51)	3	(6)%
Net cash from operating activities—continuing operations	1,930	1,867	(63)	(3)%
Net cash from/(used in) operating activities—discontinued operation	108	(14)	(122)	(113)%
Net cash from operating activities	2,038	1,853	(185)	(9)%
Net cash from/(used in) investing activities				
Capital expenditures ⁽¹⁾	(779)	(439)	340	(44)%
Net cash inflow from disposal of subsidiaries	2,013	4	(2,009)	(100)%
Additions to financial investments and joint ventures, net of proceeds from disposal	(17)	7	24	141%
Other.....	80	124	44	55%
Net cash from/(used in) investing activities—continuing operations.....	1,297	(304)	(1,601)	(123)%
Net cash used in investing activities discontinued operation	(95)	-	95	(100)%
Net cash from/(used in) investing activities	1,202	(304)	(1,506)	(125)%
Net cash used in financing activities				
Proceeds from debt finance.....	1,949	243	(1,706)	(88)%
Repayment of debt finance	(2,572)	(1,222)	1,350	(52)%
Dividends paid.....	(1,061)	(723)	338	(32)%
Net cash used in financing activities—continuing operations	(1,684)	(1,702)	(18)	1%
Net cash used in financing activities—discontinued operation.....	(367)	-	367	(100)%
Net cash used in financing activities	(2,051)	(1,702)	349	(17)%
Effect of exchange rates on cash and cash equivalents	(328)	(97)	231	(70)%
Net increase/(decrease) in cash and cash equivalents	861	(250)	(1,111)	(129)%

(1) Consists of cash outlays for purchases of property, plant and equipment and intangible assets.

Net cash from operating activities decreased by US\$185 million, or 9 percent, from a cash inflow of US\$2,038 million in the year ended 31 December 2014 to a cash inflow of US\$1,853 million in the year ended 31 December 2015.

The decrease was due to a decrease in cash from operating activities – discontinued operation of US\$122 million, from a cash inflow of US\$108 million in the year ended 31 December 2014 to a cash outflow of US\$14 million in the year ended 31 December 2015, and a decrease in cash inflow from operating activities – continuing operations of US\$63 million, from a cash inflow of US\$1,930 million in the year ended 31 December 2014 to a cash inflow of US\$1,867 million in the year ended 31 December 2015.

The decrease in cash from operating activities – discontinued operation of US\$122 million from a cash inflow of US\$108 million to a cash outflow of US\$14 million primarily related to the disposal of Severstal International segment in September 2014.

The decrease in cash from operating activities – continuing operations was primarily due to a US\$18 million decrease in changes of operating assets and liabilities, a US\$194 million decrease in depreciation and amortisation and a US\$109 million decrease in impairment of non-current assets, which were added back to profit before financing and taxation for cash flow purposes, and which were partially offset by a US\$261 million increase in profit before financing and taxation.

The increase in profit before financing and taxation was due to the factors discussed above.

The decrease in depreciation and amortisation of US\$194 million was primarily due to a decrease in depreciation charge in US dollar terms as a result of the Rouble depreciation against the US dollar.

The decrease in impairment of non-current assets of US\$109 million was mainly due to the impairment charges accrued in 2014 in relation to property, plant and equipment of PBS Coals, which was disposed in August 2014.

The decrease in changes of operating assets and liabilities of US\$18 million was mainly due to a decrease in trade accounts payable, including accounts payable to related parties, and was partially offset by a decrease in trade accounts receivable, including accounts receivable from related parties.

The decrease in interest paid of US\$70 million was primarily due to an early repayment of outstanding bonds and the most expensive bilateral facilities.

Net cash from investing activities decreased by US\$1,506 million from cash inflow of US\$1,202 million in the year ended 31 December 2014 to cash outflow of US\$304 million in the year ended 31 December 2015. The decrease was primarily due to a decrease in net cash from investing activities – continuing operations of US\$1,601 million and a decrease in net cash used in investing activities – discontinued operation of US\$95 million.

The decrease in net cash from investing activities – continuing operations was attributable to a decrease in cash inflow from disposal of subsidiaries of US\$2,009 million, which was partially offset by a decrease in capital expenditures of US\$340 million and by an increase in interest received of US\$43 million.

The decrease in proceeds from disposal of subsidiaries of US\$2,009 million from US\$2,013 million in the year ended 31 December 2014 to a US\$4 million in the year ended 31 December 2015 related to the disposal of the Severstal International segment and the disposal of 100.0 percent stake in PBS Coals.

The decrease in capital expenditures of US\$340 million was mainly due to finishing of the construction of Mini-mill Balakovo in the beginning of 2015 and due to a decrease in the amount of capital expenditures in US dollar terms as a result of the Rouble depreciation against the US dollar.

The increase in interest received of US\$43 million was primarily due to an increase in interest accrued on bank deposits.

The decrease in cash used in investing activities – discontinued operation of US\$95 million was mainly attributable to the acquisition an additional 50.0 percent stake in Mountain State Carbon LLC (*MSC*) for a total consideration of US\$30 million during the year ended 31 December 2014 and a decrease in capital expenditures of US\$48 million.

Net cash used in financing activities decreased by US\$349 million, or 17 percent, from US\$2,051 million in the year ended 31 December 2014 to a US\$1,702 million in the year ended 31 December 2015. This change related to a decrease in cash used in financing activities – discontinued operation of US\$367 million and an increase in cash used in financing activities – continuing operations of US\$18 million.

The decrease in cash used in financing activities – discontinued operation of US\$367 million mainly related to the repayment of debt financing by the Severstal International segment, which was disposed in September 2014.

The increase in cash used in financing activities – continuing operations of US\$18 million was primarily attributable to an increase in repayment of debt financing, net of proceeds, of US\$356 million and a decrease in dividends paid of US\$338 million.

The increase in repayment of debt finance, net of proceeds, in the year ended 31 December 2015 compared to the year ended 31 December 2014 was primarily due to a decrease in proceeds from bank financing in 2015 compared to 2014.

The decrease in dividends paid of US\$338 million reflected payment of special dividend accrued for sale of the Group's North American business in 2014.

The effect of exchange rates resulted in a US\$231 million increase in cash and cash equivalents from a US\$328 million decrease in cash and cash equivalents in the year ended 31 December 2014 to a US\$97 million decrease in cash and cash equivalents in the year ended 31 December 2015 due to the effect of significant Rouble depreciation against the US dollar in 2014 compared to its depreciation in 2015.

INDEBTEDNESS

The following table sets out the Group's indebtedness as at 31 December 2016 and 2015:

	31 December 2016	31 December 2015
	(US\$ millions)	
Eurobonds 2016 ⁽¹⁾	-	255
Eurobonds 2017 ⁽¹⁾	594	621
Eurobonds 2018 ⁽¹⁾	548	571

Eurobonds 2022 ⁽¹⁾	628	676
Convertible bonds 2017 ⁽¹⁾	43	62
Convertible bonds 2021 ⁽¹⁾	200	-
Bank financing ⁽¹⁾	12	234
Other financing ⁽¹⁾	6	5
Accrued interest	24	32
Discounting	(37)	(1)
Unamortised balance of transaction costs	(5)	(3)
Total debt financing	2,013	2,452

(1) Excludes accrued interest.

Major Indebtedness

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 bonds into GDRs 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 the market interest rate of 5.1 percent per annum at the date of the issue. The bonds bear an interest rate of 0.5 percent 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 percent 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 at 31 December 2016 the amount outstanding under this facility was US\$166 million. As at 31 December 2016 the value of the conversion option of US\$88 million was determined with reference to quoted market price (level 2 of the fair value hierarchy) and included in other current liabilities. See Note 23 of the Annual Financial Statements on page F-54 for further information.

In March 2013, the Group issued US\$600 million bonds denominated in US dollars maturing in 2018. These bonds bear an interest rate of 4.45 percent per annum, which is payable semi-annually in March and September each year, beginning in September 2013. The proceeds from the bonds issuance were used for general corporate purposes, including refinancing of debt maturing in 2013. As at 31 December 2016 the amount outstanding under this facility was US\$548 million.

In October 2012, the Group issued US\$750 million bonds denominated in US dollars maturing in 2022. These bonds bear an interest rate of 5.9 percent per annum, which is payable semi-annually in April and October each year, beginning in April 2013. The proceeds from the bonds issuance were used for general corporate purposes, including refinancing of debt maturing in 2013. As at 31 December 2016 the amount outstanding under this facility was US\$628 million.

In September 2012, the Group issued US\$475 million senior unsecured convertible bonds maturing in 2017. The initial conversion price was set at US\$ 19.08 per share. The conversion rights may be exercised at any time on or after 5 November 2012. The bonds bear an interest rate of 1.0 percent per annum, which is payable semi-annually in March and September each year, beginning in March 2013, and a yield-to-maturity of 2.0 percent per annum. Holders of the bonds had an option to require an early redemption of their bonds in September 2015 at the accreted principal amount at such time plus accrued interest. The Group also has an option for early redemption, exercisable starting from October 2015, provided the market value of the Group's GDRs deliverable on conversion of the bonds exceeds 140.0 percent of the accreted principal amount of the bonds over a period specified in terms and conditions of the bonds. The proceeds from the bonds issuance were mainly used to refinance existing indebtedness and for other general corporate purposes. The equity component of the convertible bonds was US\$47 million as at 31 December 2016, determined based on the market rate of 5.3 percent per annum. In September 2015, the holders requested an early redemption of their bonds through the put option. As a result of this transaction US\$17 million was recognised as a reduction in equity. As at 31 December 2016 the amount outstanding under this facility was US\$43 million.

In July 2011, the Group issued US\$500 million bonds denominated in US dollars maturing in 2016. These bonds bear an interest rate of 6.25 percent per annum, which is payable semi-annually in July and January each year, beginning in January 2012. The proceeds from the bonds issuance were partially utilised to refinance short-term loan facilities. As at 31 December 2016 the amount outstanding under this facility was fully repaid.

In October 2010, the Group issued US\$1 billion US dollar-denominated bonds maturing in 2017. The bonds bear an interest rate of 6.7 percent per annum which is payable semi-annually in April and October each year, beginning in April 2011. These bonds were issued under the Loan Participation Notes Programme. The proceeds from the bonds issuance were used to fund the purchase of US\$706.4 million nominal of Group's US\$1,250 million Eurobonds in US dollars and

for refinancing of certain other Group's debts. As at 31 December 2016 the amount outstanding under this facility was US\$594 million.

Total debt was contractually repayable as at the following dates:

	31 December 2016	31 December 2015
	(US\$ millions)	
Less than one year	673	507
Between one and five years	709	1,262
After more than five years	631	683
Total debt financing	2,013	2,452

Commitments and contingencies

As at 31 December 2016, the Group had contractual capital commitments of US\$216 million.

In the normal course of business, the Group enters into long-term purchase contracts for raw materials, and long-term sales contracts. These contracts allow for periodic adjustments in prices dependent on prevailing market conditions.

See Note 31 of the Annual Financial Statements on page F-81 for information on certain actual and potential contingencies for litigation, tax and other liabilities.

Guarantees

As at 31 December 2016, the Group had US\$2 million of guarantees issued compared to US\$3 million as at 31 December 2015.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ON MARKET RISK

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures. The Group's Audit Committee reviews the adequacy of the risk management framework in relation to the risks faced by the Group on a quarterly basis.

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The Severstal Resources segment of the Group has not used derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. The Severstal Russian Steel segment uses derivatives to hedge their interest rates and foreign exchange rate exposures.

As of 31 December 2016, the Group had a derivative financial liability amounting to US\$106 million, measured at fair value.

The fair value of the Group's other financial liabilities was greater than their carrying amount by approximately US\$84 million:

	31 December 2016		
	Market value	Book value	Difference
	(US\$ millions)		
Eurobonds 2017 ⁽¹⁾	615	594	21
Eurobonds 2018 ⁽¹⁾	558	548	10
Eurobonds 2022 ⁽¹⁾	676	628	48
Convertible bonds 2017 ⁽¹⁾	48	43	5
Convertible bonds 2021 ⁽¹⁾	254	254	-
Total	2,151	2,067	84

(1) Excludes accrued interest.

The market value of the Group's bonds was determined based on the quotations of the applicable stock exchanges.

As at 31 December 2016 long-term financial investments included available-for-sale financial assets of US\$191 million, the value was determined with reference to quoted market.

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

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position and guarantees.

Part of the Group's sales are made on terms of letters of credit. In addition, the Group requires prepayments from certain customers. The Group also holds bank and other guarantees provided as a collateral for certain financial assets. The amount of collateral held does not fully cover the Group's exposure to credit risk.

The Group has developed policies and procedures for the management of credit exposure, including the establishment of a credit committee that actively monitors credit risk. Additionally, in order to minimise credit risk of the counterparty banks, the Group has a centralised Treasury function which carries out analysis of banks in respect of their financial stability, defines and reviews the risks limits for banks on a quarterly basis and executes the Group's operations within those established limits.

Liquidity risk

Liquidity risk arises when the Group encounters difficulties to meet commitments associated with liabilities and other settlements.

The Group manages liquidity risk with the objective of ensuring that funds will be available at all times to honour all cash obligations as they become due by preparing annual budgets, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group also maintains committed credit lines and overdraft facilities that can be drawn down to meet short-term financing needs. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing costs and to achieve an optimal debt profile.

Covenant compliance risk

The Group actively monitors compliance with all debt covenants. In case of the risk of a default, the Group uses its best efforts to avoid or remedy (as the case may be) the relevant default and seeks to approach the lenders as soon as possible in order to amend the respective facility agreement or waive a possible default, as the case may be.

Currency risk

Currency risk arises when a Group entity enters into transactions and balances denominated in a currency other than its functional currency. The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

In order to reduce sensitivity to currency risk the Group matches incoming and outgoing cash flows in the same currency such as sales proceeds and debt service, investment activity payments.

Commodity price risk

Commodity price risk is a risk arising from possible changes in price of raw materials and metal products, and it has impact on the Group's operational results.

The Group has a high degree of vertical integration which allows it to control and effectively manage the entire production process: from mining of raw materials to production, processing and distribution of metal products. This reduces the Group's exposure to the commodity price risk.

Interest rate risk

The largest part of the Group's public debt has fixed rate. The variable rate instruments have a fixed spread over LIBOR, EURIBOR and MOSPRIME for the duration of each contract.

The following table sets forth the amount of variable rate instruments as at 31 December 2016:

	As at 31 December 2016
	(US\$ millions)
Variable rate instruments	
Financial assets	6
Financial liabilities	(12)
Total	(6)

Other Group's interest-bearing financial instruments are at fixed rate.

A change of 100 basis points in interest rates as at 31 December 2016 would not have increased/(decreased) profit and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The Group believes that its most significant accounting policies and its critical accounting judgments and estimates are those described below.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled, directly or indirectly, by the parent company. Consolidation of an investee begins from the date the Group obtains control over the investee and ceases when the Group loses control over the investee. The non-controlling interests represent the non-controlling proportion of the net identifiable assets of the subsidiaries, including the non-controlling share of fair value adjustments on acquisitions. The Group presents non-controlling interests in its consolidated statement of financial position within equity, separately from the parent's shareholders' equity. Changes in the Group's interest in a subsidiary that do not result in losing control of the subsidiary are equity transactions.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the Annual Financial Statements; unrealised losses are also eliminated unless the transaction provides an evidence of impairment of the asset transferred.

Acquisition of Subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, the liabilities assumed and the consideration transferred. If the initial accounting for a business combination is incomplete by the end of the period in which the combination is effected, the Group accounts for the combination using the provisional values for the items for which the accounting is incomplete. The Group recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months from the acquisition date. As a result, goodwill or gain from bargain purchase is adjusted accordingly.

Comparative information for the periods before the completion of the initial accounting for the acquisition is presented as if the initial accounting had been completed at the acquisition date.

Accounting for business combinations of entities under common control

IFRS provides no guidance on accounting for business combinations of entities under common control. Management adopted the accounting policy for such transactions based on the relevant guidance of accounting principles generally accepted in the United States ('*US GAAP*'). Management believes that this approach and the accounting policy disclosed below are in compliance with IFRS.

Acquisitions of controlling interests in companies that were previously under the control of the Majority Shareholder are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the Majority Shareholder. The assets and liabilities acquired are recognised at their book values. The components of equity of the acquired companies are added to the same components within Group equity, except that any share capital of the acquired companies is recorded as a part of additional capital. The cash consideration for such acquisitions is recognised as a liability to or a reduction of receivables from related parties, with a

corresponding reduction in equity, from the date the acquired company is included in the Annual Financial Statements until the cash consideration is paid. Parent company shares issued in consideration for the acquired companies are recognised from the moment the acquired companies are included in these financial statements.

No goodwill is recognised where the Group acquires additional interests in the acquired companies from the Majority Shareholder. The difference between the share of the net assets acquired and consideration transferred is recognised directly in equity.

Business combination achieved in stages

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the associates or joint ventures at its acquisition date fair value and recognises the resulting gain or loss, if any, in profit or loss in the income statement.

Investments in associates

Associates are those enterprises in which the Group has significant influence, but does not have control or joint control over the financial and operating policies.

Investments in associates are accounted for under the equity method and are initially recognised at cost, from the date that significant influence commences until the date that significant influence ceases. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate and goodwill impairment charges, if any, after adjustments to align the accounting policies with those of the Group. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of the associate.

Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity. The investor's share of those changes is recognised in the investor's equity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.

The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint arrangement that is not structured through a separate vehicle is a joint operation. A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.

The Group applies the following accounting to joint operations and joint ventures.

The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;

- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for joint ventures using the equity method.

Unrealised gains on transactions between the Group and its jointly controlled vehicle are eliminated to the extent of the Group's interest in a joint venture and a joint operation; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Goodwill

Goodwill is measured as the difference between:

- the aggregate of the acquisition-date fair value of the consideration transferred, the amount of any non-controlling interest, and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree; and
- the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill in respect of subsidiaries is disclosed as an intangible asset and goodwill relating to associates and joint ventures is included within the carrying value of the investments in these entities.

No goodwill is recognised where the Group acquires additional interests in the acquired companies (acquisitions of non-controlling interest). The difference between the share of the net assets acquired and the consideration transferred is recognised directly in equity.

Where goodwill forms a part of a cash-generating unit and the part of the operations within that unit is disposed of, the goodwill associated with that operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Gain from bargain purchase represents the excess of the Group's share in the fair value of acquired identifiable assets and the liabilities assumed over the consideration transferred, and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquire. It is recognised in the income statement at the date of the acquisition.

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of each entity at the foreign exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency of each entity at the foreign exchange rate as at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency of the entity at the foreign exchange rate as at the date of the transaction. Foreign exchange gains and losses arising on the translation are recognised in the income statement.

Exploration for and evaluation of mineral resources

Expenditures associated with search for specific mineral resources are recognised as exploration and evaluation assets. The following expenditure comprises cost of exploration and evaluation assets:

- obtaining of the rights to explore and evaluate mineral reserves and resources including costs directly related to this acquisition;
- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods;
- compiling prefeasibility and feasibility studies;

- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Administration and other overhead costs are charged to the cost of exploration and evaluation assets only if directly related to an exploration and evaluation project.

If a project does not prove viable, all irrecoverable exploration and evaluation expenditure associated with the project net of any related impairment allowances is written off to the income statement.

The Group measures its exploration and evaluation assets at cost and classifies as tangible or intangible according to the nature of the assets acquired and applies the classification consistently. Exploration and evaluation assets considered to be tangible are recorded as a component of property, plant and equipment at cost less impairment charges. Otherwise, they are recorded as intangible assets, such as licenses. To the extent that tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is capitalised as a part of the cost of the intangible asset.

As the asset is not available for use, it is not depreciated. All exploration and evaluation assets are monitored for indications of impairment.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and the development of the deposit is sanctioned by management. The carrying amount of such exploration and evaluation asset is reclassified into a development asset.

Development expenditure

Development expenditure includes costs directly attributable to the construction of a mine and the related infrastructure and is accumulated separately for each area of interest. Development expenditure is capitalised and is recorded as a component of property, plant and equipment or intangible assets, as appropriate. No depreciation is charged on the development expenditure before the start of commercial production.

To the extent that revenue arises from test production during the development stage, an amount is charged from development expenditure to the cost of sales so as to reflect a zero net margin.

Stripping costs

The Group separates two different types of stripping costs that are incurred in surface mining activity:

- Stripping activity asset; and
- Current stripping costs.

Stripping activity asset is created as part of usual surface activity in order to obtain improved access to further quantities of minerals that will be mined in future periods.

Current stripping costs are costs that are incurred in order to mine the mineral ore only in the current period.

The Group recognises a stripping activity asset if, and only if, all of the following are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the improved access to that component can be measured reliably.

After initial recognition, stripping activity assets are carried at cost less accumulated depreciation and impairment loss. Depreciation is calculated using the units of production method.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and, for qualifying assets, borrowing costs capitalised. In the case of assets constructed by the Group, related works and direct project overheads are included in

cost. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. Repair and maintenance expenses are charged to the income statement as incurred. Gains or losses on disposals of property, plant and equipment are recognised in the income statement.

Depreciation is provided so as to write off property, plant and equipment over its expected useful life. Depreciation is calculated using the straight-line basis, except for depreciation on vehicles and certain metal-rolling equipment, which is calculated on the basis of mileage and units of production, respectively. The estimated useful lives of assets are reviewed regularly and revised when necessary.

The principal periods over which assets are depreciated are as follows:

Buildings and constructions	20 – 50 years
Plant and machinery	10 – 20 years
Other productive assets	5 – 20 years
Infrastructure assets	5 – 50 years

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement as a part of interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Intangible assets (excluding goodwill)

Intangible assets acquired by the Group are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised over their estimated useful lives using the straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The table below presents the useful lives of intangible assets:

Mineral rights	12 - 25 years
Software	3 - 10 years
Other intangible assets	3 - 50 years

The coal mining mineral rights of PBS Coals Limited constituted the major component of mineral rights prior to the disposal of this entity in August 2014. The major component of the software is the SAP business system. The major component of the other intangible assets is land lease rights. Amortisation of intangible assets are included in the captions “Cost of sales” and “General and administrative expenses” in the consolidated income statement.

Impairment of assets

The carrying amount of goodwill is tested for impairment annually. At each reporting date the Group assesses whether there is any indication of impairment of the Group’s other assets. If any such indication exists, the asset’s recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Calculation of recoverable amount

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset’s carrying amount and its recoverable amount that is the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. For other assets the recoverable amount is the greater of the fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a held-to-maturity investment, loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads. Allowances are recorded against slow-moving and obsolete inventories.

Financial assets

Financial assets include cash and cash equivalents, investments, and loans and receivables.

Cash and cash equivalents comprise cash balances, bank deposits and highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’ (**FVTPL**), ‘held-to-maturity’ investments, ‘available-for-sale’ (**AFS**) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the carrying value of a financial asset held at amortised cost and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial instruments, which are managed and performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in the income statement incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

AFS financial assets

Available for sale financial assets are those non-derivative financial assets that are not classified as financial assets at FVTPL, held-to-maturity or loans and receivables and are stated at fair value. Listed shares and other quoted instruments which are traded in an active market are stated at their market value. Investments in unlisted shares or other instruments that do not have a quoted market price in an active market are measured at management's estimate of fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses, which are recognised directly in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the equity is included in the income statement for the period.

Dividends on AFS equity instruments are recognised in the income statement when the Group's right to receive the dividends is established.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms a part of a group of financial instruments, which are managed and where performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Borrowing costs on loans specifically for the purchase or construction of a qualifying asset are capitalised as a part of the cost of the asset they are financing.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised in the income statement.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Hedging instruments

The Group holds derivative financial instruments primarily to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

Dividends payable

Dividends are recognised as a liability in the period in which they are authorised by the shareholders.

Other taxes and contributions

Other taxes and contributions are taxes and mandatory contributions paid to the government, or government controlled agencies, that are calculated on a variety of bases, but exclude taxes calculated on profits, value added taxes calculated on revenues and purchases and social security costs calculated on wages and salaries. Social security costs are included in

cost of sales, distribution expenses and general and administrative expenses in accordance with the nature of related wages and salaries expenses.

Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax expense is calculated by each entity on the pre-tax income determined in accordance with the tax law of the country, in which the entity is incorporated, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets on deductible temporary differences and tax loss carry forwards are reviewed at each reporting date and recorded only to the extent that it is probable that the temporary differences will reverse in the future and there is sufficient future taxable profit available against which they can be utilised.

Deferred tax is not recognised in respect of the following:

- investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future;
- if it arises from the initial recognition of an asset or liability that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss;
- initial recognition of goodwill.

Provisions

Employee benefits

The Group pays retirement, healthcare and other long-term benefits to its employees.

The Group has two types of retirement benefits: defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts in respect of those benefits. The Group's only obligation is to pay contributions as they fall due, including contributions to the Russian Federation State pension fund. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans are post-employment benefits plans other than defined contribution plans. The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.). For Russia-based Group's entities, the discount rate used is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually using the projected unit credit method. In accordance with this method, the Group's net obligation is calculated separately for each defined benefit plan. Any actuarial gain or loss arising from the calculation of the retirement benefit liability is fully recognised in other comprehensive income.

Other long-term employee benefits include various compensations, non-monetary benefits and a long-term cash-settled share-based incentive program.

Decommissioning liabilities

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closure of certain of its production sites. Decommissioning liabilities are estimated case-by-case based on available information, taking into account applicable local legal requirements. The estimation is made using existing technology, at current prices, and discounted using a real discount rate. Future decommissioning costs, discounted to net present value, are capitalised and the corresponding decommissioning liability raised as soon as the constructive obligation to incur such costs arises. Future decommissioning costs are capitalised in property, plant and equipment and are depreciated over the life of the related asset. The effect of the time value of money on the decommissioning liability is recognised in the consolidated income statement as an interest expense. Ongoing rehabilitation costs are expensed when incurred.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Other provisions

Other provisions are recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of issued shares

When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

Operating income and expenses

The Group presents profit or loss from operations, which includes various types of income and expenses arising in the course of production and sale of the Group's products, disposal of property, plant and equipment, participation in joint ventures and associates and other Group's regular activities.

Certain items are presented separately from profit or loss from operations by virtue of their size, incidence or nature to enable a full understanding of the Group's financial performance. Such items, which are included in profit or loss before financing and taxation, primarily include impairment of non-current assets, negative goodwill and other non-operating income and expenses, as, for example, gain or loss on disposal of subsidiaries and associates and charitable donations.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Sale of goods

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Finance costs, net

Interest income

Interest income is recognised in the income statement on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Interest expense

Interest expense is recognised in the income statement as it accrues, taking into account the effective yield on the liability.

Gain/(loss) on remeasurement and disposal of financial investments

Gain/(loss) on remeasurement and disposal of financial investments comprises dividend income (except for dividends from equity associates and joint ventures), realised and unrealised gains on financial assets at fair value through profit or loss, realised gains and impairment losses on available-for-sale and held-to-maturity investments.

Other finance costs

Other finance costs include costs incurred for bank operating services and other related charges.

Earnings per share

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year, assuming that shares issued in consideration for the companies acquired from the Majority Shareholder were issued from the moment these companies are included in the Annual Financial Statements.

Diluted earnings per share is calculated by dividing adjusted profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of shares outstanding, adjusted for the effect of all dilutive potential ordinary shares.

Discontinued operations

Discontinued operations are disclosed when a component of the Group either has been disposed of during the reporting period, or is classified as held for sale at the reporting date. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification.

The comparative income statement is presented as if the operation had been discontinued from the beginning of the comparative period.

Assets and liabilities of a disposal group are presented in the statement of financial position separately from other assets and liabilities. Comparative information related to discontinued operations is not amended in the statement of financial position.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other

components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The reportable segments' amounts in the disclosure are stated before intersegment elimination and are measured on the same basis as those in the consolidated financial statements, except that:

- non-monetary long-term investments in subsidiaries are translated into the presentation currency at the historic exchange rate;
- no impairment is recognised on investments in subsidiaries;
- no discounting is applied for intersegment loans;
- in case of transfers of equity investments between segments, such investments are accounted at their historic cost.

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

Critical accounting judgments, estimates and assumptions

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful lives of property, plant and equipment;
- impairment of assets;
- allowances for doubtful debts, obsolete and slow-moving inventories;
- decommissioning liabilities;
- retirement benefit liabilities;
- litigation;
- deferred income tax assets; and
- functional currency determination

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Impairment of assets

The Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Allowance for doubtful debts

The Group makes allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Allowance for obsolete and slow-moving inventories

The Group makes allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

Decommissioning liabilities

The Group reviews its decommissioning liabilities, representing site restoration provisions, at each reporting date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 'Changes in Existing Decommissioning, Restoration and Similar Liabilities'. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

Retirement benefit liabilities

The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

Litigation

The Group exercises judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results.

Deferred tax assets

Deferred tax assets on deductible temporary differences and tax loss carry forwards are reviewed at each reporting date and recorded only to the extent that it is probable that the temporary differences will reverse in the future and there is sufficient future taxable profit available against which they can be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation of deferred tax assets must be reduced, this reduction will be recognised in the income statement.

Functional currency determination

The Group exercises judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions based on the specific facts and circumstances. This is a complex process and different factors are considered in determining the appropriate functional currency. The Group has a number

of overseas holding companies, which retain various investments in foreign entities. Management regularly reviews facts and circumstances, which may indicate that the functional currency of the entities should be changed.

Functional and presentation currency

The presentation currency of the Annual Financial Statements is the US dollar. The functional currency is determined separately for each of the Group's entities. For the Russian entities the functional currency is the Russian rouble. The functional currency of the Group's entities which were located in North America was the US dollar. The functional currency of the majority of the Group's entities located in Western Europe is the Euro.

The translation into the presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at the closing exchange rates at the dates of each statement of financial position presented;
- all income and expenses in each income statement are translated at the average exchange rates for the periods presented; and
- all resulting exchange differences are recognised as a separate component in other comprehensive income.

INDUSTRY

The following information includes extracts from publicly available information, data and statistics and has been extracted from official sources and other sources the Company believes to be reliable. The Company accepts responsibility for accurately reproducing such information, data, and statistics and, as far as the Company is aware, no facts have been omitted that would render such information misleading. The Company accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers.

STEEL INDUSTRY

Global Overview

The global steel industry is affected by a combination of factors, including periods of economic growth or recession, worldwide production capacity and the existence of, and fluctuations in, steel imports and protective trade measures. Steel prices respond to supply and demand and fluctuate in response to general and industry specific economic conditions.

The post-2011 period has been characterised by lower commodity and steel prices and a reduction in steel consumption coupled with severe steel oversupply which reached unprecedented levels in 2015. According to Worldsteel, global steel consumption and production decreased by 3 percent in 2015, the first decrease since 2009. Steel consumption declined in the majority of regions with some exceptions such as India, the EU, Turkey and the states forming the ASEAN. Declining commodity prices caused a global drop of capital investments in mining which also impacted the global steel demand. By way of example, Chinese steel consumption decreased by more than 5 percent, representing a second consecutive year of declines. Particularly the construction industry in China has significantly suffered with excessive inventories of residential buildings and a slump in investments in heavy industries struggling from overcapacity.

In 2015, excess global steelmaking capacity was eight times the total volume of steel produced in Russia. China produced almost as much steel in 2015 as all other countries combined, which, as demand in China dropped for the second consecutive year, led to an unprecedented growth in exports from China (up to 112 million tonnes). As a result, the US and the EU have begun to impose protective import tariffs to support their steelmakers. According to OECD, 41 anti-dumping investigations were initiated in 2015, compared to 23 and 25 cases in 2013 and 2014, respectively.

Overcapacity remains the key factor of low prices in the steel industry and this tendency prevailed for most of 2015. Nevertheless, there have been some signs of improvement in the global supply and demand curves for steel. In the beginning of 2016, China announced that the country's steel production capacity would be cut by 100-150 million tonnes during the next five years so as to sufficiently decrease the coal industry's size to deal with a capacity excess. Connected to such positive signs is China's policy to steer its economy to a more consumption and services-led economy, which is expected to resume fast growth and development of the country's economy and consequently stimulate steel consuming industries such as automotive and construction industries.

In 2016, China was the largest single producer of steel in the world, producing 808 million tonnes of crude steel, as well as the largest consumer of steel, consuming approximately 672 million tonnes of finished steel in 2015. According to Worldsteel, China's steel production in 2016 increased by 1.2 percent from 2015, accounting for 49.6 percent of global steel production. According to Worldsteel, world crude steel output was 1,629 million tonnes in 2016, representing an increase of 0.8 percent compared to output in 2015. The five largest steel producers in the world in 2016 were China (producing 808 million tonnes), Japan (producing 105 million tonnes), India (producing 96 million tonnes), USA (producing 79 million tonnes) and Russia (producing 71 million tonnes).

In 2016 world crude steel production increased by 0.8 percent despite the lower demand in the first quarter. In the second and third quarters of 2016, the Chinese construction industry began to react to the stimulus measures provided by the state which in turn boosted demand for steel. In the last quarter of 2016, demand remained stable while in 2017 a recovery in steel consumption is expected in some countries which should positively affect production volumes across the industry.

The following table sets forth estimated crude steel production data by country or region from 2011 to 2016:

World Crude Steel Production, million tonnes

	2011	2012	2013	2014	2015	2016
Europe	217	209	205	208	202	200
CIS	112	111	109	105	102	102
Russia	69	70	69	71	71	71
Ukraine	35	33	33	27	23	24
North America	118	122	119	121	111	111
US	86	89	87	88	79	79
South America	48	46	46	45	44	39
Middle East/Africa	39	40	43	45	43	45
Asia	995	1,027	1,124	1,140	1,108	1,125
China	702	731	822	823	799	808
Japan	108	107	111	111	105	105
India	73	77	81	87	89	96
Oceania	7	6	6	5	6	6
World total	1,538	1,560	1,650	1,670	1,615	1,629
Annual change (%)	7.3	1.4	5.8	1.2	(3.3)	0.8

Source: Worldsteel

Note: numbers are rounded to the nearest whole

While production in Europe, Japan and the United States remains significant, steel producers in those regions have increasingly focused on rolling and finishing semi-finished products. The industry is shifting in demand from “commodity steel” to “high value-added steel” or “specialised steel” in developed markets.

The following table sets forth estimated finished steel consumption data by country or region:

Apparent Steel Use, finished steel products, million tonnes

	2011	2012	2013	2014	2015	2016 ⁽¹⁾
Europe	189	174	179	186	193	197
CIS	55	58	59	56	50	50
Russia	42	43	43	43	39	38
Ukraine	6	6	6	4	3	4
North America	123	133	130	147	135	134
US	89	96	96	107	96	95
Central and South America	47	49	51	49	45	41
Middle East/Africa	81	84	88	91	92	93
Asia	913	939	1,021	1,011	978	981
China	641	660	735	711	672	666
Japan	64	64	65	68	63	63
India	70	72	74	76	80	84
Oceania	7	7	7	7	7	7
World total	1,415	1,444	1,534	1,547	1,500	1,501
Annual change (%)	8.0	2.0	6.3	0.8	(3.0)	0.1

Source: Worldsteel

(1) Forecasts

Note: numbers are rounded to the nearest whole

According to Worldsteel, global finished steel consumption in 2015 declined by 3 percent to 1,500 million tonnes, while a moderate recovery is expected for 2016. Major traded steel products worldwide include semi-finished products, hot and cold-rolled sheets and coils, steel tubes and fittings, galvanised sheet, wire rod and angles and sections.

The strategy and product mix of steel producers generally varies between producers in industrial countries and producers in emerging markets. Historically, commodity steel producers in industrialised countries had limited export markets due to the high cost of transporting steel relative to the low value of commodity steel grades. In the second half of the twentieth century, producers in emerging markets began to compete with steel producers in industrialised countries by taking advantage of the lower manufacturing costs in their countries to offset high transportation costs.

In response, producers in Western Europe and Japan invested heavily in new technology and capacity to produce high value-added steel grades in order to differentiate their product portfolio and protect their margins by reducing their exposure to commodity steel prices. However, these similar and simultaneous investments resulted in production overcapacity and put pricing pressures on value-added segments. Recently, the growth and consolidation of both steel consumers and raw material suppliers has weakened the bargaining power of steel producers and put further pressure on their margins. Steel producers have responded with a phase of industry consolidation that resulted in numerous mergers and acquisitions of steelmakers throughout the last decade.

The Group's management expects that further merger and acquisition activity will occur in the future, as industry players look to acquire greater influence over market pricing, thereby reducing their vulnerability to future declines in demand.

Consolidation has enabled steel companies to lower their production costs, allowed for more stringent supply-side discipline, including through selective capacity closures, and has enabled some steel companies to maintain pricing power. Despite the recent consolidation, the global steel market remains highly fragmented. According to Worldsteel, in 2015, the five largest producers—ArcelorMittal (97.13 million tonnes); Hesteel Group (47.75 million tonnes); Nippon Steel and Sumitomo Metal Corporation (46.37 million tonnes); POSCO (41.98 million tonnes) and Baosteel (34.94 million tonnes)—accounted for approximately 17 percent of total worldwide steel production, with ArcelorMittal, the largest, accounting for 6 percent.

Competition

The Group faces competition from a number of steel makers in the global steel industry. The following table sets forth the production volumes of some of the competitors of the Group in the global steel industry.

World Crude Steel Production by company, million tonnes

	2015
Worldwide crude steel production including	1,615
Arcelor Mittal (Luxemburg)	97.13
Hesteel Group (China)	47.75
Nippon Steel and Sumitomo Metal Corporation (Japan)	46.37
Posco (South Korea)	41.98
Baosteel (China)	34.94

Source: Worldsteel

Russian Steel Industry

The Soviet Union produced approximately 160 million tonnes of crude steel a year at the end of the 1980s. Following the collapse of the Soviet Union, the steel industry suffered a substantial decline in production, to approximately 75 million tonnes of crude steel for all the newly independent states combined in 1997. At that point, Russia was producing approximately 38 million tonnes of rolled products annually.

However, steel production started to recover following the devaluation of the rouble in 1998, due in part to the significant cost benefits that steel exporters experienced in 1999 and 2000. While the major mills were export oriented and their sales receipts were mostly US dollar based, their operating costs fell substantially in US dollar terms following the devaluation. In addition, the strength of steel prices in 2000 led to increased capacity utilisation rates, even at technologically inferior mills.

Though steel prices decreased in the second half of 2001 and the first half of 2002, beginning in the third quarter of 2002, the steel market demonstrated robust recovery in terms of both prices and volumes. According to Worldsteel, in 2005,

2006 and 2007 production of steel grew approximately 0.8 percent, 7.1 percent, and 2.3 percent, respectively, compared to the previous year. Production of steel in 2008 decreased approximately 5.4 percent, the production of steel in 2009 decreased by approximately 12.4 percent, in response to the global economic downturn, and the steel production in 2010 recovered to climb by 11.7 percent, and in 2011, production increased by 3.0 percent. In 2012, production in Russia of crude steel continued to rise by 2.5 percent, but growth was less than expected.

During the period from 2013 to 2016, production was relatively stable with an annual range from 69 to 71 million tonnes. Despite economic downturn started in the end of 2014 followed by domestic steel demand reduction major Russian steel producer managed to maintain high capacity utilisation rates mainly due to redirection of domestic shipments to export markets and changes in product mix. Nevertheless, weak domestic demand and shifting to semi-finished products negatively impacted steel producers' margins.

Russian steel production

In 2016, Russia ranked as the world's fifth largest producer of steel, producing 71 million tonnes of steel, or approximately 4.4 percent of global production, according to Worldsteel. The metallurgy sector is one of the most important sectors of the Russian economy accounting for approximately 2 percent of GDP in 2015. Russian enterprises produce a wide range of metal products for the domestic economy, in particular for the oil and gas, defence and construction industries.

Russian market

Since 2012 steel demand in the Russian market has mostly been stable with the exception of a significant fall in 2015. The Russian economy was severely affected by weakening oil prices and as a result the country's GDP shrank by 3.7 percent and apparent steel consumption fell between 8 and 9 percent in 2015. Despite the slight stabilization of the Russian economy in the second half of 2016, Russian apparent steel consumption is expected to have decreased in 2016 compared to 2015, mainly due to weakening of demand in the automotive and construction sectors. Main drivers of this slowdown in domestic steel demand were a reduction in real disposable household incomes, an increase in mortgage rates and a general decline in investments due to economic uncertainty and low credit availability. By way of example, fixed capital investments declined by 8.4 percent in 2015. Further, the construction industry in Russia was inhibited by high interest rates, a slowdown in investments and falling real incomes. Construction works value fell by 7 percent in 2015 and residential building completions decreased marginally from 84.2 million sq.m. to 83.8 million sq.m., benefiting from completion of a backlog of projects which had started several years ago during better economic conditions. At the same time, mortgage lending decreased by 35 percent in 2015. Consumption of large diameter pipes was the only growing market segment, profiting from the implementation of large-scale pipeline projects (e.g. the "Power of Siberia").

Export market

Asia, the Middle East and the EU are the primary export destinations for Russian steel producers. In 2016, Russian exports increased by 4.5 percent and reached 28.6 million tonnes of semi-finished and finished steel products compared to 27.3 million tonnes in 2015, according to Metal Expert. This growth was primarily caused by a fall in domestic consumption driven by recessionary trends in the Russian economy.

Steel Production Process

The key stages of the steel production process are coke making, iron making, steelmaking and steel rolling. Captive iron ore and coking coal resources ensure a secure supply of raw materials for steel production. The following is a brief summary of these processes:

Coke making

Coke is a solid product of coal coking. Coke usually contains 84 to 91 percent carbon and is used as the main fuel in blast furnaces. Coke is produced by heating the prepared coal charge in the absence of oxygen at temperatures of 900 to 1,200°C (pyrolysis) for 14 to 18 hours in the coke-ovens. After discharge from the ovens, coke is delivered to the blast furnaces for further use in iron making. Other products of the traditional by-product coking process include coke-oven gas and various by-products separated from the coke-oven gas. Coke-oven gas may be used as gaseous fuel in coking and other shops of the steel plant, as well as in adjacent power generation. The other by-products are further processed by the designated on-site shops and eventually sold to the third-party customers.

Iron making

Prepared iron ore raw materials (sinter and pellets) and coke are used for hot metal production. Coke and natural gas serve as fuel for the blast furnaces. Coke-oven gas, together with top gas from the blast furnaces, is used as fuel for the

heating of the stoves. Sinter, pellets and coke are layered and fed into a blast furnace from the top. Fuel combustion, reduction of iron from oxides, carbonisation of iron with partial reduction of silicon and manganese, melting of all components of burden and slag-making all occur inside a blast furnace.

Once formed, hot metal sinks to the bottom of the blast furnace where it is tapped off into the torpedo cars and delivered to the steel making shop to be converted into steel. Hot metal can also be delivered to a pig iron casting machine that produces pig iron for sale as a semi-finished product. Slag from the blast furnaces is recycled and further used in a variety of industries. At many steel plants, top gas generated in the blast furnaces during the iron making process is also used as a fuel for stoves, coke-ovens, boilers, rolling mills and other purposes.

Steel making

Steel is produced from hot metal and/or steel scrap and scrap substitutes using one of the following three technologies.

Basic oxygen furnace (BOF)

The oxygen converter process is based on the interaction of process oxygen (practically pure oxygen) with the molten charge bath. By blowing oxygen through the bath, the carbon content is reduced and the charge is transformed into low-carbon steel.

Scrap and hot metal are charged into the vessel and oxygen is then blown via a lance into the vessel, oxidising carbon and other impurities (silicon, manganese, etc.), thus lowering the carbon content of the molten charge and partially removing undesired chemical elements. Fluxes, such as burnt lime and dolomite, are fed into the vessel to form slag, which absorbs undesired impurities during the steel making process. The steel is then poured into a steel ladle where alloying materials can be added. The oxygen converter process is generally considered to be the most efficient steelmaking route for producing large volumes of high-quality steel.

Electric arc furnace process (EAF)

In electric arc furnaces the scrap and other charge elements are being melt by the heat generated by electricity arcing between graphite electrodes and the metallic charge. The key equipment components of the EAF are: a furnace shell, a retractable roof, a graphite electrode arm, a tilting device and a furnace transformer. The EAF production process consists of charging, melting, oxidation and tapping.

The EAF charge consists of scrap and scrap substitutes, such as DRI/HBI or pig iron, and sometimes hot metal, as well as fluxes. In some furnace designs, charge materials can be added in batches or continuously fed during the melting process. Once the melting stage is completed, the steel is tapped out into a preheated ladle. Some liquid steel is often left in the furnace to facilitate the melting of the next charge.

Open hearth process

In the open hearth process the steel is produced by melting scrap, hot metal and other charge components by the radiation heat of the burners positioned above the charge materials surface. Scrap and other components are charged into the furnace prior to heating. Fuel (such as natural gas, fuel oil, etc.) is burned to heat the scrap, hot metal is charged and slag is formed and flushed. During melting, the oxidation of carbon and other impurities (such as silicon and manganese) takes place. Fluxes, such as metallurgical lime and other, are used to form slag, which absorbs impurities during the steel making process.

Generally speaking, open hearth furnaces are disadvantaged by relatively high operating costs due to high levels of energy consumption, relatively low productivity, as well as prevailing combination with the ingot cast route. At the same time, open hearth allows higher flexibility in the raw materials used and under certain circumstances may be economically compatible with both EAF and BOF. The tendency of the world steel making industry has been gradual substitution of the open hearth production with either BOF or EAF methods.

Steel rolling

Cast steel is a relatively weak mass of coarse uneven metal crystals or “grains”. Rolling the steel makes this coarse grain structure re-crystallise into a much finer grain structure, giving greater toughness, shock resistance and tensile (stress) strength. Rolling is also the main method used to shape steel into different products.

Flat rolling process consists of passing the steel between two rolls revolving at the same speed but in opposite directions. The gap between the rolls is less than the thickness of the steel being rolled, resulting in the steel being reduced in

thickness, at the same time, lengthened. In addition to hot-rolling, where steel is reheated prior to rolling, it may also be further reduced without preheating in the process called cold-rolling, resulting in a different set of properties.

MINING INDUSTRY

Iron Ore

The global iron ore industry is characterised by a high degree of consolidation, with BHP Billiton, Vale, Rio Tinto and Fortescue accounting for approximately 70 percent of the global seaborne iron ore trade. The major iron ore producing countries are Australia, Brazil and China which are together responsible for 79 percent of 2015 global output. In 2015, Australia increased its iron ore production by 6.5 percent and in the period from 2011 to 2015 its iron ore output increased by 69 percent. In 2015, China decreased its production of crude ore by 8.6 percent as compared to 2014.

Iron ore production, million tonnes

	2011	2012	2013	2014	2015
United States	55	54	53	56	43
Australia	488	521	609	774	824
Brazil	373	398	317	411	428
Canada	34	39	43	44	39
China	1,330	1,310	1,450	1,510	1,380
India	240	144	150	129	129
Iran	28	37	50	33	33
Kazakhstan	25	26	26	25	25
Russia	100	105	105	102	112
South Africa	60	63	72	81	80
Sweden	25	23	26	37	37
Ukraine	81	82	82	68	68
Other countries	103	123	127	153	125
World total	2,940	2,930	3,110	3,420	3,320
Annual change (%)	13.5	(0.3)	6.1	10.0	(2.9)

Source: US Geological Survey

Note: Numbers are rounded to the nearest whole

Historically, Europe, Japan and China have been the major iron ore consumption centres. Following an economic slowdown in 2001 and corresponding reduction in iron ore demand, markets rebounded in 2002, with China and certain countries in the CIS showing significant increases in demand in connection with increases in steel production in these countries. Since that time, global consumption of steel, and thus of iron ore, has significantly increased. After the world economic crisis in 2008, China became the global leader for economic growth rates, steel production volumes and iron ore consumption primarily due to increasing imports. The major exporting countries of iron ore globally include Australia and Brazil. The major importers are major steel producing countries: China, Japan, South Korea and Germany.

Russian market

According to the US Geological Survey, total iron ore production in Russia in 2012 was 112 million tonnes. Imports to Russia are generally limited by high transportation costs and the lack of port facilities in the Far East and on the Black Sea that are capable of handling large sizes of ore carrying vessels. Russian steel producers have increasingly sought to acquire control of iron ore production assets, and attained control over nearly all of the major Russian producers of iron ore by the end of 2004. For example, in 2003 Mechel acquired control over Korshunovskiy GOK, during 2004, Evraz acquired control over KGOK, NLMK acquired control over Stoylenkiy GOK, and Ural Steel acquired control over Mikhailovskiy GOK and Lebedinskiy GOK (**KGOK**). Production of iron ore in Russia is concentrated in the Kursk region, representing the majority of Russian production, as well as in the northwest, Urals and Siberian districts. Iron ore produced in Russia is mainly magnetite, not hematite, which is common in Australia and Brazil.

Production process

Approximately 90.0 percent of iron ore mined in Russia is extracted by open-pit methods, with the balance extracted from underground mines. After extraction, the ore is processed further in order to increase its iron concentration. The iron

ore is then crushed to a powder-like consistency, and iron-rich particles are separated from the waste rock by magnetic separation to produce iron ore concentrate. This concentrate is then formed into pellets or sinter that are suitable for use as blast furnace feed.

To produce sinter, iron ore, iron ore concentrates and iron-bearing materials (blast furnace dust, screenings of sinter and pellets, scale, waste and slime), flux (limestone) and coke breeze are weighed and mixed to form sinter burden. This sinter burden is then granulated and laid in two layers in sinter machines. The sinter burden becomes sinter at temperatures of 1,070-1,200°C through the combustion of carbon from the coke breeze, while air is simultaneously drawn through the sinter burden by means of exhausters. After crushing, screening and cooling the sinter is ready for delivery to blast furnaces.

In producing iron ore pellets, iron ore concentrate is mixed with water and other additives, such as bentonite and limestone. The resulting slurry is baked at approximately 1,300°C. After the pellets have been screened and undersized material removed, they are prepared for use in blast furnaces.

Coal

Coal may be divided into steam (thermal) coal and coking (metallurgical) coal. Steam coal is used in electricity generation and industrial applications, while coking coal is used to manufacture coke for use in blast furnaces and other metallurgical applications. Coking coal swells when heated in coke-ovens to produce hard coke, which characteristic is essential in steel making operations. Approximately 400-500 kilograms of coke is used per tonne of hot metal. Coke is supplemented by the direct injection of PCI at rates of 100 to 200 kilograms per tonne of hot metal. PCI uses less expensive semi-soft coking coal to reduce costs.

In recent years, the global coal industry has consolidated, partly as a result of oil companies and other non-mining companies exiting the sector. As a result of consolidation, coal suppliers have gained more pricing power. Historically, Australia, China, Indonesia and South Africa have been the largest coal-producing countries, with Russia increasing its share of world supply in recent years.

Russian market

Russia has the world's second largest coal reserves after the United States. Its proven coal reserves total approximately 157 billion tonnes, accounting for 19.0 percent of the world's proven coal reserves.

Coal production in Russia is concentrated in the Kuznetsk Basin and the Kansk-Achinskii Basin, which are east of the Ural Mountains, and Pechorskii Basin, which is northeast of European Russia, and collectively account for the majority of Russia's total coal production.

Principal Competitors of Severstal Resources—Coking Coal Production, million tonnes

	2011	2012	2013	2014	2015
Sibuglemet (independent producer)	5.3	5.4	5	5.1	4.8
Yuzhny Kuzbass (owned by Mechel)	5.1	4.1	4	4.2	2.7
Raspidskaya (owned by EVRAZ)	3.8	4.5	5.3	6.2	6.6
Vorkutaugol (owned by Severstal)	5.1	5.3	5.6	4.9	5.7
Yuzhkuzbassugol (owned by EVRAZ)	4.1	4.1	4.9	5.5	5.4
Yakutugol (owned by Mechel)	4.7	5.5	5.8	5.9	5.1
KRU (owned by UMMC)	2.7	4.5	4.4	4.2	4.0
Other	12	12.5	14.9	15.9	15.6
Russia	42.8	45.9	49.9	51.8	49.8
Annual change (%)	-	7.2	8.7	3.9	(3.9)

Source: Metal Expert, CDU TEK.

Note: Numbers are rounded to the first decimal place

Production process

Approximately two-thirds of the coal mined in Russia is extracted by open pit methods, with the balance extracted from underground mining. At surface mines, a combination of shovels and draglines is used for moving coal and overburden after drilling and blasting. Production at underground mines in Russia is predominantly from long-wall mining. After mining, depending upon the amount of impurities in the coal, the coal is processed in a wash plant, where it is crushed and beneficiated. Coking coal is then transported to steel plants for conversion to coke for use in steel making. Steam coal is shipped to utilities that use it in boilers to generate steam used in producing electricity.

Russian Methodologies for Reserve and Resource Reporting

Severstal Resources has traditionally used Russia's long-established system of reserve and resource reporting, set forth by the Russian Federation Ministry of Natural Resources. In 2005, Severstal Resources began voluntarily using the internationally recognised JORC code of reserves and resource reporting (see "*—International Reporting Methodologies*"). All data relating to Severstal Resources' iron ore reserves and resources summarised in this Base Prospectus is calculated by reference to estimates contained in a report issued by IMC Montan dated February 2013 and IMC dated June 2006, in each case, prepared in accordance with JORC reporting standards (for assets located in Russia), SRK Consulting dated September 2012 prepared under the Guidelines of Samrec (for the Putu Range deposit, Liberia) and Russian state reporting (for Vorkutaugol).

The primary difference between Russian and international methodologies is that Russian methodologies rely on "geometrical" methods to determine reserves, as compared to international methodologies, which utilise sampling and extrapolation techniques.

According to the Russian system, deposits are classified into one of four classes, based on the complexity of their geological structure. This classification may take into account quantitative results measuring the inconsistencies in the basic features of mineralisation. This initial classification is intended to identify those resources warranting further study. Depending on the extent of further exploration, mineral resources are subsequently divided into "explored" and "evaluated" deposits. Explored deposits have been sufficiently explored to proceed with a feasibility study relating to commercial development, and evaluated deposits have been explored to the extent necessary to determine whether continued exploration is warranted. Resources that do not meet the standards for explored or evaluated deposits are classified as projected resources. Explored and evaluated deposits are further classified based on the type, quantity and quality of the measurements taken to evaluate the reserves.

Category A reserves include only explored deposits, and must meet the following criteria:

- the sizes, forms and bedding conditions of the mineral body have been determined; the nature and regularities in their morphology and internal fabric have been studied; the barren and off-grade segments within the mineral bodies have been detected and mapped; and the locations and fault amplitudes of dislocations with a break have been identified;
- the natural varieties of the minerals within the body have been determined; its categories and grades have been identified and mapped; its compositions and properties have been verified; and the quality of all categories and grades of the identified minerals have been characterised in terms of all parameters stipulated by industrial regulations;
- the distribution and forms of those valuable and noxious components found in the mineral body and products of its processing have been investigated; and
- the mineral reserves have been mapped based on test wells, mine workings and detailed trial runs.

Category B reserves include only explored deposits. Category B reserves have been subject to a high level of investigation, though their boundaries have been determined with less accuracy than Category A reserves. Category B reserves meet the criteria established for Category A reserves, except that Category B reserves may contain a limited extrapolation zone that is substantiated on the basis of geological criteria and geophysical and geochemical research.

Category C1 reserves are characterised by a lower level of accuracy than the determination of Category B reserves. Most explored deposits are Category C1 reserves. Category C1 reserves meet the criteria established for Category B, except that additional extrapolation is permitted in mapping the mineral deposit.

Category C2 reserves consist of evaluated deposits. Category C2 reserves must meet the criteria established for Category C1, except that:

- the sizes, forms, internal fabric and bedding conditions of the mineral body are confirmed by means of only a limited number of test wells and core samples; and
- the boundaries of the deposit (including core samples and outcroppings) are mapped based on data gathered from only a limited number of test wells, and a geologically substantiated extrapolation of deposit parameters is permitted.

Resources that do not meet the standards for classification as A, B, C1 or C2 reserves may be classified as probable resources, in Category P1, P2 or P3. Such deposits have undergone some exploration, but require further geological work in order to be upgraded to A, B, C1 or C2 reserves. While a direct comparison between international and Russian reporting methodologies is difficult because each is founded on different principles, it is often the case that categories A and B Russian reserves correlate to proved reserves, and C1 Russian reserves to probable reserves. However, these relationships may vary among deposits, and at different times for the same deposits.

International Reporting Methodologies

Several codes exist for reporting reserves in the international mining industry. The technical differences between these codes are minor, and results are generally comparable regardless of which methodology is employed in assessing a particular deposit. The principal reporting codes in current use are:

- United States Geologic Survey Circular 831 (United States);
- Ontario Securities Commission Instrument 43-101 (Canada);
- Australasian Joint Ore Reserves Committee (JORC) Code (Australia);
- Institute of Materials, Minerals and Mining Reporting Code (United Kingdom and Ireland); and
- South African Institute of Mining and Metallurgy Reporting Code (South Africa).

Each of these codes recognises the difference between mineral resources and reserves. Conversion from a mineral resource to an ore reserve requires the application of “modifying factors”, including mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. A “resource” is geologically defined; it becomes a “reserve” when the modifying factors, especially technical and economic factors, are taken into account. Each of these codes also includes strict guidelines for data quality and reporting in mining commodities.

The Council of Mining and Metallurgical Institutions (**CMMI**), which includes representatives of the major international standard setting organisations, is currently working to establish a common international reporting code standard. CMMI has promulgated common definitions that have been adopted by each of its member organisations in their respective reporting codes, including the principal reporting codes noted above, and these definitions are also incorporated into reporting standards that have been adopted by the United Nations Economic Commission for Europe.

A *mineral resource* is a concentration or occurrence of material of intrinsic economic interest in or on the earth’s crust, or deposit, in such a form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are subdivided, in order of increasing geological confidence, into inferred, indicated and measured categories. Portions of a deposit that do not have reasonable prospects for eventual economic extraction are not included as mineral resources.

An *inferred mineral resource* is that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity, and based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which is limited or of uncertain quality and/or reliability.

An *indicated mineral resource* is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are too widely or inappropriately spaced to confirm geological continuity and/or grade continuity, but are spaced closely enough for continuity to be assumed.

A *measured mineral resource* is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as

outcrops, trenches, pits, workings, and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

Ore reserves are the economically mineable parts of an indicated or measured mineral resource. Ore reserves take account of diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out on the deposit and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments establish that at the time of reporting extraction is reasonably justified. A probable ore reserve is the economically mineable part of an indicated and, in some circumstances, a measured mineral resource.

BUSINESS

OVERVIEW OF THE GROUP

The Group is a vertically-integrated steel and steel-related mining company that sells high quality metal and mining products to customers across the world. In 2016, the Group's total output of crude steel was 11.6 million tonnes. The Group operates a full production cycle which includes iron ore, coal, scrap collection, steel mills and rolled product plants, downstream production and distribution businesses. The Group's primary production facilities are located in Russia. With a focus on high value-added products in attractive niche markets, sales of which represented approximately 42 percent of the Group's total metal sales volume for 2016, the Group's corporate strategy is to become a global industry leader in terms of EBITDA and to sustain a leading position in terms of both profitability margins and return on investment as a vertically-integrated steel and steel-related mining company.

As at 31 December 2015, the Group comprised two business divisions: Severstal Russian Steel and Severstal Resources. The Group sold its entire Severstal International business division in September 2014. See “—*Discontinued Operation and assets held for sale—Severstal International reporting segment*”.

Severstal Russian Steel. In 2016, Severstal Russian Steel produced approximately 16.4 percent of total Russian crude steel production, based on data from Worldsteel. According to calculations by the Group's management based on publicly released data, Severstal Russian Steel was the third largest producer of crude steel products in Russia by volume of production in 2016. Severstal Russian Steel's revenue accounted for 90.8 percent of the Group's total revenues in 2016. Severstal Russian Steel is comprised of the following:

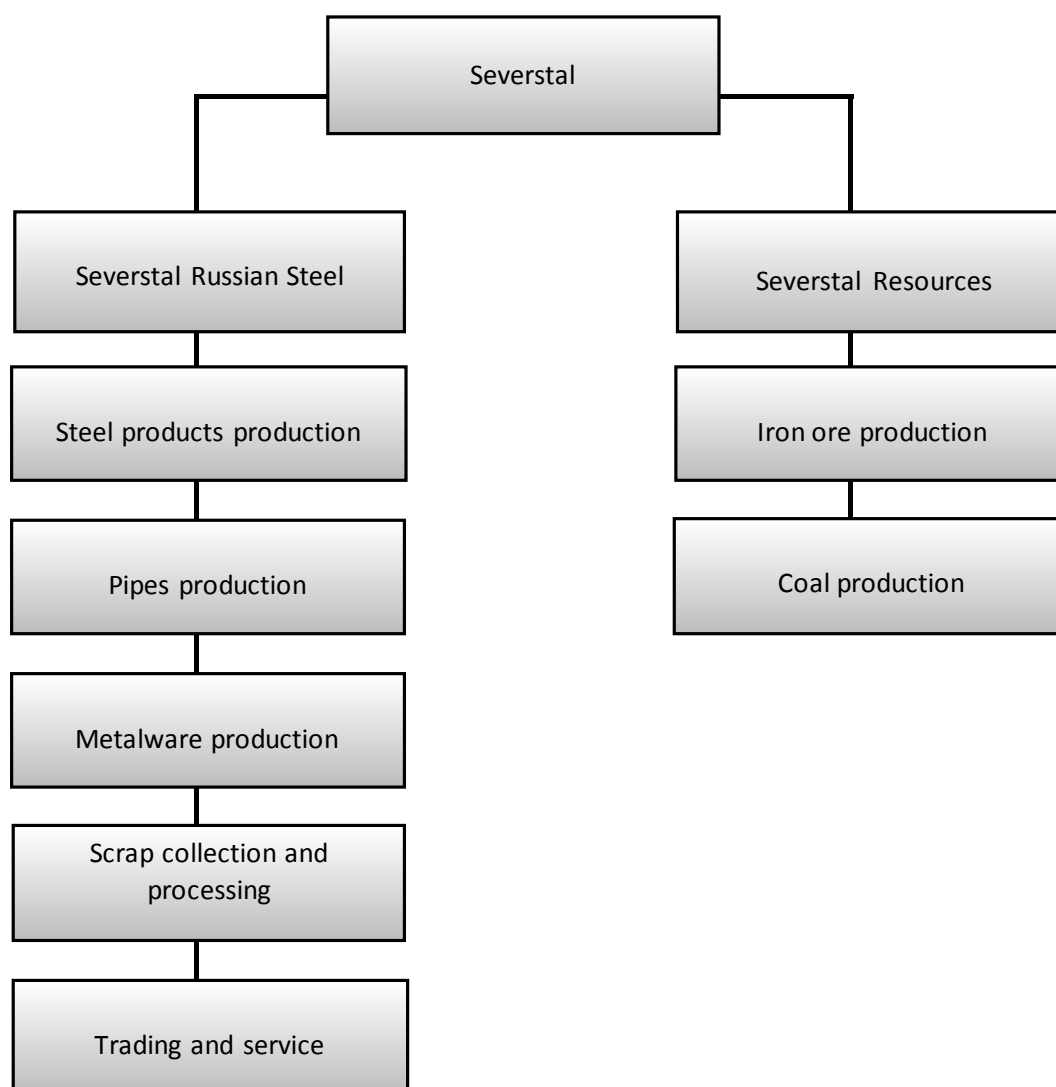
- *Cherepovets Steel Mill.* One of the world's largest stand-alone integrated steelworks by capacity, Cherepovets Steel Mill produced 10.89 million tonnes of crude steel in 2016. It produces a wide range of flat and long-rolled products, including hot and cold-rolled flat products, galvanised and colour-coated products and long-steel applications. Rolling Mill 5000, one of the Cherepovets Steel Mill's facilities, located in Kolpino, near Saint-Petersburg, produces thick plate for large diameter pipes, ship and bridge building and other industries.
- *Izhora Pipe Mill.* The Izhora pipe mill located in Kolpino specialises in manufacturing large diameter pipes from plate produced at the nearby Kolpino Rolling Mill 5000. It has a production capacity of up to 600 thousand tonnes of pipes per year. These pipes are mainly used in oil and gas pipeline projects.
- *Mini-Mill Balakovo.* The Balakovo mini-mill is a new generation mini-mill focused on the production of long products for the construction industry. It has an annual production capacity of one million tonnes of rolled products.
- *Severstal-Metiz.* Severstal-Metiz manufactures more than 55,000 product types, including low-carbon and high-carbon wire rods, nails, cold-drawn steel, steel ropes, netting and fastenings, and had total sales of 639 thousand tonnes in 2016 (excluding intersegment sales). Severstal-Metiz comprises several subsidiaries located at the Cherepovets site in northwest Russia, the Orel site in central Russia, the Volgograd site in the Povolzhie region, as well as subsidiaries in Italy (Redaelli) and Ukraine (Dneprometiz). According to estimates by the Group's management based on publicly available data, the Group's metalware market share in 2016 represented approximately 21 percent of the domestic Russian market.
- *Downstream production assets.* The Group has various downstream production assets including: *Severstal-SMC-Kolpino*, which applies the primer to shipbuilding plates and produces semi-finished products for machinery and large fabricated sections for the construction industry; *Severstal-Gonvarri-Kaluga Steel Centre* (the Group's joint ventures), which has a production capacity of 170 thousand tonnes of rolled metal products per year, which are used in the automotive and electrical industries; *Gestamp-Severstal-Kaluga Stamping Facility* (the Group's joint ventures), which is equipped with a number of press lines and produces all rolled steel products including coils to car components for international car manufacturers and has an annual output of 13 million stamped parts; *Severstal-SMC-Vsevolozhsk Services Centre*, which is a joint venture with the Japanese company Mitsui and prepares high-quality CRC and galvanised steel which is then sent for stamping at the Gestamp-Severstal-Kaluga Stamping Facility and which has an annual capacity of 150 thousand tonnes; *Severtar*, which is a joint venture with Rutgers and is based at the Cherepovets Steel Mill plant and produces vacuum pitch, technical oils and naphthalene; and *TPZ Sheksna*, which has production capacity of up to 250 thousand tonnes of electric-welded pipes of various diameters, thicknesses and lengths for the construction industry, as well as square and rectangular sections with different cross-sections, and uses semi-finished steel products made at Cherepovets Steel Mill.
- *Trading companies.* Severstal Russian Steel's domestic sales are made to regional and other distributors, directly to end-users, or through AO Severstal Distribution. AO Severstal Distribution has a wide network of metal centres throughout Russia. The Group conducts export sales principally through its subsidiaries Severstal Export GmbH,

Severstal Resources. Severstal Resources comprises iron ore production and coal production. Severstal Resources' revenue accounted for 9.2 percent of the Group's total revenues in 2016.

- The Group's iron ore business consists of two iron ore extracting complexes: Karelsky Okatysh, which produces iron ore pellets, and Olkon, which produces iron ore concentrate. Karelsky Okatysh, located in the Karelia Republic, had an annual iron ore output of 35.1 million tonnes in 2016 and estimated JORC iron ore reserves and resources of approximately 320.8 million tonnes and 976.4 million tonnes, respectively, as at 1 January 2017. The Group expects ore output at Karelsky Okatysh to remain at approximately the same level until 2031. Olkon, located in the Murmansk region of Russia, had an annual iron ore output of 13.6 million tonnes in 2016 and estimated JORC iron ore reserves and resources of approximately 204.3 million tonnes and 542.3 million tonnes, respectively, as at 1 January 2017. The Group expects ore output at Olkon to remain at approximately the same level until 2026. In addition, the Group also has interests in several iron ore development or prospective early stage projects in Africa and South America.
- The Group's coal business consists of Vorkutaugol and two greenfield projects: Tsentralny field and Usinskoye-1 field. Vorkutaugol, located in the Komi Republic, produces coking and steam coal and had ROM coal output of 10.3 million tonnes in 2016 and estimated coal reserves of approximately 139.0 million tonnes as at 1 January 2017. Vorkutaugol comprises five longwall mines (four of which are currently active and one is sealed off), an open pit mine and three washing plants (including the Severnaya mine). Tsentralny field is a greenfield project located in the Tyva Republic and, as at 1 January 2017, had total resources approximating 807.8 million tonnes of coking coal of A, B, C1 and C2 categories, according to the Russian Classification. Usinskoye-1 field is a greenfield project located in the Republic of Komi near the existing Vorkutaugol operation, with estimated resources of 537.3 million tonnes of coking coal of A, B and C1 categories, according to the Russian Classification, as at 1 January 2017. See "*Industry—Mining Industry—Russian Methodologies for Reserve and Resource Reporting*".

In 2016, Severstal Resources was the second largest producer of iron ore pellets and one of the leading producers of high quality hard coking coal in Russia, according to RudProm and Rasmin. Severstal Resources has the capacity to satisfy all of Severstal Russian Steel's iron ore and approximately 70 percent of its coking coal requirements. This forms the basis of the Group's balanced and vertically-integrated business model. With a focus on high value-added products, such as the export of high quality iron ore pellets and hard coking coal concentrate, Severstal Resources' iron ore and ROM coal output amounted to 48.7 million tonnes and 10.3 million tonnes, respectively, in 2016. The Group estimates that, as at 1 January 2017, it had iron ore reserves and resources of approximately 525.1 million tonnes and 6,208.7 million tonnes, respectively, based on reports issued by IMC Montan dated February 2013 and IMC dated June 2006, in each case, prepared in accordance with JORC reporting standards (for assets located in Russia) and a report issued by SRK Consulting dated September 2012 prepared under the guidelines of Samrec (for the Putu Range deposit, Liberia) and coal reserves of approximately 139.0 million tonnes, based on reporting conducted by the Group in accordance with the Russian Classification. Operational and financial data for Severstal Resources for 2014 includes data relating to PBS Coals, which was disposed of in August 2014.

The Group's Business Divisions



The Group originally consisted of its core Russian steelmaking business, which was state owned until its privatisation in 1993. Since that time, the Group has expanded by identifying attractive acquisition opportunities and by consolidating all of the steel and mining assets of the Group's Majority Shareholder into its business. In addition to acquiring numerous production facilities in Russia in 2004, the Group acquired substantially all of the principal steelmaking and finishing assets of US steel producer Rouge Steel Company (Rouge Steel), subsequently renamed Severstal Dearborn. In September 2014, the Group sold its 100.0 percent stakes in Severstal Dearborn LLC and Severstal Columbus LLC comprising, together with their subsidiaries and investments in joint ventures and associates, the Severstal International reporting segment. See “—Discontinued Operation and Assets held for sale”.

In June 2006, the Group acquired controlling interests in Karelsky Okatysh, Olkon, Vorkutaugol, OAO Mine Pervomaiskaya and OAO Mine Berezovskaya, the last two of which were disposed of in the second quarter of 2008. In October 2006, the Group acquired a controlling interest in the European steel producer Lucchini S.p.A (**Lucchini**), then increasing its interest to 100.0 percent in March 2010 before selling 50.8 percent of its interest in June 2010 to the Group's Majority Shareholder.

In January 2008, the Group acquired a controlling interest in Severstal Columbus, a steel mill in Columbus, Mississippi. In May 2008, the Group acquired ArcelorMittal's Sparrows Point facility, subsequently renamed Severstal Sparrows Point LLC. In July 2008, the Group acquired WCI Steel Inc. (**WCI**) (renamed Severstal Warren). In August 2008, the Group acquired all of the steel production assets of Esmark Inc., a manufacturer and distributor of flat-rolled and other steel products in the United States. These assets included Severstal Wheeling, as well as a number of steel servicing companies that have since been divested. In March 2011, the Group sold its 100.0 percent stake in Sparrows Point, Severstal Warren, Severstal Wheeling and a 50.0 percent stake in MSC.

In 2007, the Group purchased Neryungri—Metallic, ZAO Rudnik Aprelkovo (*Aprelkovo*) and Celtic gold mining operations in Russia, as well as gold mining licences in Russia. In January 2008, the Group completed the acquisition of Celtic. In August 2008, the Group acquired Semgeo. In November 2008, the Group acquired a 53.8 percent stake in High River Gold and increased its stake to 72.6 percent through a series of transactions in 2010. In November 2011, the Group made the decision to separate the Gold segment by an exchange of 100.0 percent shares of Nord Gold, the segment's holding company, for the Company's shares and GDRs based on the relative fair values, which was completed in March 2012.

In 2010, the Group obtained a licence for further exploration and coal extraction at the Tsentralny field.

In 2011, the Group announced that its indirect subsidiary Lybica Holdings B.V. entered into a legally binding heads of terms agreement with Afferro and its wholly owned subsidiary Mano River, for the purchase of a 38.5 percent interest in Severstal Liberia Iron Ore Ltd. In 2012, the Group completed the purchase and consolidated 100.0 percent of Severstal Liberia Iron Ore Ltd., the legal entity that owns the Putu Range Project's assets in Liberia. During 2015, due to uncertain prospects for the development of the field, the Group assessed the recoverable amount of Severstal Liberia Iron Ore Ltd and reduced the carrying amount of the cash generating unit to nil.

As at 31 December 2016, Redaelli Tecna S.p.A., an Italian steel company and a subsidiary of the Group included in the Severstal Russian Steel reporting segment, was classified as assets held for sale in the Annual Financial Statements following the decision to sell the entire 100.0 percent stake to a third party.

For more information, see “—*History and Development of the Group*” and “—*Recent Developments*”.

COMPETITIVE STRENGTHS

The Group has developed a variety of competitive strengths, which it believes provide it with a greater resilience to the cyclical nature of the steel industry than some of its competitors and a basis on which to build its position as a global metals and mining company. The Group's distinct business model is focused on global cost leadership through efficient vertical integration, prudent investment and focus on customer care. Consequently, the Group remains one of the global leaders by profitability margins and returns on investment. Financial resilience remains a top priority and the Group currently has one of the strongest balance sheets and lowest leverage in the industry, providing a strong cushion against market volatility. The Group's share in the domestic market (excluding large diameter pipes) accounted for 17.0 percent and 17.4 percent in 2015 and 2016, respectively, and its share in the domestic market (excluding large diameter pipes and long products) was 23.9 percent and 24.2 percent in 2015 and 2016, respectively, according to Metal Expert.

Vertically-Integrated Business with Access to Iron Ore, Coal and Scrap

The Group is a vertically-integrated steel producer operating on a global scale. Its facilities span the full production cycle from iron ore and coal mining operations to steel mills and rolled product plants as well as downstream production and distribution businesses. The Group's mining operations, conducted by Severstal Resources, provide supplies of iron ore and coal products to its production facilities in Russia while also supplying these raw materials to third parties. The Group has its own scrap collection and processing facilities.

Severstal Resources is one of the largest producers of hard coking coal and iron ore pellets in Russia. As a result, Severstal Russian Steel's operations with respect to iron ore are fully self-sufficient, as Severstal Resources' overall production volumes of iron ore are able to cover in full the overall consumption volumes of Severstal Russian Steel, without taking into account the chemical features of the particular iron ore mix required. With respect to coal, Severstal Resources' capacities could satisfy approximately 70 percent of Severstal Russian Steel's demand for coking coal in 2016. However, Severstal Russian Steel sources a portion of its iron ore and coal requirements from third party suppliers, to cover its requirements for materials with different chemical features, to take advantage of favourable prices, as well as in cases of disruptions in the mining operations of Severstal Resources.

Severstal Resources' deposits have technical characteristics which enable it to produce a relatively wide range of products for customers in the metallurgical industries, in addition to the Group's steel operations. Its reserves of iron ore and coal are significant, with estimated lives of some mines exceeding several decades. The Group considers mining to be one of its core businesses. The vertically-integrated nature of the Group enables it to secure raw material supplies for its operations while reducing the Group's exposure to raw material price fluctuations, resulting in increased efficiencies.

Global Cost Competitiveness

Globally, Russia is one of the lowest cost regions for steel production in the world, and the Group occupies one of the most favourable positions on the global hot-rolled coil cost curve, according to Worldsteel. In particular, the Group had hot rolled coil cash cost of approximately US\$224 per tonne in 2015 and US\$258 per tonne in December 2016. With its

largest production facilities located in northwest Russia, the Group benefits from relatively low-cost supplies of electricity and natural gas, as well as low transportation fees as a result of its proximity to major steel consuming markets in the central European part of Russia and the ports of the St. Petersburg region.

In addition to these cost advantages, as one of the largest producers of steel in Russia, the Group benefits from economies of scale in both production and negotiation power with its suppliers, including third-party suppliers of raw materials. This cost competitiveness is particularly valuable in granting the Group's flexibility to shift its sales focus between the Russian domestic market and the export market in a cost effective manner depending on relative demand for steel and mining products domestically and globally.

Further, the Group is self-sufficient to a substantial degree in the raw materials essential for its operations. It generates a significant amount of the electricity it uses in its operations at its own production facilities and, consequently, is less exposed to electricity price volatility. The Group's vertically-integrated structure and self-sufficiency in iron ore and to a substantial degree in coking coal also reduces its exposure to raw material price volatility and enables it to achieve significant cost synergies. See "*—Vertically-Integrated Business with Access to Iron Ore, Coal and Scrap*". The Group benefits from the implementation and close monitoring of cost control measures, including as part of the Severstal Business System, and as a result of the launch of various initiatives by the Group's Expert Network since 2015 that are designed to improve operational processes throughout the Group. See "*—Severstal Business System*". In recent years the Group has made significant investments into modernisation and efficiency programmes in order to improve productivity and achieve cost and operational efficiencies. As a result of these investments, the Group is well positioned to control operating costs.

Experienced Management Team

The Group's senior management team combines extensive steel and resources industry knowledge with international management and financial expertise, including valuable insight gained from the five independent non-executive directors on the board of directors. At an operational level, the Group has developed, and continues to refine, a management structure that is focused on improving accountability, clarifying responsibilities and streamlining information reporting and decision-making. Much attention is devoted to efficiently and effectively reporting and communicating the development of a business undertaking at all levels of the production process. Backed by international experience and advanced technical and business qualifications, the management team's ability to successfully manage the performance of the Group's assets is evidenced by the increased operating efficiency in recent years and cost reduction achievements across the divisions.

Severstal Business System

Severstal Business System is carefully structured to foster sustainable competitiveness by creating a culture of continuous improvement within which the Group's employees are challenged and encouraged to achieve targets and implement the Group's strategy through the use of best practices and management tools, all of which are updated responsively on an ongoing basis. In particular, the Business System has established cost control targets for each division and specific plants of the Group. The Group constantly evaluates these targets and the performance of its divisions and assets through regular benchmarking processes and an audit programme for its operations, in connection with which international experts periodically consider specific segments of the operational process.

The Group believes that the Business System drives operational and organisational excellence along its entire value chain, improves customer satisfaction and promotes a safety-conscious culture. During the early years of its implementation in 2010-2013, the Business System was primarily focused on changing the prevailing culture within the Group's production departments in order to achieve cost reductions, improve working conditions and industrial safety, and enhance product quality. The Group believes that the implementation of the Business System achieved these targets by fostering an ambitious and collegiate working environment which was more receptive to change and the adoption of new best-in-class business-processes. Most recently, the Business System has been expanded to cover other areas of the Group's operations, including:

- Customer relationships (by refining and clarifying key customer requirements and creating joint supply systems);
- Value stream improvement (by encouraging production planning targeted at delivery performance improvement and quality management along the value chain);
- Supplier development (by building a smooth supply chain for materials and services required for the value stream); and
- Maintaining implemented changes (by goal-setting, improving customer-focus and the adoption of an audit system).

Strong Corporate Governance

The Group seeks to adhere to international corporate governance standards. The Group benefits from a culture of independence on its board of directors as a result of both a diverse, multinational membership and the independence of half of its board (according to UK standards of independence). In addition, the Group has established committees of its board of directors in accordance with the UK Combined Code on Corporate Governance and has implemented other measures aimed at promoting transparency and good corporate governance. These measures include implementing internal control procedures and internal audit functions, publishing quarterly financial statements prepared in accordance with IFRS, publishing regular production updates and requiring the approval of two-thirds of the board of directors for acquisitions with a value in excess of US\$500 million and any transaction with a value of more than 10.0 percent of the book value of the Company's assets. In addition, all transactions with affiliates are approved by the Board of Directors.

Robust Liquidity and Sustainable Leverage

As a result of the Group's strong financial performance, including achieving EBITDA margins of 32.8 percent and 32.3 percent in 2015 and 2016, respectively, the Group has a sustainable leverage (net debt/EBITDA ratio was 0.4 as at 31 December 2016) and a robust liquidity position (US\$1.2 billion of cash and cash equivalent and unused committed credit lines of US\$0.7 billion as at 31 December 2016). Even though the Group represents less than 1 percent of the global steel industry in terms of production volumes, it has been the leader within the global steel industry in terms of profitability for the past six consecutive quarters. S&P and Fitch upgraded the Company's credit rating to BBB- in August 2016 and May 2016, respectively, and in the third and fourth quarters of 2016, S&P and Fitch revised the Company's rating outlook from negative to stable. Financial resilience remains a top priority for the Group and provides a strong cushion against market volatility.

STRATEGY

The Group's corporate strategy is based on its model of being a vertically-integrated steel and steel-related mining company. The Group aims to maximise shareholder value by building a stable and high quality business that will generate higher than market average earnings throughout the economic cycle. The Group has grounded its corporate strategy in the crucial industrial growth drivers of cost competitiveness, vertical integration, customer care and focus on a diversified products portfolio with emphasis on high value-added products in order to build upon and improve its ranking as one of the leading steel companies worldwide.

As part of its overall strategy, the Group is focused on achieving certain targets and goals in respect of its financial performance and condition, including the following:

- achieving cycle-average EBITDA margin of approximately 20 percent;
- keeping annual mid-term capital expenditure below US\$1 billion;
- generating stable positive free cash flow;
- maintaining net debt to EBITDA ratio below 1.5x; and
- dividend payout of not less than 50 percent of net profit, provided that net debt to EBITDA ratio is below 1.0x (if above, dividend payout shall not exceed 25 percent of net profit).

To successfully implement the above strategy, the Group intends to accomplish the following initiatives:

Pursue Low-Cost Steel Production

The Group believes that cost competitiveness is a vital element of its success. See "*Competitive Strengths—Global Cost Competitiveness*". Accordingly, the Group plans to continue to pursue a strategy of lower-cost steel production (in comparison to global cost levels in steel production). Efficient vertical integration is an integral part of the Group's business model which enables it to extract significant synergies and manage costs. The Group is one of the few steel companies with a strong position in both iron ore and coking coal. The Group is largely self-sufficient in iron ore and to a substantial degree in coking coal, which are its primary steel-related raw materials. The Group intends to maintain its vertically-integrated structure in order to remain largely self-sufficient in primary steel-related raw materials, which enables it to maximise cost efficiencies and reduce production costs.

The Group believes that a low-cost operating structure can be achieved by a combination of prudent capital expenditure on production facilities, cost control measures, energy efficiency improvements, integration of its raw materials business

with steel production and labour productivity gains, the main contributions of which are expected to come from the continuous improvement, purchasing optimisation and cost control and other initiatives included in the Severstal Business System. In particular, the Group intends to continue to invest in modernisation and maintenance projects which are expected to make the Group's assets more cost efficient and expand the number and scope of the initiatives already introduced through the Severstal Business System. See "*—Implement Prudent Investment Policy*".

Enhance Customer Care

As a result of the weak fundamentals of the global steel market, the Group intends to implement a "defensive growth" strategy, pursuant to which it will focus on improving customer care and enhancing product quality rather than increasing the scale of its production in order to increase profitability by generating higher earnings per tonne of product. Consequently, the Group intends to adopt a more customer-centric business model and focus on three key areas: service quality, product quality and supply discipline. The Group considers best-in-class customer care will allow it to attract and retain customers in a volatile macro-economic environment. The Group will assess improvements in its customer care through the use of the net promoter metrics, whilst benchmarking results against previous performance.

Service Quality

The Group is planning to implement a large number of measures to enhance service quality, including continuing to develop its online shopping platform and online customer accounts, optimising its purchasing system and ensuring closer interaction and cross-functional cooperation among its employees (including between sales managers and after-sales service specialists). In particular, the Group understands that proactive and regular engagement with customers is key to ensuring it continues to meet their evolving needs. Such interaction is expected to enable the Group to better understand the balance of price and non-price factors affecting customer decision-making. To this end, the Group intends to simplify and encourage communication between the Group and its customers at all stages, from the point of submitting product orders to delivery and aftersales service. Ongoing client feedback will be solicited to enable the Group to enhance and adapt its customer service tools to satisfy their requirements.

Product Quality

The Group intends to implement new measures to enhance product quality. One of the most important projects in this regard will be the branding of the Group's products, pursuant to which the Group will guarantee high product quality standards. The Group will also invite customers to specify a broader range of requirements and criteria when ordering products in order to better understand their current and future requirements. The Group will seek to evaluate product quality from the perspective of its customers and will focus on improving product quality maintenance throughout the operational process in order to support its efforts to identify and permanently resolve product quality issues at an earlier stage (and ideally before an official request or claim is made). Further, the Group will continue to invest in the maintenance and modernisation of its assets and develop new high-quality products (such as olivine pellets in Karelsky Okatysh). See "*—Implement Prudent Investment Policy*".

Supply discipline

The Group will seek to further improve its supply discipline and increase the proportion of product deliveries that are made on-time and in-full. To this end, the Group will integrate and develop the IT-systems that oversee and coordinate its supply chain. The Group has also revised its Supply Chain Management strategy, in particular, the procurement structure of the Group has been divided into documentation (back-office) and operating (front-office) streams, which the Group believes to be in line with best global practices. Further, centralisation is being introduced in the procurement system for the purpose of creating synergies in procurement and increased opportunities in the management of suppliers. In 2015, the Group implemented the Product Portfolio Management project which is aimed at splitting all of the Group's products into two categories: commodity (mass) products and non-typical products tailored to customers' needs.

The Group will leverage its Product Portfolio Management system to differentiate between specific market segments and define optimal sales, production, planning and logistic strategy to fully address customer expectations. For example, the Group employs simple forecasts in planning the production cycle for its commodity (mass) products, which have a diversified customer base and numerous purchases every month, in order to improve the lead-time without building up inventories, whereas the Group's production planning methodology for non-typical products, aimed at clients in the automotive segment, who demand considerably lower volumes of specific higher value-added steel products, is necessarily more complex.

Implement Prudent Investment Policy

The Group intends to continue to implement a prudent investment policy, pursuant to which investment will continue to be primarily focused on developing key areas of the Group's strategy including cost control, further diversification of its

products portfolio, increased production of high value-added products and enhancement of customer care. The Group expects to invest approximately US\$673 million across its business in 2017.

Severstal Russian Steel

Planned investments across Severstal Russian Steel in 2017 are expected to amount to approximately US\$407 million, part of which will be invested in development projects including the construction of a new coating line and ladle furnace No.2 and reconstruction of coke battery No.4. All of these investment projects are aimed at modernising existing facilities, delivering increased capacity of high value-added products and reducing costs. In addition to these development projects, the Group plans to allocate a substantial part of its capital expenditure in 2017 to the ongoing maintenance of its production assets, as well as environmental, health and safety projects.

Severstal Resources

Planned investments across Severstal Resources in 2017 are expected to amount to approximately US\$266 million which will be invested in the development of the division's assets including the implementation of a new multi-functional safety system at the Vorkutaugol mines, improvements to stripping works, maintenance of the Group's coal and iron ore operations as well as health and safety improvement projects.

Develop and Incorporate Advanced Information Technology

The Group believes that recent developments in information technology and analytics, such as the "internet of things", predictive maintenance and the use of "big data", will offer significant opportunities to improve the productivity and efficiency of all areas of the Group's business and operations. To that end, the Group is actively developing its information technology to support the introduction of such concepts and developments.

HISTORY AND DEVELOPMENT OF THE GROUP

The Group's predecessor, Cherepovets Metallurgical Works, produced its first cast iron in 1955. Cherepovets Metallurgical Works was 100.0 percent state-owned until it was privatised in 1993 in accordance with the State Programme for the Privatisation of State and Municipal Enterprises in the Russian Federation. The newly privatised entity, the Company, was registered as an open joint stock company in the city of Cherepovets on 24 September 1993. Since 1993, the Group has expanded its corporate vision by entering a number of different businesses, including companies engaged in the mining of iron ore and coal, the procurement of scrap, pipe manufacturing, metalware production, serving the needs of the Russian automotive, construction, shipbuilding, oil and gas, engineering and other industries, as well as the international market.

A brief timeline illustrating the historical development of the Group's current business divisions, Severstal Russian Steel and Severstal Resources is set forth below.

1994-1999	The Group and the Majority Shareholder acquire a combined interest in Karelsky Okatysh, an iron ore pellet producer.
1995	The Company's shares list on the RTS.
1995-2001	The Group and the Majority Shareholder acquire a controlling stake in Olkon, an iron ore producer in the Murmansk region in Russia.
2000	The Group purchases Rolling Mill 5000 from OAO United Heavy Machinery.
2001	The Group and Arcelor formed the Sevelgal joint venture, which produces high-quality galvanised auto body sheet products.
2001-2003	The Group and the Majority Shareholder acquire Vorkutaugol, which consists of several mines, coking coal production and beneficiation plants in the Republic of Komi in Russia.
2001-2002	The Majority Shareholder acquires a controlling stake in Kuzbassugol, a coal-mining company that includes the Pervomayskaya Mine and the Berezovskaya Mine.
2004	The Group acquires substantially all the assets of Rouge Steel, forming the business formerly called Severstal North America and later renamed Severstal Dearborn, an integrated steel making facility based in Michigan.
2005	The Group's shares list on MICEX. The Group acquires a 100.0 percent stake in ZAO Severstal-Metiz, now JSC Severstal-Metiz, from the Majority Shareholder.

SeverCorr LLC (later renamed Severstal Columbus) is formed in order to develop a “next generation” steel plant in Mississippi.

Severstal North America (later renamed Severstal Dearborn) and Wheeling Pittsburgh Steel Corporation form MSC through a 50:50 joint venture.

The Group and the Majority Shareholder acquire Lucchini, an integrated steel making company.

2006 The Group conducts its initial public offering on the LSE.

The Group acquires the majority stake of a number of mining and steel companies (including Lucchini) from the Majority Shareholder.

The Group completes the construction of the Izhora Pipe Mill, which produces large diameter pipes.

The Company approves a new corporate governance system, incorporating independent directors into its Board of Directors.

Severstal-Metiz acquires Dneprometiz.

2007 Severstal Columbus (formerly SeverCorr LLC) mini-mill commences operations.

The Group acquires several scrap processing businesses.

The Group establishes SMZ-Kolpino, a processing service centre.

The Group acquires 86.3 percent of Celtic, a company with subsidiaries holding gold mining assets in Kazakhstan.

The Group establishes LLC Severstal Ukraine, now Severstal Distribution LLC, to be a distributor in Ukraine and begins expanding its distribution operations in Belarus through ZAO SeverstalBel, now ZAO Severstal Distribution.

The Group acquires ArcelorMittal’s 25.0 percent stake in the Seversgal joint venture, taking the Group’s stake in Seversgal to 100.0 percent.

The Group acquires stevedore company ZAO Neva-Metall, now CJSC Neva-Metall.

The Group sells Lucchini Sidermeccanica to members of the founding Lucchini family.

The Group commences development of the mini-mill in Balakovo.

The Group acquires all of the shares in Neryungri Metallic and Rudnik Aprelkovo, each a Russian gold mining company.

2008 The Group acquires 61.5 percent of African Iron Ore Group Ltd. (later renamed Severstal Liberia Iron Ore Ltd.), which owns the exploration rights for an iron ore deposit in the Putu Range area in Liberia.

The Group acquires WCI (later renamed Severstal Warren) based in Ohio.

The Group acquires 100.0 percent of PBS Coals, a coking coal producer located in Pennsylvania.

The Group acquires Esmark Incorporated (later renamed Severstal Wheeling) located in West Virginia, including the remaining 50.0 percent stake in MSC.

The Group acquires 100.0 percent of Sparrows Point based in Maryland.

The Group completes the acquisition of both Olkon and Karelsky Okatysh.

The Group completes the acquisition of Celtic.

The Group sells Kuzbassugol to ArcelorMittal.

The Group acquires a 100.0 percent stake in Redaelli Tecna S.p.A..

The Group acquires 100.0 percent of Semgeo, which includes a gold mine in Kazakhstan.

The Group acquires a 53.8 percent stake in High River Gold, which comprises the Irokinda, Zun-Holba and Berezitovy mines in Russia and the Taparko mine in Burkina Faso.

2009 Following a restructuring, Nord Gold acquires all of the Group’s gold mining assets.

2010 The Group acquires 20.2 percent of Lucchini bringing its shareholdings in Lucchini to 100.0 percent. The Group later sells 50.8 percent of its stake in Lucchini to the Majority Shareholder.

The Group acquires a 16.5 percent stake in a project which controls exploration licences for the Avima iron ore deposit in the Republic of Congo (Brazzaville) and the Kango iron ore deposit in the Republic of Gabon.

The Group commences operations at its TPZ Sheksna facility with production capacities of electric welded pipes and other profiles.

The Group sells Northern Steel Group, a group of companies within the Severstal International segment.

Through a series of transactions, the Group increases its interest in High River Gold to 72.6 percent.

Through a series of transactions, the Group brings its total interest in Crew Gold to 93.4 percent.

The Group acquires an 11.0 percent stake in SCM, increasing its ownership to 18.1 percent.

The Group obtains a license for further exploration and coal extraction at the Tsentralny field in the western part of the Ulug-Khemskiy basin in the Tyva Republic, Russia.

The Group acquires a 21.7 percent stake in Intex Resources, a public mining and exploration company listed on the Oslo Stock Exchange with its headquarters in Oslo, Norway.

The Group acquires a 25.6 percent stake in IMBS, a research and development company based in Johannesburg, South Africa.

Severstal and NMDC, the leading iron ore producer in India, sign a MOU to establish a 50:50 joint venture company with the objective of building an integrated steel plant in India.

The Group sells its 5.9 percent stake in OAO Vorkutaugol, now AO Vorkutaugol.

2011 The Group sells its 100.0 percent stake in Sparrows Point, Severstal Warren and Severstal Wheeling and a 50.0 percent stake in MSC.

The Group acquires a 7.4 percent stake in IMBS, increasing its ownership interest to 33.0 percent.

The Group acquires an additional 6.6 percent stake in Crew Gold to increase its ownership interest to 100.0 percent.

The Group acquires an additional 49.0 percent stake in LLC Severstal Ukraine, now Severstal Distribution LLC, increasing its ownership interest to 100.0 percent.

The Group sells its 100.0 percent stake in SSM RP Holding B.V. and its wholly owned subsidiary Severstal-Metiz: welding consumables.

The Group sells its 91.6 percent stake in OAO Stalmag.

The Group acquires a 25.0 percent stake in SPG Mineracao S.A. The Group also enters into a call option agreement to purchase an additional 50.0 percent stake, exercisable upon fulfilment of certain future conditions. SPG Mineracao S.A. owns exploration licences for a number of highly prospective iron ore properties in the northern state of Amapa, Brazil.

The Group acquires an additional 2.4 percent stake in High River Gold Mines Ltd., increasing its ownership interest to 75.1 percent.

The Group signed an amendment to the Lucchini sale and purchase agreement with the Majority Shareholder, which cancelled the call option and the contractual entitlement, for the benefit of the Group, to any gain on a subsequent sale of this stake to a third party. As a result, effective from the date of that amendment, the Group has accounted for the investment in Lucchini using the equity method.

2012 The Group sells its 21.7 percent stake in Intex Resources ASA.

The Group acquires an additional 15.8 percent stake in AS Severstallat, now SIA Severstal Distribution, increasing its ownership interest to 100.0 percent.

The Group completes the separation of its Gold segment by exchanging 100.0 percent of shares of Nord Gold N.V., the segment's holding company, for OAO Severstal, now PAO Severstal, shares and GDRs.

The Group acquires an additional 38.5 percent stake in Severstal Liberia Iron Ore Ltd., increasing its ownership interest to 100.0 percent.

ZAO Mine Vorgashorskaya 2 is merged into OAO Vorkutaugol, now AO Vorkutaugol. As a result of this merger, the Group's ownership interest in OAO Vorkutaugol, now AO Vorkutaugol, decreases from 88.1 percent to 84.2 percent.

The Group acquires an additional 14.8 percent in OAO Vorkutaugol, now AO Vorkutaugol, increasing its ownership interest to 99.0 percent.

- 2013** The Group exercises its put option to sell back a 12.8 percent stake in SPG Mineracao SA by setting off its deferred consideration payable. As a result, the Group's ownership interest decreases from 25.0 percent to 12.2 percent. Additionally, the Group cancels a call option agreement to purchase an additional 50.0 percent stake in this company.
- Lucchini S.p.A. officially declared insolvency. The appointed independent Extraordinary Commissioner sent a communication to all creditors informing them of the opening of the extraordinary administration proceeding. Effective on that date, the Group lost its significant influence in Lucchini and began to account for its investment at fair value.
- 2014** The Group acquired an additional 50.0 percent stake in Mountain State Carbon LLC from a third party, increasing its ownership interest to 100.0 percent.
- The Group sells its 100.0 percent stake in PBS Coals, Severstal Dearborn and Severstal Columbus.
- 2015** The Group transfers some of the Group's entities from the Severstal Resources segment to the Severstal Russian Steel segment following a change in the Group's management structure.
- 2016** The Group liquidated 7027940 Canada Limited, Potren Limited and Canolion Limited.
- As at 31 December 2016, Redaelli Tecna S.p.A., an Italian steel company and subsidiary of the Group, included in the Severstal Russian Steel reporting segment, was classified as assets held for sale in the Annual Financial Statements.

Employees

The following table sets forth the average number of the Group's employees (full-time equivalents) by business division in 2015 and 2016:

Business division

	Year ended 31 December	
	2015	2016
Severstal Russian Steel.....	37,543	37,115
Severstal Resources	13,025	12,914
Total.....	50,568	50,029

Health, Safety and Environment

Each of the Group's business divisions operate health and safety management systems which apply a systematic approach to establishing work processes that preserve and enhance their employees' ability to work effectively and safely and that are in compliance with applicable legal requirements. Each of the Group's business divisions monitors its compliance with applicable environmental regulations and standards. In 2010, the Group launched a labour safety project with the ultimate goal to be among the industry leaders in safety by 2014. Under the project, a number of initiatives have been launched to develop and implement an effective safety management system penetrating into every business process and resting on the personal attitude of every worker to his or her own safety.

Environmental management systems comply with the international standard ISO 14001:2004 at the Cherepovets Steel Mill, the Izhora Pipe Mill, Severstal Distribution and Karelsky Okatysh. Karelsky Okatysh, Olkon and four businesses of Severstal Russian Steel (Cherepovets Steel Mill, Izhora Pipe Mill, Severstallat and Severstal Project) have their occupational safety systems certified for compliance with OHSAS18001:2007 standard.

Occupational safety is a priority for the Group and a critical component of the Severstal Business System. The strategic goal of the Group is to use global best practices in occupational safety to completely eliminate work-related fatalities and to become the best Russian company as measured by key safety indicators. The businesses of the Group use integrated tools to analyse injuries, work with safety violators, discover sources of danger, and engage personnel in safety issues. Health, safety and environmental aspects of the Group's operations are supervised by a special Board Committee and a dedicated senior executive. There is also a complex safety framework embedded across the Group's business.

The Group's mining operations have experienced significant accidents in recent periods, including accidents that have resulted in fatalities and disruptions to operations. In particular, on 11 February 2013, there was an accident involving an explosion at the Vorkutinskaya mine that resulted in 19 fatalities. Further, in February 2016, a series of methane

explosions at Vorkutaugol's Severnaya mine resulted in the deaths of 31 miners and 5 rescue workers. The mining operations at Severnaya mine have been suspended since the accident and the Group has taken a decision to seal off Severnaya mine to avoid the risk of airflow, which may cause further underground fires and explosions in the mine. See *"Risk Factors—Risk Factors relating to the Group and the Steel and Mining Industries—The Group's mining operations are subject to hazards and risks that could lead to unexpected production delays, increased costs, damage to property, loss of mining assets and injury or death to persons"*.

During the period between 2014 and 2016, the Group experienced 325 work-related lost time injuries at its production facilities, of which 94 incidents occurred in 2014, 82 in 2015 and 149 incidents occurred in 2016. The Group's LTIFR was 1.11, 0.99 and 1.77 for the years ended 31 December 2014, 2015 and 2016, respectively (excluding PBS Coals for LTIFR in 2014).

Insurance

The Group's operations are subject to numerous operating risks, including environmental hazards, industrial accidents, unusual or unexpected geological conditions, labour force disruptions, unavailability of materials and equipment, weather conditions, pit wall failures, rock bursts, cave-ins, flooding, seismic activity, interruptions to power supplies and industrial and other accidents at mills, mines, processing plants or related facilities. While management has set up business continuity management systems to try to prevent and mitigate these events, these risks and hazards could result in damage to, or destruction of mineral properties or processing facilities, personal injury or death, environmental damage, delays in mining and monetary losses and possible legal liability.

The Group's business divisions maintain a level of insurance commensurate with the standards of other leading steel companies in the markets in which it operates.

Legal

Each of the Group's business divisions has been and continues to be the subject of legal proceedings and adjudications from time to time, which are incidental to the Group's business. Save as disclosed below, the Group is not aware of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) during the last 12 months, which may have, or had in the recent past, significant effects on the Group's financial position or profitability.

In 2015, a bankruptcy clawback claim was made by the insolvency receiver of Lucchini against Karelsky Okatysh for approximately US\$142 million. Lucchini was previously a subsidiary of the Group and was deconsolidated in 2011 and currently is undergoing a bankruptcy process in Italy. This claim relates to payments received by Karelsky Okatysh for the supply of raw materials to Lucchini primarily after Lucchini was deconsolidated. The bankruptcy clawback action is a remedy offered by Italian bankruptcy legislation to allow insolvency receivers to invalidate certain payments and transactions executed in the period preceding the insolvency that altered the equal treatment of all unsecured creditors of an insolvent debtor. The Group's management believes this claim has no merits and intends to vigorously defend its position. The Group's management is unable to assess the ultimate outcome of the claim, including any potential financial loss that may result from these proceedings. See Note 31 of the Annual Financial Statements on page F-81 for further information.

SEVERSTAL RUSSIAN STEEL

Severstal Russian Steel comprises steel products production, pipes production, scrap processing and trading and services.

Steel production. The production of steel products occurs primarily at the Cherepovets Steel Mill, including a number of its workshops, among which there are high grade automotive galvanising facilities, as well as a number of other facilities located primarily in the northwestern region of Russia. These facilities jointly constitute a full production cycle, from the creation of crude steel to production of high value-added products, such as electric welded pipes for construction or coated flat products for the automotive industry. The Cherepovets Steel Mill produced 10.86 million tonnes of steel in 2015 and 10.89 million tonnes of steel in 2016. The Cherepovets Steel Mill is located in Cherepovets, in northwest Russia, approximately 600 kilometres from Moscow and approximately 450 kilometres from St. Petersburg. Severstal Russian Steel also includes a heavy plate mill in Kolpino, which is approximately 26 kilometres from St. Petersburg. The Izhora Pipe Mill is adjacent to Kolpino. Metalware operates out of multiple sites across Russia, Italy and Ukraine. These locations give Severstal Russian Steel strategic proximity to river ports and railways, providing logistically favourable access to raw material sources and customers.

Pipes production is carried out at the Izhora Pipe Mill which specialises in manufacturing large diameter pipes from plate produced at the nearby Kolpino Rolling Mill 5000. The Izhora Pipe Mill produced 546 thousand tonnes of pipes in 2015 and 401 thousand tonnes of pipes in 2016.

Scrap Processing. Severstal Russian Steel has its own facilities for processing steel scrap of various sizes. Severstal-Vtorchermet specialises in scrap collection and processing and meets the need in ferrous metals scrap of the largest division asset – the Cherepovets Steel Mill.

Trading and services. Severstal Russian Steel’s distribution network includes companies located in Russia, Latvia, Poland, the Republic of Belarus and Ukraine. Development of its own distribution network is an important element of Severstal Russian Steel’s strategy, and it assist consumers of the Group’s products to use unique service capabilities provided by the Group. As a part of Group’s development program, all of the companies involved in the distribution network have been renamed into “Severstal Distribution” reflecting the function of the companies and their belonging to a common distribution network. When dealing with customers, Severstal Distribution companies adhere to a principal of a best possible partnership which allows a customer to select the most favourable combinations out of the complex offer consisting of products and various related services.

Facilities

The following table sets forth Severstal Russian Steel’s major current production capacity and equipment by unit as at 31 December 2015.

Major Steel Production Facilities, Severstal Russian Steel—Achieved Capacity

	As at 31 December 2016	
	Equipment	Capacity (million tonnes per year)
Severstal Russian Steel		
Cherepovets Steel Mill		
Coking plant	8 batteries	4.6
Sintering plant	8 machines	9.3
Blast furnace facilities	4 furnaces	9.2
Basic Oxygen Furnaces (BOFs)	3 furnaces	9.8
Electric Arc Furnaces (EAFs).....	2 furnaces	1.1
Continuous casters.....	2 casters	1.05
General Meltshop Engineering bars.....	1 plant	1.1
General Meltshop Engineering slabs	1 plant	1.0
Hot-rolling mills	4 mills	8.4
Cold-rolling mills	2 mills	2.7
Pickled metal surface line	2 continuous lines	0.4
Hot-dip galvanising lines.....	3 lines	1.2
Shape and bar production	3 bars mill	2.25
	1 ball-rolling mill	0.03
	2 electric pipe-welded rigs	0.054
SMZ-Kolpino		
Line of automotive parts production (edge cutting, forming, rolling).....	1 line	0.005
Rolled products plasma cutting.....	4 machines	0.02
Flat-rolled products processing area (shot blasting and prime coating facilities)	1 line	0.04
TPZ Sheksna		
Slitting unit.....	1 unit	0.48
Pipe mill	1 mill	0.3
Izhora Pipe Mill		
Large diameter pipe mill.....	1 mill	0.6

Cherepovets Steel Mill. The Cherepovets Steel Mill produces almost all of Severstal Russian Steel’s crude steel. The Cherepovets Steel Mill produced 10.86 million tonnes in 2015 and 10.89 million tonnes in 2016. It is a fully integrated steel plant occupying a 30 square kilometres site and consisting of more than a hundred large process machines from iron ore materials and coals processing to deep processing machines. As at 31 December 2016, the Company had over ten thousand customers including Russian and foreign companies operating in major industry sectors, such as construction, car production, fuel and power, oil and gas, engineering, shipbuilding and others.

The Cherepovets Steel Mill consists of five production units: coke-sintering-blast-furnace, steelmaking, production of flat products, production of long products and pipes production.

Coke-sintering-blast-furnace production

Coke-sintering-blast-furnace production includes a coking facility, a sintering facility and blast furnaces. Preparation to iron smelting process starts at the coking facility. It includes five major process shops: the Coal Preparation Shop, Coking Shops No.1 and No.2 and Coke By-product Shops No.1 and No.2.

Coking Shop No.1 consists of a number of coking batteries: (i) Coking Battery No.3 (equipped with paired flues systems) and Coking Battery No.4 (equipped with fly gates systems), each with a production capacity of 460 thousand tonnes of coke per year and 61 ovens; and (ii) Coking Batteries No.5 and No.6 each with a production capacity of 660 thousand tonnes and 77 ovens and equipped with paired flues systems. Coking Shop No.2 consists of Batteries No.7, No.8, No.9 and No.10 each with a production capacity of 730 thousand tonnes and 65 ovens and equipped with paired flues systems. The Cherepovets Steel Mill produced 4.6 million tonnes in each of 2015 and 2016.

The sintering facility comprises four shops. Sintering Plant No.2 has six sinter machines with the sintering area of 84 sq.m. and a production capacity of 4.5 million tonnes. Sintering Plant No.3 has two sinter machines with the sintering area of 312 sq.m. and a production capacity of 4.8 million tonnes. Charge Preparation Shop No.1 is designed for discharging, storing and providing raw materials required for sinter production for Sintering Plants No.2 and No.3. Charge Preparation Shop No.2 is designed for discharging, storing and providing raw materials (pellets, coke, sinter) for the blast furnaces and limestone for Sintering Plant No.3. The Cherepovets Steel Mill produced over 9.3 million tonnes of skip sinter in each of 2015 and 2016.

The blast furnace facility, which produces hot metal, comprises three shops. The Production Preparation and Procurement Shop are designed to transfer materials to blast furnaces and their preparation for smelting while the Slag Processing Shop deals with processing steelmaking slags and production waste. The Hot Metal Production Shop currently comprises four blast furnaces with volumes ranging from 1,007 to 5,500 cubic metres including one of the largest blast furnaces in the world, Blast Furnace No.5 named Severyanka with a volume of 5,500 cubic metres. The main task of the coke-sintering-blast-furnace production is to provide steel making iron to the steel making plant. In 2015, the coke-sintering-blast-furnace production smelted 9.2 million tonnes of hot metal at four blast furnaces compared to 9.3 million tonnes in 2016.

Steelmaking Production

The Cherepovets Steel Mill produces steel in the BOF Shop and the EAF Shop.

The EAF Shop can produce up to 2.1 million tonnes of steel per year in more than 470 steel grade variations. The EAF Shop includes two production lines: a billet production line and a slab line. Each production line has a shaft-type electric arc furnace, a ladle furnace, a continuous casting machine and one vacuum degasser. The production of steel at the EAF Shop amounted to 1.1 million tonnes in each of 2015 and 2016. The BOF Shop contains three basic oxygen furnaces with volumes ranging from 350 to 400 cubic metres. Main components for steel production at the BOF Shop are hot metal, scrap, slag forming powder and ferro alloys. The production of steel at the BOF Shop amounted to 9.8 million tonnes in 2015 and 2016, respectively. Hot metal cash cost amounted to US\$142 per tonne in 2015 and reached US\$144 per tonne in 2016. Cash cost of slab amounted to US\$218 per tonne and US\$213 per tonne in 2015 and 2016, respectively.

Flat Products Production

Flat products production includes hot-rolling and cold-rolling shops. There are ten shops in total in flat products production. The production area is approximately 625,000 sq.m. The hot-rolling shops produce billets for the cold-rolling shops, the roll forming mill and TPZ Sheksna. Several major mills function in the hot-rolling shops: Mill 2800, Mill 1700 and Mill 2000. Mill 2800 is designed for rolling plates with a thickness of 7 to 50 mm and a width of up to 2,500 mm and is also a roughing mill for rolling narrow work pieces for Mill 1700. Mill 1700 is a continuous 6-stand hot-rolling mill. Mill 1700 produces coil stock with a thickness of 0.8 to 6.0 mm and a width of 810 to 1,450 mm. Mill 2000 provides 70 percent of semi-finished rolled products for further processing at facilities of the Cherepovets Steel Mill.

In 2012, extensive renovation of Mill 2000 was completed with the reconstruction of the coiling area which provided the opportunity to coil skelp (a hot-rolled strip) of higher strength category with a thickness of up to 25 mm and width of up to 1,850 mm. More than 350 steel grades were adopted for production at Mill 2000 for the fuel and power, defence and automotive, shipbuilding and machine-building industries. Mill 2000 produced over 5.8 million tonnes in each of 2015 and 2016.

The cold-rolling shops include a four-stand mill renovated in 2016 and a five-stand mill. Machines produce cold-rolled sheets with a thickness of 0.25 to 3.2 mm. As a result of full automation introduced in the four-stand mill in 2016, deployment of CVC system and two flatness rolls the four-stand mill is able to produce steel with flatness up to 5 mm and a thickness of 0.4 to 3.2 mm. The annual capacity of this mill is 1.3 million tonnes of rolled steel. The main

consumers of products made using new equipment are the automotive industry, manufacturers of home appliances and construction companies. The five-stand cold-rolling Mill 1700 is designed for continuous rolling of hot-rolled pickled coiled strips. The five-stand mill is a continuous rolling mill which enables continuous rolling with operational shut down only for roll change and maintenance. It comprises two pay-off reels, two coilers, a welder and a looper with a strip reservoir of up to 800 metres.

The steel colour coating section of Steel Coating Shop No.2 comprises two lines producing hot-dip galvanised steel with coating. The line producing hot-dip galvanised sheets is included into Steel Coating Shop No.2. The machine produces more than 50 grades of hot-dip galvanised sheet with a thickness of 0.4 to 2.0 mm and a width of 900 to 1,850 mm for domestic automotive companies and international automotive concerns such as Renault-Nissan, Volkswagen, Hyundai-Kia, Ford, GM and others. Some grades of galvanised sheets are produced and supplied to automotive companies in Russia only from the Cherepovets Steel Mill.

Long Products Production

Several facilities are used in long products production. A continuous four-stand wire rod Mill 150, with an annual capacity of 800 thousand tonnes per year, produces reinforcing bars in coils No.6, No.8, and No.10, as well as rounds in coils with a diameter of 5.5 to 13 mm. High-speed rolling blocks used in Mill 150 enabling production with a rolling speed of up to 50 metres per second. Renovation of the lap formation section in 2014 enabled production of rebars No.8 in coils of "A500C" class. In addition, a light section continuous two-stand Mill 250 functions within the long products production making rounds in coils, bars, rebars in bars and equal angles. Mill 250 is the first mill in Russia certified in 2014 for production of rebars for European markets. The mill's design capacity is 600 thousand tonnes per year. Mill 350 is a semi-continuous one-stand mill. It produces rounds with a diameter of 28 to 100 mm, reinforcing bars, hexagonal section bars, equal angles and non-equal angles, channels, cross bar joints for vehicles and other steel products. A ball-rolling Mill 20-60 was commissioned in April 2014 designed for production of steel grinding balls with a diameter of 20 to 60 mm. The mill's capacity is 30 thousand tonnes per year. A second ball-rolling Mill 30-60 is planned to be commissioned at the end of 2016.

In the second half of 2014, the Group launched two electric pipe-welding machines: EPWM 12-38 and EPWM 19-60 producing closed square sections (15x15 to 40x40 mm), and rectangular sections (40x20 to 50x25 mm), resulting in increased volumes of products made by the Cherepovets Steel Mill in average by 45 thousand tonnes per year.

Pipe Production

The pipes rolling shop includes a plate rolling Mill 5000 (Kolpino Rolling Mill 5000) located in Kolpino of the Leningrad Oblast. The wide-strip rolling Mill 5000 is designed for rolling sheets with a thickness of 10 to 50 mm and plates of 51 to 300 mm thick (individually, 450 mm) with a width of 1,500 to 4,800 mm and with a length of up to 30 metres from cast, rolled and forged slabs and ingots of 5 to 60 tonnes in weight from carbon, alloyed, stainless and special steels and alloys. The shop's products are in high demand in shipbuilding, machine-building and fuel and power industries. In particular, the pipes rolling shop is a supplier of skelp for the Izhora Pipe Mill.

The Izhora Pipe Mill in Kolpino specialises in manufacturing large diameter pipes from plate produced at the nearby Kolpino Rolling Mill 5000. The Izhora Pipe Mill has a production capacity of up to 600 thousand tonnes of pipes per year depending on the diameter of pipe produced. The Izhora Pipe Mill produced 546 thousand tonnes of pipes in 2015 and 401 thousand tonnes of pipes in 2016. The biggest customers of Izhora Pipe Mill are Gazprom and Transneft.

SMZ-Kolpino houses the Steel Service Centre of the Izhora Pipe Mill complex which is a technologically advanced facility for rolled steel plate processing. SMZ-Kolpino's production capacity is 65 thousand tonnes of finished products per year. SMZ-Kolpino specialises in the production of machined billets from rolled steel for the needs of machine- and shipbuilding enterprises and the construction industry.

Severstal TPZ-Sheksna is a pipe mill with a capacity of 250 thousand tonnes of pipes per year. This pipe mill produces electric longitudinal welded circular pipes with a diameter of 159 to 426 mm, square profiles ranging from 100 × 100 mm to 300 × 300 mm and rectangular profiles ranging from 120 × 80 mm to 400 × 200 mm, 3 to 16 mm thick and with a length of 6 to 16m.

Metalware

The Group's metalware production business comprises Severstal-Metiz, which encompasses wire drawing and metalware manufacturing businesses in Russia, Ukraine and Italy. The Group's Metalware business currently produces more than 55,000 types of products, including high-carbon and low-carbon wire, cold drawn steel, steel shape profiles, steel wire ropes, nails, fibre, fasteners, mesh, and currently has a total maximum production capacity of more than 1 million tonnes

per year. Total metalware sales of the Group's Metalware amounted to 613 thousand tonnes in 2015 and 641 thousand tonnes in 2016.

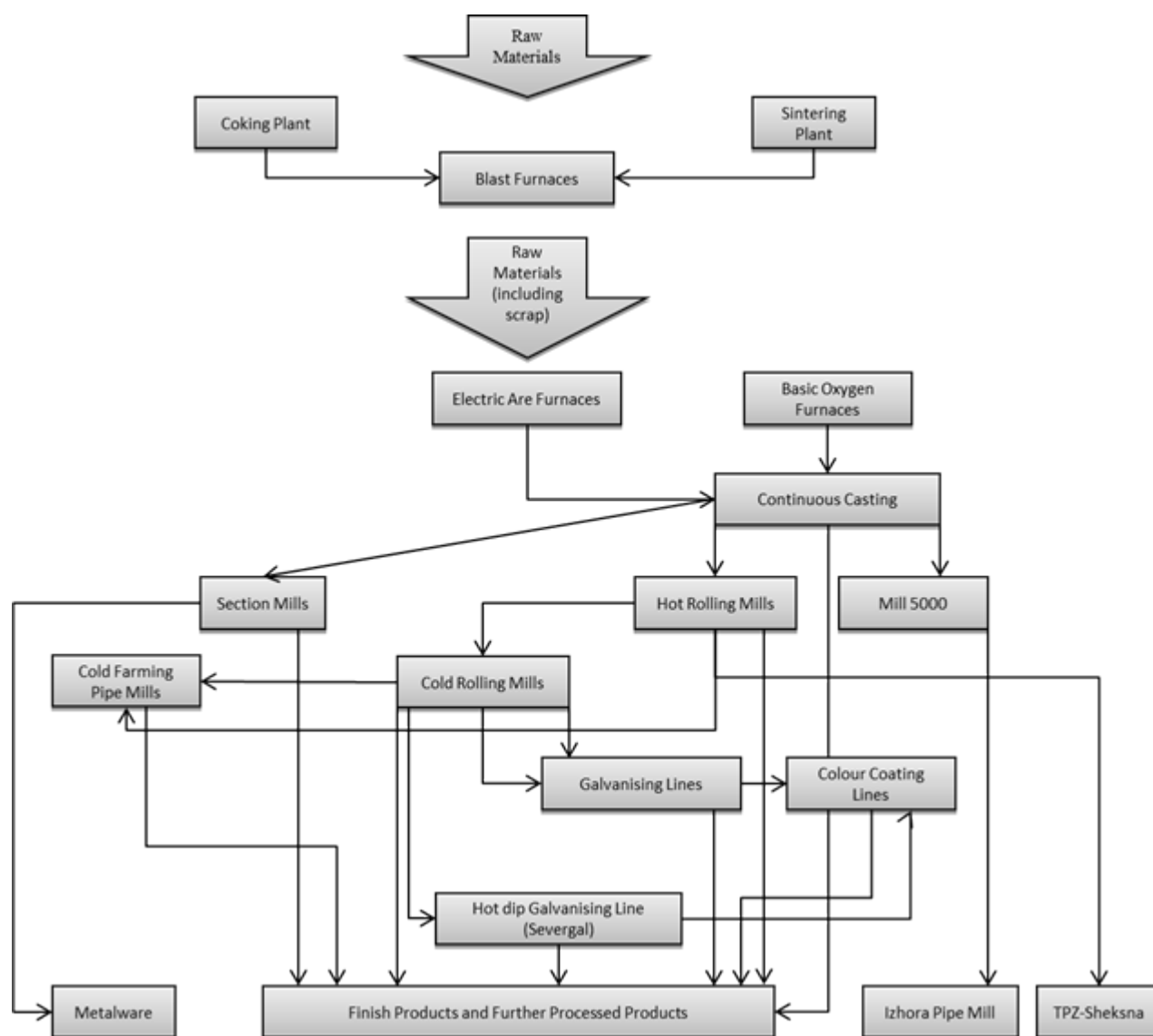
Severstal-Metiz Russian operations include metalware production facilities in Cherepovets, Orel and Volgograd. In addition to significant geographic coverage, Severstal-Metiz operates in each of the primary parts of the Russian metalware products market, benefitting from the wide range of products manufactured at the respective plants. In 2006, the Group acquired Dneprometiz plant in Ukraine. Dneprometiz produces wire and certain other processed products at its production facilities located in Ukraine.

Since 31 July 2008, Redaelli Tecna S.p.A. (Italy) has become a part of Severstal-Metiz. Redaelli Tecna S.p.A. is an Italian company, one of leading manufacturers of special ropes on the global market. The company produces products for a number of industries, including oil and mining, bridge building, construction, electric and power. It is focused on advanced ropes for floating drilling platforms, hoisting, stadiums, cable bridges and ropeways. Redaelli Tecna S.p.A. has a service and distribution unit and an engineering unit. A new site was launched in Trieste, Italy, on 30 November 2009. In January 2017, the Group entered into a definitive agreement to sell to a third party 100 percent of the shares in Redaelli Tecna S.p.A. See "*Recent Developments*".

Starting from 1 October 2014 Severstal-Metiz spun off its steel wire rope division into a subsidiary Redaelli SSM (Volgograd, Russia). Redaelli SSM and the Rope Service Center of Tech Rus are now under the control of Italian company Redaelli Tecna S.p.A.. Starting from 1 July 2016 Severstal-Metiz has spun off its Orel branch into a subsidiary OSPAZ (Orel, Russia). Severstal-Metiz OSPAZ specialises in the manufacture of low-carbon wire products and fasteners (including high-strength fasteners for automotive industry and bridge construction).

Steel Production Process

The diagram below illustrates the major steps in Severstal Russian Steel's main steel production processes:



Severstal Russian Steel continuously seeks to improve the efficiency of the steel production process through a number of annual asset modernisation activities.

The steelmaking process at the Cherepovets Steel Mill begins with coal being fed into the coking plant and iron ore concentrate and other materials being fed into the sintering plant to produce coke and sinter, respectively. The mix of sinter, pellets and coke is then fed into the blast furnaces, which operate continuously. During the blast furnace process, the charge is converted into hot metal. Liquid slag, which remains after smelting, is also removed from the blast furnaces. When cooled, the slag is crushed at the slag processing facilities and is then sold domestically by Severstal Russian Steel as road-construction material. Gas produced by the blast furnaces is captured and recovered for further process needs.

The hot metal is transported to the BOF shop and EAFs in railway ladle cars. The basic oxygen steelmaking process is autogenous, or self-sufficient in terms of energy.

The two EAFs at the Cherepovets Steel Mill do not need to be charged with hot metal, and can be charged with “cold” material, normally steel scrap, recycled goods made from steel which have reached the end of their useful life and solid pig iron. Other forms of raw materials may be used, including pig iron from the blast furnaces that has been cast and allowed to go cold. Molten steel produced by the EAFs can either undergo secondary steelmaking or be transported to the continuous caster.

All of the liquid steel is fed from the furnaces into continuous casting machines to produce slabs and billets. Continuous casting is the most efficient casting process with the lowest metal consumption per tonne of rolled products, saving

approximately 70 kilograms of steel per tonne compared to ingot casting. The slabs are further rolled at the hot-rolling mills into sheet and coils.

Additional processing methods related to cold-rolling further improve the mechanical characteristics of the steel. These additional processing methods include pickling, hydrogen annealing and tempering. Some cold-rolled sheet is galvanised, which involves applying a coat of zinc and aluminium, and some is further colour coated.

Quality control

Severstal Russian Steel has established comprehensive quality control systems at each stage of its production cycle. Severstal Russian Steel employs a wide range of techniques, varying from performance benchmarking to best practices, along with statistical process control, which were initiated by Severstal Russian Steel in 2001. Since 2005, the Company has been developing and implementing a system of statistical production management and in 2009 witnessed a launch of the “Continuous Improvement” project under which a unified model of operational management and continuous quality improvement is being developed and implemented. The main objective of these quality control systems is to enhance the quality of steel by improving technological process parameters. The Group runs the “Continuous Improvement” project on a regular basis with an annual update on objectives regarding current customers’ needs.

Quality control measures currently used by Severstal Russian Steel, are primarily aimed at making products that comply with the high requirements applied in the United States, Japan, EU countries and other developed markets along with upgraded standards of the Russian oil and gas and pipeline industries.

Severstal Russian Steel’s products have been certified for compliance with the regulations and classifications of many associations, including members of IACS, such as the Russian Maritime Register of Shipping, Lloyd’s Register of Europe, Middle East, and Africa, the American Bureau of Shipping, DNV - GL, Bureau Veritas, TUV Rheinland Group and the Russian River Register. A number of the Group’s products made for the construction market (for example, rebars of various diameters and strength classes) were duly certified by the Technological Institute of Concrete and Reinforced Concrete Named after Gvozdev A.A. (NIIZhB) and the Transportation Research and Development Institute (OAO TsNIIS). For the period of 2014 to 2016, Severstal Russian Steel significantly expanded the product range for the construction market of European countries. Rebars produced by the Group were approved in accordance with requirements of national standards of such countries as Finland, Sweden, Denmark, Germany and Hungary. The Group is planning to certify its products in accordance with requirements applied in UK, Norway and Holland in 2017.

As part of a compliance audit performed by Lloyd’s Register of Europe, Middle East, and Africa according to requirements of Regulation (EU) No. 305/2011, the current certificate for CE marking was expanded for the Group with the inclusion of new steel grades S355JR, S355JO, S355K2 according to EN10025. In addition, the certificate approval area was expanded for CE marking for pipes and roll-formed shapes according to EN10219 with the inclusion of a wider product range.

Steel products of Severstal Russian Steel are supplied for different off-shore projects for development of oil and gas deposits, as well as for construction to EU markets and neighbouring countries. As at the day of this Base Prospectus, the Company possesses approximately 100 valid compliance certificates and expert reports confirming quality compliance of a wide range of products, including by-products (break stones from steel making and blast furnace slags of different sizes).

In April 2016, the Group successfully passed a compliance audit of the quality management system conducted by LR EMEA (Lloyd Register) for compliance with requirements of international standards ISO 9001:2008 and ISO/TS 16949:2009. As the certificates for quality management system will expire in the beginning of 2017, the Group is planning to conduct a recertification audit at the end of 2016.

Severstal-Metiz’s three plants in Russia have management quality systems certificate, corresponding to the requirements of International Standard ISO 9001:2008, issued by Certification Association “Russian Register”. Along with it, Severstal-Metiz has received a certificate of conformity stating that its quality control system is in compliance with the requirements of International Standard ISO/TS 16949:2009 concerning cold drawn steel and steel shape profiles issued by certification body United Registrar of Systems Ltd (URS). Severstal-Metiz testing laboratories based in Cherepovets and Volgograd successfully passed accreditation for conformance to the requirements of ISO17025. In addition, Severstal-Metiz has a number of RosTechNadzor (Russian Technical Supervisory Authority) certificates and permits attesting to the quality of its products, including steel ropes, reinforcing steel cables, railway fasteners, engineering and high strength fasteners, low carbon wire for concrete reinforcement, wire fibre and periodic profile wire.

Supply Chain

The principal raw materials used by Severstal Russian Steel to produce steel include iron ore concentrate and pellets, coking coal, limestone and dolomite, non-ferrous metal and ferro alloys and metal scrap. Severstal Russian Steel maintains a minimum two-week reserve of all the main raw materials used in the production process. This reserve is

normally increased to approximately three weeks during the winter to compensate for any potential break in supply due to bad weather and for increased consumption rates experienced during the colder weather. In addition, during the winter, the stocks of scrap are increased to three months.

Severstal Russian Steel's steel production energy requirements include water, gas, electricity and steam.

Raw materials. Currently Severstal Resources' overall iron ore concentrate and pellets production volumes are able to cover in full the overall consumption volumes of Severstal Russian Steel, without taking into account the chemical features of the particular iron ore mix required. As a result, Severstal Russian Steel's operations with respect to iron ore could be fully self-sufficient in 2016. With respect to coal, Severstal Resources' capacities could satisfy approximately 70 percent of Severstal Russian Steel's demand for coking coal in 2016. However, Severstal Russian Steel does source a portion of its iron ore and coal requirements from third-party suppliers primarily due to its requirements for materials with different chemical features and to take advantage of beneficial prevailing prices. In 2016, Severstal Russian Steel's steel operations procured approximately 69 percent of its iron ore, concentrate and pellets and 54 percent of its coal requirements from Severstal Resources (66 percent and 64 percent in 2015, respectively), purchasing its remaining requirements from third-party sources.

In 2016, the Cherepovets Steel Mill's raw materials requirements accounted for approximately 100 percent of Severstal Russian Steel's total raw material requirements, and approximately 100 percent of iron ore, concentrate, pellets and coal, 70 percent of metal scrap, 30 percent metal scrap and 3 percent ferro alloys and non-ferrous metal purchases of Severstal Long Product Mill Balakovo.

The following table sets forth a breakdown of the raw materials procured by the Cherepovets Steel Mill in 2015 and 2016.

Procurement of Raw Materials—Cherepovets Steel Mill

Raw materials	Year ended 31 December	
	2015	2016
	(thousand tonnes)	
Iron ore (concentrate and pellets)	13,068	12,881
Coal	6,075	5,961
Metal scrap	1,840	1,761
Ferro alloys and non-ferrous metals	197	192

Iron ore and pellets. The smelting process at Severstal Russian Steel's blast furnace facilities requires up to 40 percent of the feedstock to be in the form of iron ore pellets, the majority of which are sourced from Severstal Resources. Almost all of the iron ore concentrate and pellets are supplied to Severstal Russian Steel on the basis of contracts, which are considered and reviewed on a monthly basis. All of Severstal Russian Steel's contracts with its iron ore suppliers, including those with Severstal Resources, are concluded on an arm's length basis. Severstal Russian Steel's quality control of iron ore supplies involves verifying suppliers' quality certificates and monitoring the moisture content, iron content and weight of the ore concentrate at laboratories located at each of Severstal Russian Steel's production facilities. Some contract arrangements provide for price adjustments depending on the quality of the concentrate.

In 2015 and 2016, the Cherepovets Steel Mill's iron ore requirements accounted for approximately 100 percent of Severstal Russian Steel's total iron ore requirements.

The following table sets forth a breakdown of the iron ore procured by the Cherepovets Steel Mill by supplier in 2015 and 2016.

Major Suppliers of Iron Ore Concentrate and Iron Ore Pellets—Cherepovets Steel Mill

Supplier	Year ended 31 December	
	2015	2016
	(thousand tonnes)	
Iron ore concentrate		
Olkon ⁽¹⁾	3,762	3,983
Kovdorsky GOK	2,449	2,316
Yakovlevskaya Ruda	384	224
Lebedinsky GOK	1,672	1,383
Others	0	111
Iron ore pellets		
Karelsky Okatysh ⁽¹⁾	4,800	4,864

Note: (1) Owned by the Group.

Coal. Severstal Russian Steel meets most of its coke supply requirements from its own coke batteries. The Group's main supplier of coking coal from which the coke is made is Vorkutaugol. Vorkutaugol has been supplying coal to the Cherepovets Steel Mill for more than 40 years. Geographically, the Cherepovets Steel Mill is closer to Vorkutaugol than Vorkutaugol's other customers. The Group pursues supply policy based on the cost control, therefore all transactions with Severstal Russian Steel's coal suppliers are conducted on an arm's length basis and the relevant contracts may be suspended if suitable coal can be purchased from alternative suppliers at lower prices. The Group generally enters into annual supply contracts with the intention of ensuring continuity, security and reliability of supplies.

In 2015 and 2016, the Cherepovets Steel Mill's coal requirements accounted for approximately 100 percent of Severstal Russian Steel's total coal requirements.

The following table sets forth a breakdown of the coal procured by the Cherepovets Steel Mill by supplier in 2015 and 2016.

Major Suppliers of Coal—Cherepovets Steel Mill

Supplier	Year ended 31 December	
	2015	2016
	(thousand tonnes)	
Vorkutaugol ⁽¹⁾	3,864	3,245
StroyService	712	65
Evrast Holding	0	
Raspadskaya Coal	0	
Sibuglemet	190	242
South Kuzbas	188	
Kuzbassrazrezugol	571	713
ASR - Uglesbyt	202	535
TopProm	3	110
Koks	150	403
RUK	164	235
Yakutugol	31	414

Note:

(1) Owned by the Group.

Scrap. Severstal Russian Steel is a significant consumer of scrap in Russia. The scrap is purchased in the market by the Company's subsidiary – Severstal-Vtorchermet. In addition, the Group uses significant amount of internal scrap (production waste and amortisation scrap). Severstal Russian Steel purchased approximately 2.5 million tonnes of scrap in each of 2015 and 2016.

Severstal Russian Steel has its own scrap-processing facilities that allow it to utilise a wide range of sizes of steel scrap. These facilities include special cutting and packaging lines for processing the scrap so that it is ready for use in the smelting process. The average proportion of scrap metal in the metal charge used in the smelting process ranges from approximately 25 percent in the oxygen converter and 75 percent in the electric arc shop.

Other raw materials. Severstal Russian Steel sources limestone from its open-pit limestone mines located in the northern part of the Vologda region in Russia, approximately 250 kilometres from Cherepovets.

A wide range of ferro alloys is also used in the steelmaking process. Non-ferrous metals, such as zinc and aluminium, are employed primarily in the production of higher value-added steel products, such as galvanised sheet. Severstal Russian Steel sources most of its ferro alloy requirements from third-party suppliers under annual contracts.

Severstal Russian Steel also imports certain raw materials, such as ferro alloys and refractory materials, from Norway, France, Austria, China, Ukraine, Germany and Brazil. Contracts are typically for a term of one year, with prices being fixed on a quarterly basis or adjusted monthly by reference to market rates. Prices for non-ferrous metals are generally linked to the London Metal Exchange prices for such metals.

Energy. Cherepovets Steel Mill uses the vast majority of Severstal Russian Steel's electricity requirements. Its electricity requirements total approximately 5.72 billion kilowatt hours per year. Two on-site power stations owned by the Group provided 72.5 percent and 76.0 percent of Severstal Russian Steel's total electricity requirements in 2015 and 2016, respectively. The two power stations have a total installed capacity of approximately 471 megawatts. The power stations generate electricity by burning natural gas, energy coal and waste by-products from the steel mill's production process, such as blast-furnace gas and coke-oven gas. Recycling waste by-products creates significant cost savings. As a result,

Severstal Russian Steel uses a relatively low amount of thermal coal to generate electricity at its facilities. Severstal Russian Steel covers its remaining electricity requirements through purchasing electricity from a regional energy company, which in turn procures the electricity from the Russian wholesale electricity market.

In 2015 and 2016, the Cherepovets Steel Mill's energy requirements accounted for a substantial portion of Severstal Russian Steel's total energy requirements.

The following table sets forth a breakdown of the energy consumption of the Cherepovets Steel Mill in 2015 and 2016.

Consumption of Energy—Cherepovets Steel Mill

Energy consumption	Year ended 31 December	
	2015	2016
Electricity (million kilowatt hours) ⁽¹⁾	5,873	5,797
Natural gas (million cubic metres)	2,460	2,471

Note:

- (1) Cherepovets Steel Mill's electricity generation facilities generated 4,148 million kilowatt hours and 4,391 million kilowatt hours in 2015 and 2016, respectively. All electricity generated is used by the plant. The plant purchased 1,725 million kilowatt hours and 1,405 million kilowatt hours in 2015 and 2016, respectively.

In addition to the amount of electricity it produces internally, the Cherepovets Steel Mill purchases a significant amount of electricity from a regional energy company at wholesale market prices. Increase in prices for electricity in the Russian wholesale market in 2015 and 2016 did not exceed the domestic rate of inflation. If it is economically feasible, Severstal Russian Steel will consider constructing additional power generating units.

Heat (steam and hot water) is generated by power plants, waste-heat boilers and evaporative cooling systems. Energy volumes internally generated by Cherepovets Steel Mill are sufficient to meet all of its heat requirements, with surplus heat being sold to local utilities. Power plants of Cherepovets Steel Mill burn blast furnace and coke gas, as well as natural gas purchased from third party suppliers. Natural gas is currently supplied to the Cherepovets Steel Mill by Novatek under a long-term contract for five years signed by the Group and Novatek in September 2012. Affiliates of Gazprom, PAO "Lukoil" and PAO "NK Rosneft" supply fuel oil to the Cherepovets Steel Mill typically under one-year contracts under which pricing is determined on a monthly basis.

Explosives. Currently Severstal (Karelsky Okatysh) has two long-term contracts for explosives with the market leaders, OOO "Eastern Mining Services" for 6 years signed in 2013 and ZAO "Siberit-3" for 1.5 years signed in 2015. In order to supply explosives, a new manufacturing plant for liquid explosives was constructed in Kostomuksha in April 2008. A similar contract was entered into by Olkon with ZAO "Dyno Nobel Russia" in 2008 for 15 years and a new liquid explosives manufacturing plant was constructed in Olenegorsk in December 2010.

Products

Crude steel products. The table below sets out Severstal Russian Steel's production of crude steel in 2015 and 2016, as well as the estimated aggregate production of crude steel in Russia and Severstal Russian Steel's estimated share of production.

Crude Steel Production—Severstal Russian Steel

Period	Year ended 31 December	
	2015	2016
Crude steel (Russian Steel), (thousand tonnes)	11,451	11,630
Estimated aggregate production of crude steel in Russia, (million tonnes)	70.9	70.8
Severstal Russian Steel's estimated share of production in Russia, (percent)	16.2	16.4

Source: Worldsteel.

Semi-finished products. Semi-finished products are intermediary products from the production process and represent generic steel products that have not yet been rolled for a specific application.

Finished steel products. Most of Severstal Russian Steel's crude steel production is further processed into finished steel products, which include flat and long products. Flat products include hot-rolled and cold-rolled sheet, plates and coils. Long products include hot-rolled sections, rebar and wire rod.

The following table sets out Severstal Russian Steel's total output and sales volumes by product category in 2015 and 2016.

Crude steel output and sales volumes by product—Severstal Russian Steel⁽¹⁾

	Year ended 31 December		
	2016	2015	2014
	(thousand tonnes)		
Output volumes			
Crude steel.....	11,630	11,451	11,302
Sales volumes by products			
Semi-finished products	724	489	403
Rolled products	8,121	8,393	8,286
Hot-rolled coil	4,080	3,990	3,774
Hot-rolled plate.....	692	714	840
Cold-rolled coil.....	964	1,336	1,449
Galvanised and metallic coated coil	560	624	592
Long products.....	1,439	1,312	1,197
Colour coated coil.....	386	417	434
Downstream products	1,870	1,992	1,904
Metalware products	641	613	639
Large diameter pipes	389	548	402
Other tubes, pipes, formed shapes	840	831	863
Total steel products	10,715	10,874	10,593

(1) Includes intersegment sales.

The Group's high value-added products comprise hot-rolled plates, large diameter pipes, cold-rolled sheet, metalware products, galvanised and other metallic coated sheet, colour coated sheet and other tubes and pipes and formed shapes.

Hot-rolled strip and plate. Hot-rolled flat products include heavy gauge plate and light gauge hot-rolled sheet produced from ordinary and high-quality carbon steel, low-alloy strengthened steel and clad steel. Clad steel includes two- and three-ply steel combined with a corrosion resistant or wear-resistant ply.

Several major mills function in hot-rolling shops: Mill 2800, Mill 1700 and Mill 2000. Mill 2800 is designed for rolling plates with a thickness of 7 to 50 mm and a width of up to 2,500 mm serves at the same time as a roughing mill for rolling narrow work pieces for Mill 1700. Mill 1700 is a continuous 6-stand hot-rolling mill. The mill produces coil stock with a thickness of 0.8 to 6.0 mm and a width of 810 to 1,450 mm. Mill 2000 provides 70 percent of semi-finished rolled products for further use by the Cherepovets Steel Mill production facilities.

Large diameter pipes. The wide-strip rolling Mill 5000 is designed for rolling sheets with a thickness of 10 to 50 mm and plates with a thickness of 51 to 300 mm (individually, 450 mm) and a width of 1,500 to 4,800 mm and with a length of up to 30 metres from cast, rolled and forged slabs and ingots of 5 to 60 tonnes in weight from carbon, alloyed, stainless and special steels and alloys.

The Izhora Pipe Mill produces large diameter pipes with three layered anti-corrosion coating, diameters ranging from 610 mm to 1,420 mm and 18.3 metres in length, aimed at domestic customers in the oil and gas industry and some export customers. Severstal Russian Steel is able to produce sophisticated steel grades for pipe manufacturing as well as high-quality steel with a very low level of impurities.

Cold-rolled sheet. A cold-rolled flat product consists of cold-rolled sheet and coils with a thickness of 0.25 to 3.2 mm and a width of up to 1,620 mm. Cold-rolled sheet, which has a greater plasticity and a better surface quality than hot-rolled sheet, has various uses, including the manufacture of automotive body panels and home appliances. In addition, cold-rolled products serve as feedstock for Severstal Russian Steel's galvanised and roll-formed products.

Galvanised and other metallic coated sheet. Severstal Russian Steel produces galvanised coated products, including those produced for the automotive industry by Sevelgal. Severstal Russian Steel believes that demand for galvanised products from international automotive manufacturers will increase. Due to strict requirements of automotive plants outside Russia, Severstal Russian Steel has focused on improving the quality of its products significantly and has developed new grades of products (for example, products with an aluminium-silicon coating and high-strength steels) to meet the demands of automotive customers. Severstal Russian Steel has benefited from Severstal International's experience in manufacturing high-quality galvanised products for the automotive industry.

Long products. Hot-rolled steel sections are produced from ordinary carbon steel, high-carbon steel, low-alloy steel, structural alloy steel and include equal and unequal angles, hexagonal shapes, round bars, steel strips, wire rods and reinforcement bars.

Metalware products. Severstal-Metiz sites are focused on metalware production, such as low-carbon and high-carbon wire, cold drawn steel, steel shape profiles, steel wire ropes, nails, fibre, fasteners, mesh. There are three sites in Russia: in Cherepovets, Orel and Volgograd, located in northwest Russia, central Russia and the Volga region, respectively. The metalware business also has sites in Ukraine and Italy.

Other tubes and pipes, formed shapes. Severstal Russian Steel produces more than 250 types of carbon and low-carbon steel roll-formed shapes, including perforated, close welded square and rectangular sections. Profiles with rectangular and square cross sections are widely used in the agricultural machine building, civil construction and automotive industries. Cold-formed sections also include a wide range of pipes and construction and furniture materials.

Colour coated sheet. Severstal Russian Steel produces colour coated material of more than 20 colours with thickness of up to 1.2 mm and width from 1,000 to 1,400 mm. The main application of the colour coated products is in the construction industry for roofing, hedging and similar uses. In some cases this product can be a substitute for galvanised material.

Scrap Processing. Severstal Russian Steel has its own facilities for processing steel scrap of various sizes. Severstal-Vtorchermet specialises in scrap collection and processing and meets the need in ferrous metals scrap of the largest division asset – the Cherepovets Steel Mill.

Repair Facilities. The main goal of Severstal Russian Steel's repair division is to support the production processes of the Cherepovets Steel Mill by providing timely and high-quality repair of the equipment. A subdivision, Promservice Centre, provides services and manufactures products in the area of electrical equipment repair and production, machining, diagnostics, geodetic surveys and in other directions. The Domnaremont Centre is a subdivision specialising in equipment overhaul and construction of large facilities. The Tyazhmash Centre manufactures engineering products for the Cherepovets Steel Mill and for leading iron and steel companies in Russia and Europe. It also manufactures products for machine-building, oil and gas and mining industries, and has procuring, machining and assembling facilities.

Other and shipping. Other goods manufactured by Severstal Russian Steel include civil construction goods and associated products. Severstal Russian Steel also renders services in transportation and support of cargoes both domestically and abroad.

Research and Development

Severstal Russian Steel pursues research and development initiatives with Russian universities and research institutes. Such initiatives include research and development centres for cast iron, steel and metal rolling production applications.

Severstal Russian Steel also conducts research initiatives, including the development of new kinds of cold-rolled and hot-rolled sheet which is not currently produced in Russia, the development of a strip with special properties, such as cold-resistance and plasticity, bimetallic rolled stock combining high-wearing quality of the cladding layer and high plasticity, weldability and cold-resistance of the primary layer, and a cold-rolled galvanised automobile-body sheet of high durability. In addition, research is directed towards the optimisation of chemical composition and process dependent parameters for the improvement of surface finish, and the reduction of expenses in the production of hot-rolled, cold-rolled and galvanised sheets.

Sales, Marketing and Competition

Severstal Russian Steel sells its products in both export and Russian domestic markets. Severstal Russian Steel views the Russian domestic market as strategically important and has implemented a long-term programme designed to broaden its customer base and develop its relationship with various key customers. In export markets, Severstal Russian Steel aims to sell products predominantly on a spot-market basis.

The following table sets out the revenues by market for both domestic and export sales for Severstal Russian Steel in 2015 and 2016.

Revenues by Market—Severstal Russian Steel⁽¹⁾

Market	Year ended 31 December	
	2015	2016
	(percentage of revenues)	
Domestic sales		
Russian Federation.....	67.0	67.8
Export sales		
Europe.....	20.7	20.7
The Middle East.....	4.0	4.7
China and Central Asia.....	4.5	2.8
South-East Asia.....	0.2	0.9
Africa.....	1.3	1.3
Central and South America.....	1.4	1.4
North America.....	0.9	0.4
Total	100.0	100.0

Note:

(1) Includes intersegment sales.

The following table sets out the revenues by industry sector for both domestic and export sales for Severstal Russian Steel in 2015 and 2016.

Revenues by Industry Sector—Severstal Russian Steel⁽¹⁾

Industry sector	Year ended 31 December	
	2015	2016
	(percentage of revenues)	
Construction and processing.....	46.3	47.8
Oil and gas.....	8.2	5.8
Machinery building.....	4.5	4.9
Tube and pipemaking.....	11.3	7.4
Automotive.....	2.9	3.3
Other.....	26.8	30.8
Total	100.0	100.0

Note:

(1) Includes intersegment sales.

According to Rosstat, in 2015 Russia's GDP declined by 2.8 percent in 2015 and further declined by 0.2 percent in 2016. Conversely, industrial production demonstrated a 1.1 percent increase in 2016 following a 3.4 percent decrease in 2015.

The domestic steel demand decreased by 4.0 percent in 2016 mainly due to a decrease in real disposable household incomes and a growing decline in investments. The engineering was the only growing market segment as a result of increased demand for domestic machinery from customers.

Russian domestic sales. Severstal Russian Steel continues to regard Russia as its most important market. This market has certain advantages, including lower transportation costs for delivery of products and the ability to develop long-term strategic alliances with customers. Despite decreased demand of most Russian industries, Severstal Russian Steel's domestic sales remained stable and increased slightly from 67.0 percent in 2015 to 67.8 percent in 2016.

Customers. Severstal Russian Steel recognised the importance of the construction and construction materials sectors, which include a number of important customers located in the European part of Russia. Sales to the construction segment accounted for 46.5 percent of domestic sales in 2015 and 48.8 percent in 2016. At the same time Severstal Russian Steel's largest customers are in the oil and gas, pipemaking, machinery and automotive sectors. A major part of Severstal Russian Steel's domestic sales are made by the Cherepovets Steel Mill, either directly to end users or to trading and distribution companies (see also "*Distribution*"). The following paragraphs briefly describe the main customers to which the Cherepovets Steel Mill sells directly.

Tube and pipemaking industries accounted for 16.8 percent and 10.8 percent of Severstal Russian Steel's total domestic sales by value in 2015 and 2016, respectively. While the majority of the sales in these industries were made to a large number of small producers of tubes used in construction, customers' tubes and pipes for oil and gas industries contain a few large clients such as TMK, Gazpromtrubinvest and ChelPipe. The Cherepovets Steel Mill is able to produce sophisticated steel grades for pipe manufacturing as well as high-quality steel with very low level of impurities.

The Russian automotive sector accounted for 3.0 percent and 3.9 percent of Severstal Russian Steel's total domestic sales in 2015 and 2016, respectively. Severstal Russian Steel's key customers in the domestic automotive sector are foreign car manufacturers (Renault-Nissan, Hyundai, GM), KAMAZ and GAZ Group. Due to the strict requirements of automotive

plants, especially those outside Russia, Severstal Russian Steel has focused on improving the quality of its products significantly and has developed new grades of products (for example, high-strength steels) to meet the demands of its customers.

Key customer management. Severstal Russian Steel has identified a number of key customers as part of a project to work in close coordination with customers in strategically important sectors, including large accounts such as Gazprom, Transneft, ChelPipe, TMK, OMK, GREIF, KAMAZ, Renault-Nissan and GAZ Group. Severstal Russian Steel works with these customers within its “key account management” process, managed by a dedicated team which includes the development of new products and innovations for both the customers and Severstal Russian Steel. Services for such customers include the construction of consignment warehouses in different regions and quarterly product quality coordination, managed by representatives of both Severstal Russian Steel and the relevant customer. Sales by Severstal Russian Steel to such customers’ accounts amounted for more than 20 percent of Severstal Russian Steel’s total sales in 2015 and 2016.

Distribution. Domestically, Severstal Russian Steel sells its products to distributors and end-users – directly or through AO Severstal Distribution which has a wide network of metal service/processing centres throughout Russia.

Products. Severstal Russian Steel’s domestic sales are dominated by hot-rolled strip and plate, which accounted for approximately 34.8 percent and 32.9 percent of total domestic sales by volume in 2015 and 2016, respectively. Higher value-added products such as cold-rolled flat products and coated sheet are also very significant, making up approximately 23.8 percent and 24.2 percent of total domestic sales by volume in 2015 and 2016, respectively.

The following table sets forth the domestic sales by product for Severstal Russian Steel in 2015 and 2016.

Domestic Sales by Products—Severstal Russian Steel⁽¹⁾

Product	Year ended 31 December			
	2015		2016	
	(thousand tonnes)	(US\$ million)	(thousand tonnes)	(US\$ million)
Hot-rolled strip and plate	2,392	972.3	2,179	919.2
Large diameter pipes	534	684.6	380	453.5
Cold-rolled sheet	746	326.9	784	365.8
Metalware products	396	278.6	401	290.5
Galvanised and other metallic coated sheet	507	275.1	459	265.5
Long products	1,192	407.0	1,332	457.4
Semi-finished products	59	26.2	34	8.5
Other tubes and pipes, formed shapes	647	288.4	655	281.1
Colour-coated sheet	386	287.1	363	279.0
Scrap	22	4.0	41	8.2
Total steel products	6,881	3,550.2	6,628	3,328.7
Other and shipping	-	357.8	-	351.0
Total sales by products	6,881	3,908.0	6,628	3,679.7

Note:

(1) Include intersegment sales.

Contracts. Severstal Russian Steel has developed a flexible approach to contractual relations with its customers. Contracts are concluded on a quarterly, semi-annual or annual basis, depending on the customer. Factors determining the length of the contract include, for example, relationship history, industry and significance of the customer in its industry. Contracts also include a flexible system of discounts and rebates that provides for price adjustments on the basis of product tonnage, timing of payment and other contractual terms.

The prevailing economic environment is also a significant factor in choosing the length of the contractual period and certain other contractual terms (e.g., price and volume). As market prices become more volatile, contracts will provide for more frequent renegotiation of the terms. In the domestic market, this is illustrated by shorter contract periods with customers in the metal trading and metal processing industries, whose markets are characterised by volatility, whereas customers in the automobile industry generally have longer contractual periods, reflecting the relative stability of the automotive market generally. In the export market, shipments usually are made on a monthly basis, but with certain exceptions for more stable customers, such as purchasers of cold-rolled non-grain oriented steel or large pipes mills. Contracts for key customers usually have a duration of approximately six months, after which the price may be renegotiated, and may include other customised terms.

Severstal Russian Steel offers its customers various methods of payment which are customarily used in the market, such as letters of credit, factoring, insurance, bank guarantee, promissory notes and others. Severstal Russian Steel seeks prepayments from certain customers, including new customers and those companies who are considered to be at risk financially. The remainder of contracts requires settlement within a range of two to three weeks from delivery and combined settlements. This flexibility of contract and credit terms has generated a significant competitive advantage for

Severstal Russian Steel, allowing it to forge closer ties with customers and to react more effectively to changes in market conditions. In recent years, Severstal Russian Steel has experienced very low levels of bad debts.

Electronic Data Interchange. Severstal Russian Steel maintains advanced IT services which are vital for highly developed customers. The Group believes that Severstal Russian Steel is the only participant in the metal mining industry in Russia which applies a fully paperless and digitalised document flow with customers that have the necessary IT systems. Severstal Russian Steel has a unique production catalogue which assist customers to confirm the order in no more than four hours from the initial request.

Sales by products. Due to decreased demand for steel products in Russia in 2016, Severstal Russian Steel's domestic sales volumes slightly declined in comparison with 2015. At the same time, Severstal Russian Steel managed to increase its market share in cold-rolled sheet and long products in 2016 compared to 2015. The market share in cold-rolled sheet increased from 24.5 percent in 2015 to 25.7 percent in 2016, and in long products, from 7.6 percent in 2015 to 8.8 percent in 2016.

Izhora Pipe Mill. Izhora Pipe Mill sells most of its products in Russia to the oil and gas industry and, in particular, to Gazprom and Transneft, which together purchased approximately 95.7 percent and 87.1 percent of the total sales by volume in 2015 and 2016, respectively. In 2016, 2.3 percent of Izhora Pipe Mill's sales by volume were made to foreign customers compared to 2.6 percent in 2015. Severstal Russian Steel's market share in large diameter pipes increased from 17.1 percent in 2015 to 18.8 percent in 2016. The domestic market for large diameter pipes decreased by 35.6 percent in 2016.

Metalware domestic sales. Severstal-Metiz continues to consider Russia as the most important market. This market has certain advantages, such as significant demand and higher profit margins, compared with export markets, and is characterised by lower transportation costs for delivery to customers from its Russian production facilities. Severstal-Metiz has a wide product portfolio range and its Russian customers are in the construction industry, engineering industry, mining and the mass market.

Severstal-Metiz's market share of the combined Russian and Belarus markets was approximately 20 percent and 21 percent in 2015 and 2016, respectively. Severstal-Metiz typically seeks prepayments from certain customers, including new customers and those who are considered to be at risk financially. A flexible system of discounts and rebates may also be given according to product tonnage, timing of payment and other matters.

Export sales. In line with its strategy of focusing on the Russian domestic market, Severstal Russian Steel's export sales strategy is oriented towards spot markets of steel products. In 2016, export sales of Severstal Russian Steel increased by approximately 100 thousand tonnes increasing its share to 38.4 percent of total sales compared to 36.8 percent in 2015. Europe remains the main market for Severstal Russian Steel's exports and accounted for 20.7 percent of total revenue in 2015 and 2016.

Customers. Severstal Russian Steel's largest export customers are rerollers and tubemakers. In 2016 the major buyers were Marcegaglia, Vítcovice Steel, Borcelik and Yücel Boru.

Distribution. Severstal Russian Steel conducts its export sales through sales subsidiaries Severstal Export GmbH, SIA Severstal Distribution, Severstal Distribution LLC and ZAO Severstal Distribution. This system has enabled Severstal Russian Steel to increase the efficiency of its export operations by minimising its reliance on intermediaries in the sales process, thereby reducing its distribution costs.

Severstal Export GmbH is the centre for Severstal Russian Steel's sales operations in export markets, excluding the Baltic States and Eastern Europe, which are covered by SIA Severstal Distribution. Handling export operations through one centre has allowed Severstal Russian Steel to achieve cost savings through lower administrative expenses to benefit from large volumes and to eliminate intermediaries from the distribution chain.

SIA Severstal Distribution has been Severstal Russian Steel's export agent in the Baltic region since its formation in 1992. Although Severstal Russian Steel has direct contracts with certain customers in the Baltic market, the majority of sales contracts are concluded through SIA Severstal Distribution. SIA Severstal Distribution now operates as the export agent and the customer oriented regional service centre for the Baltic countries and Northern and Eastern Europe. It conducts a variety of businesses including the distribution of material produced in the Russian mills of the Division, the production of tubes and hollow sections and a service of cutting and slitting coils.

Products. Severstal Russian Steel's export sales consist predominantly of flat products with hot-rolled products and cold-rolled products accounting for approximately 57.6 percent and 14.7 percent respectively of sales by volume in 2015 and 62.8 percent and 4.4 percent in 2016. Semi-finished products are also a significant part of total sales.

The following table sets out the export sales by products for Severstal Russian Steel in 2015 and 2016.

Export Sales by Products—Severstal Russian Steel⁽¹⁾

Product	Year ended 31 December			
	2015		2016	
	(thousand tonnes)	(US\$ million)	(thousand tonnes)	(US\$ million)
Hot-rolled strip and plate	2,311	828.4	2,593	865.6
Large diameter pipes	14	12.4	9	5.7
Cold-rolled sheet	590	268.4	180	84.8
Metalware products	217	219.5	240	199.2
Galvanised and other metallic coated sheet	117	73.4	101	56.8
Long products	120	46.7	107	36.0
Semi-finished products	430	116.0	690	201.1
Other tubes and pipes, formed shapes	184	98.7	185	92.1
Colour-coated sheet	32	25.8	23	18.7
Scrap	-	-	-	-
Total steel products	4,015	1,689.3	4,128	1,560.0
Other and shipping	-	238.5	-	186.3
Total sales by products	4,015	1,927.8	4,128	1,746.3

Note:

(1) Include intersegment sales.

Hot-rolled and cold-rolled sheets and plates. Severstal Russian Steel sells its sheets and plates primarily to foreign clients in the machinery and pipe industries as well to the spot market.

Semi-finished products. Severstal Russian Steel's exports of semi-finished products are mainly slabs delivered to foreign rerollers producing hot-rolled products such as Marcegaglia and Vitcovice Steel.

Tubes and pipes. Europe is the main export market for Severstal Russian Steel's tubes and pipes. European customers buy tubes and pipes mostly made in Latvia and Poland on SIA Severstal Distribution's facilities and on Cherepovets Steel Mill. The Cherepovets Steel Mill sells significant volumes of pipes to the CIS market.

Metalware. The main international markets for metalware products are the CIS and Europe where Severstal Russian Steel's customers are generally in similar industries to those that buy metalware in the Russian market. Severstal-Metiz conducts its export sales directly from Russian sites, Dneprometiz sells primarily to customers in Ukraine and Redaelli Tecna to Italian and other European customers.

Competition

Both the Russian and the international steel markets are highly competitive due to the large number of key players. Primary competitive factors include product sophistication, quality, price, payment terms and customer service. In addition, the development of new technologies has reduced the capital costs associated with steel production and led to increased competition from new entrants to the industry with lower capital requirements. The steel industry also competes with producers of materials that offer an alternative to traditional steel products, such as aluminium or plastic.

The Group has steadily moved Severstal Russian Steel further up the value-chain, producing high value-added, differentiated products and establishing closer relations with end-users. The share of the domestic market in Severstal Russian Steel's total sales amounted to 67.0 percent in 2015 and 67.8 percent in 2016.

As a result of having well-established sales chains and required product certifications, Severstal Russian Steel is able to quickly and flexibly redistribute sales between domestic and export markets. Severstal Russian Steel's key competitors in the Russian domestic markets for flat-rolled steel products are MMK and NLMK. The major competitors for long products include Evraz and Metalloinvest. OMK, TMK and Chelpipe compete with Severstal Russian Steel in pipes. The following table sets forth the principal competitors of Severstal.

Principal Competitors of Severstal Russian Steel—Crude Steel Production

Company	Year ended 31 December	
	2015	2016
	(million tonnes)	
NLMK	16.1	16.6
EVRAZ	14.4	14.4

MMK	12.2	12.5
Severstal Russian Steel	11.5	11.6
Metalloinvest	4.5	4.7

Source: Official company data, Metal Expert.

The Russian market is characterised by intensifying competition for customers, raw materials, capital and experienced personnel. The Cherepovets Steel plant is one of the largest complexes in Russia, and is also the most sophisticated in Russia by range of products. The plant has a captive supply of high-quality raw materials, allowing it to ensure a favourable cost baseline even as compared to the largest domestic competitors. Finally, Severstal Russian Steel's relative market strength is underpinned by its proactive marketing strategy and ongoing efforts to increase quality and technical sophistication, which has allowed it to forge long-term relationships with key domestic customers in the pipe production and automotive sector.

Capital Expenditure Programme

Severstal Russian Steel's capital expenditure in 2015 and 2016 amounted to approximately US\$253 million and US\$321 million, respectively. The capital expenditure programme is aimed at increasing production and efficiency, implement environmental upgrades, renewal of capital equipment and further changes in the product mix oriented at the production of higher value-added and higher quality products including coated products and cold-rolled products. New developed products include high strength hot rolled products with special application properties such as high wear resistance and improved weldability, cryogenic steel for storing liquefied natural gas, hot rolled pickled and hot dip galvanised dual phase steel of high strength grades for automotive application, rolled products for manufacturing of longitudinally welded pipes for oil and gas industry.

Severstal Russian Steel's capital expenditures allowed the division to introduce the latest technologies and equipment of leading suppliers of the steel industry in cooperation with companies such as Gosa Fom, Zimmerman & Jansen, Primetals, CMI S.A., SMS Siemag AG and others.

The Group expects that the total amount of Severstal Russian Steel's capital expenditure in 2017 will amount to approximately US\$407 million. The capital expenditure programme includes the following major investment projects.

Cherepovets Steel Mill

Iron making

In 2017 the Group will continue to revamp coke battery No.4 which the Group expects to complete in 2018. Estimated total capital expenditure on this project amounts to approximately US\$ 100 million. The purpose of this project is to revamp the coke battery together with the construction of a new control room, a condensation pump house and the reconstruction of auxiliary facilities. This project will contribute to an increase of coke output by 57 thousand tonnes per year, coke oven gas production by 23 million cubic metres per year and steam generation by 71 thousand tonnes per year.

The Group commenced development of project design for the reconstruction of blast furnace No.5, which the Group expects to complete in 2021 (the furnace start-up is scheduled for 2020). It is estimated that total capital expenditures on this project will reach up to US\$500 million.

The Group is currently evaluating the construction of a new coke battery No.11, which will replace coking batteries No.8 and No.9. If initiated, the project is expected to be completed in 2022. The Group expects that the implementation of this project will improve the quality of coke and reduce production costs. Total estimated capital expenditures on the project amount to approximately US\$500 million.

The Group is also evaluating the construction of a new blast furnace No.3, which will replace blast furnace No.1 and No.2. If initiated, the project is expected to be completed in 2023 with the total planned investments of approximately US\$450 million.

Steelmaking Operations

In relation to the steelmaking operations, capital expenditures are aimed at reducing costs, improving product quality, supporting the development of new products, improving environmental performance as well as asset maintenance. The Group plans to implement a number of projects, including the introduction of combined steel blowing in BOF and a rough grinding machine.

The new ladle furnace No.2 construction project, which the Group expects to complete in 2017, is aimed at quality and efficiency improvement thereby reducing production costs. Total estimated capital expenditure on this project amounts to approximately US\$ 50 million. The current revamping at the department of primary slag processing, which the Group

plans to complete in 2017, would increase the throughput capacity of the area for slag processing by 59 thousand tonnes per year and raise production.

Flat Products Operations

The Group aims to implement a number of projects designed to improve consumer properties of rolled products, to develop new products, to reduce costs associated with the production output and to automate its production processes. These projects include the construction of cutting/slitting facilities, the revamping of reheating furnace and short stroke control systems at hot rolling mill.

Cold Rolling Operations

The Group plans to revamp its cold rolling facilities in order to improve the quality and increase the output of cold rolled products. In 2016, the Group completed the upgrading of a 4-stand cold rolling Mill 1700 having invested totally US\$ 50 million in this project from its launch in 2014. The Group expects that this investment will increase rolled product output by 200 thousand tonnes per year, improve the quality of finished product and reduce the costs associated with its production. In addition, the Group has investments into the ongoing construction of a coating shop, including continuous galvanising and colour coating lines. The estimated total capex on this project amounts to approximately US\$ 120 million. The Group expects that the project will be completed in 2017 and its implementation will enable an increase of galvanised products output by 400 thousand tonnes per year and by 200 thousand tonnes of colour coated products per year.

Hot Rolling Operations

In 2016 the Group completed the project “Mill 2000 Vertical stand No.1.” The revamping of the main electric drive and the installation of a short stroke control system.

The Group expects that the installation of a short stroke control system with new main drives will lead to the reduction of costs associated with plate production and output increase.

Long Products Operations

The Group is implementing a project on constructing a new ball rolling mill No. 2 which will be located in the finishing area of the long products shop to increase production of steel grinding balls up to 60 thousand tonnes per year by 2017. The project completion is scheduled for the first quarter of 2017. The first line was built and brought into operation in 2014.

Environmental projects of the Division

In 2016, the Group completed revamping of the Integrated Water Filtration Station, which included the installation of filters of new design and changes in filtration speed and filtration technology (CMI technology). The project also included the construction of rinsing water treatment facilities, a valves chamber to replace the pressure equalising chamber, and the implementation of local measures to meet the performance requirements of the Integrated Water Filtration Station and to decrease the discharge of pollutants into the Koshta river.

Power production

The Group has adopted an investment programme for the improvement of the reliability of gas, water and electrical energy supply to the main production shops.

A number of projects are expected to result in an increase of in-house power production and a reduction of power consumption.

Transportation facilities

In 2016, the Group completed the installation of a 32-40 tonnes gantry crane to secure the transfer of the steel rolled products to water transport.

The Group has adopted an investment programme for transportation shops of Severstal Russian Steel which aims to maintain in-house automotive and railroad infrastructure.

Employees

Employee numbers for Severstal Russian Steel decreased from 37,543 in 2015 to 37,115 in 2016 in part due to increased labour efficiency and ongoing efficiency improvements.

A two year collective bargaining agreement concluded between the Group and the Mining and Metallurgical Trade Union in 2012 in respect of employees at the Cherepovets Steel Mill, was extended until 2017. Since 1996, Severstal Russian Steel has experienced no material labour disputes, strikes or employee legal actions. Severstal Russian Steel considers its employee relations to be good.

The majority of employees of Severstal Russian Steel are entitled to a lump sum payment on retirement, which is based on their average salary and number of years of service, as well as monthly fixed payments.

Health, Safety and Environment

The management systems at the Cherepovets Steel Mill, the Izhora Pipe Mill, the Severstallat and the Severstal-proekt are certified to be in conformance with the requirements of OHSAS 18001:2007. The total expenditures on occupational health and safety measures at the Severstal Russian Steel in 2014 amounted to approximately US\$48.9 million, compared to approximately US\$20.1 million in 2015. These expenditures were made on items such as safety clothing, boots and other personal safety equipment, improving working conditions, employees' safety training, health and resort treatment and health care. Expenditures on implementation of environmental protection measures amounted to approximately US\$96.7 million in 2014 and US\$30.4 million in 2015.

During the period between 2014 and 2016, 134 work-related lost time injuries occurred in Severstal Russian Steel, 56 of which occurred in 2014, 35 in 2015 and 43 in 2016. In the years ended 31 December 2014, 2015 and 2016, LTIFR amounted to 0.83, 0.54 and 0.69, respectively.

Insurance

Severstal Russian Steel maintains a level of insurance covering property, plant and equipment. Severstal Russian Steel believes that this insurance is commensurate with the standards of other international and domestic steel companies and has business interruption insurance coverage ranging from fixed costs to full gross profits, depending on the plant, for interruption periods of up to 12 months. Severstal Russian Steel does not purchase full insurance for third-party liability in respect of property or environmental damage.

Third-party insurance services are provided to Severstal Russian Steel by first-rate Russian insurers, including SOGAZ Insurance Company. All risks covered by the majority of policies issued by SOGAZ are reinsured, with approximately 70 percent reinsured in the international market and the remainder with domestic insurers.

SEVERSTAL RESOURCES

Severstal Resources comprises iron ore production and coal production.

- The Group's iron ore business consists of two iron ore extracting complexes: Karelsky Okatysh, which produces iron ore pellets, and Olkon, which produces iron ore concentrate. Karelsky Okatysh, located in the Karelia Republic, had an annual iron ore output of 35.1 million tonnes in 2016 and estimated JORC iron ore reserves and resources of approximately 320.8 million tonnes and 976.4 million tonnes, respectively, as at 1 January 2017. The Group expects ore output at Karelsky Okatysh to remain at approximately the same level until 2031. Olkon, located in the Murmansk region of Russia, had an annual iron ore output of 13.6 million tonnes in 2016 and estimated JORC iron ore reserves and resources of approximately 204.3 million tonnes and 542.3 million tonnes, respectively, as at 1 January 2017. The Group expects ore output at Olkon to remain at approximately the same level until 2026. In addition, the Group also has interests in several iron ore development or prospective early stage projects in Africa and South America.
- The Group's coal business consists of Vorkutaugol and two greenfield projects: Tsentralny field and Usinskoye-1 field. Vorkutaugol, located in the Komi Republic, produces coking and steam coal and had ROM coal output of 10.3 million tonnes in 2016 and estimated coal reserves of approximately 139.0 million tonnes as at 1 January 2017. Vorkutaugol comprises five longwall mines (four of which are currently active and one is sealed off), an open pit mine and three washing plants (including the Severnaya mine). Tsentralny field is a greenfield project located in the Tyva Republic and, as at 1 January 2017, had total resources approximating 807.8 million tonnes of coking coal of A, B, C1 and C2 categories, according to the Russian Classification. Usinskoye-1 field is a greenfield project located in the Republic of Komi near the existing Vorkutaugol operation, with estimated resources of 537.3 million tonnes of coking coal of A, B and C1 categories, according to the Russian Classification, as at 1 January 2017. See *"Industry—Mining Industry—Russian Methodologies for Reserve and Resource Reporting"*.

In 2016, Severstal Resources was the second largest producer of iron ore pellets and one of the leading producers of high quality hard coking coal in Russia, according to RudProm and Rasmin. Severstal Resources has the capacity to satisfy all of Severstal Russian Steel's iron ore and approximately 70 percent of its coking coal requirements. This forms the basis of the Group's balanced and vertically-integrated business model. With a focus on high value-added products, such as the

export of high quality iron ore pellets and hard coking coal concentrate, Severstal Resources' iron ore and ROM coal output amounted to 48.7 million tonnes and 10.3 million tonnes, respectively, in 2016. The Group estimates that, as at 1 January 2017, it had iron ore reserves and resources of approximately 525.1 million tonnes and 6,208.7 million tonnes, respectively, based on reports issued by IMC Montan dated February 2013 and IMC dated June 2006, in each case, prepared in accordance with JORC reporting standards (for assets located in Russia) and a report issued by SRK Consulting dated September 2012 prepared under the guidelines of Samrec (for the Putu Range deposit, Liberia) and coal reserves of approximately 139.0 million tonnes, based on reporting conducted by the Group in accordance with the Russian Classification.

Mining at a glance

Open pit mining

The Group's iron ore production and a minor portion of its coal production come from open pit mining. The open pit mining process consists of four processes: drilling by heavy duty rotary blast hole drills, blasting, loading of materials by hydraulic face shovels and transport by large off-highway rear-dump mining trucks. The size and the quantity of mining equipment and the attendant mine design features vary from mine to mine and are dictated by the rate of production. Ore mining is subject to the beneficiation process. The beneficiation flow process is dependent on the nature of the ore and includes ore crushing, milling, gravity and wet magnetic separation for iron ore.

Underground mining

The majority of coal is mined by means of underground mining techniques using a system of shafts, declines, stopes or faces. The Group uses the following underground mining methods: shearing for softer coal and the transportation of mined material out of the mine to the processing plant via a conveyor system and skips. The beneficiation process includes crushing, milling, washing and flotation for coal.

Facilities

Iron Ore Facilities

Karelsky Okatysh. Karelsky Okatysh is located in Kostomuksha in the Karelia Republic in the northwest of Russia. It mines magnetite quartzite ores and produces high-quality iron ore pellets with an iron content of 64 to 66 percent. Karelsky Okatysh operates two major deposits (Kostomuksha and Korpanga) that have an estimated life of 30 years based on the Group's estimates of JORC reserves plus expected reserves extension. The average total iron content of the reserves at Karelsky Okatysh is approximately 28 percent. The opening of new mines at the Korpanga deposit as well as the implementation of a planned efficiency improvement programme will increase the production capacity of Karelsky Okatysh to 34 million tonnes of iron ore output per year.

Kostomuksha. The arch shaped Kostomuksha deposit consists of three sections, with a total strike extent of approximately 13,000 metres and an open pit depth reaching 325 metres. The average stripping ratio was 1.09 in 2015 and 1.11 in 2016. The iron content in the ore is medium (28.0 percent total iron, 23.7 percent iron magnetite), though it is well suited for wet magnetic beneficiation. The deposit produces high-quality concentrate (up to 70.0 percent iron) and pellets (up to 65.0 percent iron). The Kostomuksha deposit has an iron ore output of 21 million tonnes at 27.6 percent iron per year.

Korpanga. In 2007, a mine opened at the Korpanga deposit, consisting of east and west sections that have strike lengths of 3,800 metres and 3,000 metres, respectively. The ore qualities at Korpanga deposit allow to produce pellets with iron content up to 70 percent. The Korpanga deposit has iron ore output of 14.5 million tonnes at 26.3 percent total iron per year. The average stripping ratio at Karelsky Okatysh was 1.09 in 2015 and 1.11 in 2016.

Extracted ore is delivered to the beneficiation plant by railway. The beneficiation plant is located seven kilometres from the central section of the Kostomuksha deposit and 25 kilometres from Korpanga. The beneficiation plant concentrate output was 11.6 million tonnes (representing 34.0 million tonnes of input ore, excluding residual ore at transfer stocks and hoppers at the plant) in each of 2015 and 2016. The Group believes that in 2017 the plant concentrate output could be increased to 11.9 million tonnes as a result of recently introduced plant modernisation program. The plant beneficiation process currently consists of two crushing lines and 12 beneficiation circuits equipped with primary magnetic separation equipment.

Cash cost of iron ore pellets (not taking into account the capitalisation of stripping costs) significantly decreased from approximately US\$30.2 per tonne in 2015 to US\$27.5 per tonne in 2016 and Karelsky Okatysh continues to keep costs under control.

The Group's production of iron pellets at Karelsky Okatysh in 2016 was 10.9 million tonnes with a cash cost (not taking into account the capitalisation of stripping costs) of US\$27.5 per tonne and a stripping ratio of 1.11.

Olkon. Olkon is located in the Murmansk region in northwest Russia. It mines magnetite-hematite quartzite ores and produces high-quality iron ore concentrate. Currently, ore mining is carried out in six open pits: Olenegorsky, Kirovogorsky, 15-Letiya Oktyabrya, Kurkenpakh, Vostochny and Komsomolsky in conjunction with the Olenegorsky underground mine.

The current iron content in the Olkon ore is 24.8 percent iron and 19.5 percent iron magnetite. Olkon produces iron ore concentrate with an average iron content of 66.5 percent. The average stripping ratio was 1.14 in 2015 and 1.19 in 2016. The annual iron ore output in the years ended 31 December 2015 and 2016 was 13.9 million tonnes and 13.6 million tonnes, respectively. The ore from the Kirovogorsky, 15-Letiya Oktyabrya, Kurkenpakh, Vostochny and Komsomolsky pits is delivered by railway to a beneficiation plant located approximately 11 kilometres away. The beneficiation plant, consisting of two crushing lines and 10 beneficiation circuits equipped with primary magnetic separation equipment, had a concentrate production of 4.1 million tonnes in each of 2015 and 2016.

Olkon's iron ore concentrate cash cost (not taking into account the capitalisation of stripping costs) was approximately US\$28.1 per tonne and US\$26.8 per tonne in 2015 and 2016, respectively.

The Group's production of iron ore concentrate at Olkon in 2016 was 4.1 tonnes with a cash cost (not taking into account the capitalisation of stripping costs) of US\$26.8 per tonne and a stripping ratio of 1.17.

Putu Range. Putu Range is located in Liberia, 130 kilometres inland from the coast. According to a report by SRK Consulting, resources at Putu Range amount to 4,690 million tonnes with a significant direct shipping ore component at an average grade 33.53 percent of total iron for all resources. The Putu Range Project is currently suspended due to economic reasons. The Group is currently searching for a strategic investor for the Putu Range Project.

Amapa. Amapa iron ore project is located in the state of Amapa, Brazil. The Group performed a first pass exploration at Amapa in 2011 and 2012, and, currently, the Company is contemplating a sale of its minority stake in the Amapa iron ore project.

Coal Facilities

Vorkutaugol. The Vorkutaugol mine is located near the town of Vorkuta in the Komi Republic in the northeast of European Russia. The Vorkutaugol mine operates the Vorkutskoye and Vorgashorskoye coal deposits with an estimated life of 25 and 8 years, respectively. The mining area of Vorkutaugol consists of five underground mines, one open pit and three washing plants. Premium grades of coking coal account for a high proportion of the Vorkutaugol reserves.

There are two principal seams currently under operation at the Vorkutskoye deposit, which comprises four mines: "Severnaya", "Komsomolskaya", "Zapolyarnaya" and "Vorkutinskaya". Troinoy and Chetvertiy seam are between 2.9 and 1.4 metres and are suitable to be extracted by conventional longwall shears. Total ROM coal output at Vorkutaugol in the years ended 31 December 2015 and 2016 was 13.2 million tonnes and 10.3 million tonnes, respectively.

There is only one seam of workable thickness at the Vorgashorskoye coal deposit. The total seam thickness is approximately 2.9 metres. The mine has two high productivity faces, with ROM coal output of 3.4 million tonnes in 2015 and 2.7 million tonnes in 2016. Some ROM coals are processed at the central Pechorskaya plant.

There is one open pit in operation, the Unyaginskoye mine with an annual ROM (without overburden) of 0.7 million tonnes of hard coking coal. There are currently three washing facilities in Vorkuta (Severnaya – located at the Severnaya mine, Vorkutinskaya - located at the Vorkutinskaya mine and central Pechorskaya). The washing process reduces ash content to approximately 9 percent, enabling the production of concentrate with a high market value. Coking coal concentrate from Vorkutaugol can be used directly in coke batteries. The most valuable coal is washed on the site at Vorkuta. In 2015, the second stage of modernisation was completed at the central washing facility Pechorskaya, which allowed to reduce production costs and to increase the hourly productivity of the facility to 1,600 tonnes per hour.

Cash cost of hard coking coal (2Zh grade) concentrate amounted to approximately US\$50 per tonne in 2015 and US\$61 per tonne in 2016.

In February 2016, an accident occurred at the Severnaya mine and one of the washing plants. The mining operations at Severnaya mine have been suspended since the accident and the Group has taken a decision to seal off Severnaya mine to avoid the risk of airflow, which may cause further underground fires and explosions in the mine. The decision was made by a commission comprising representatives of Vorkutaugol and Russian authorities. The Group is currently evaluating the process of sealing off Severnaya mine. The coal production at the mine was approximately 2.9 million tonnes of coal in 2015 compared to 0.5 million tonnes in 2016. With the Severnaya mine sealed-off, total coking coal sales (including intersegment sales) at Vorkutaugol decreased by 28 percent from 5.7 million tonnes in 2015 to 4.1 million tonnes in 2016. The Group is also considering the extraction of the Severnaya mine's ore through the adjacent Komsomolskaya mine. The process of such extraction, if implemented, is expected to commence in 2020. See "*Risk Factors—Risk Factors relating to the Group and the Steel and Mining Industries—The Group's mining operations are subject to*

hazards and risks that could lead to unexpected production delays, increased costs, damage to property, loss of mining assets and injury or death to persons”.

The Group’s ROM coal output at Vorkutaugol in 2016 was 10.3 million tonnes and the production of hard coking coal (2Zh grade) concentrate was 3.2 million tonnes with a cash cost of US\$61 per tonne.

Tsentralny field. Tsentralny field is a coal greenfield project in the Tyva Republic of Russia. According to its acquired state license, it has total resources of approximately 807.8 million tonnes of coking coal of A, B, C1 and C2 categories, according to the Russian Classification. Development of the coalfield depends on the construction of a 400km railroad connecting Tyva with the existing rail network. The Group decided to suspend any significant investments in the project until the construction of the railroad is certain.

Usinskoye-1 field. The field is located in the Komi Republic 40 kilometres from Vorkuta and the Group’s active underground mines. According to its acquired state license, it has total resources of approximately 537.3 million tonnes of coking coal of A, B, C1 and C2 categories, according to the Russian Classification. The project is currently suspended due to market conditions.

Reserves and Resources

At expected rates of operation, the Group estimates that Severstal Resources’ coal and audited (See “*Presentation of financial and other information—Mining reserves*”) reserves and resources of iron ore are sufficient for at least twenty years of iron ore and coking coal production. The table below shows the Group’s reserves and resources estimation. Estimation for the Karelskiy Okatysh and Olkon assets is based on the reports issued by IMC Montan dated February 2013 and IMC dated June 2006, which were prepared in accordance the JORC reporting standards. Reserves estimation for Vorkutaugol is based on the reports prepared by the Group in 2016 in accordance with the Russian Classification. Reserves and resource estimations for the Putu Range have been developed under the guidelines of Samrec code. The report for the Putu Range Project has been prepared by SRK Consulting (see also “*Industry—Mining Industry—International Reporting Methodologies*”).

Estimated Reserves and Resources—Severstal Resources⁽¹⁾

	Reserves	Resources	Resources extension ⁽⁶⁾
Iron Ore			
Karelsky Okatysh ⁽²⁾⁽³⁾⁽⁴⁾	320.8	976.4	56.0
Olkon ⁽⁴⁾⁽⁷⁾	204.3	542.3	—
Putu ⁽⁵⁾	—	4,690.0	—
Total	525.1	6,208.7	56.0
Coal			
Vorkutaugol ⁽²⁾⁽³⁾⁽⁴⁾⁽⁸⁾⁽⁶⁾	139.0	—	3.1
Tsentralny (Tyva)	—	—	807.8
Usinskoye-1	—	—	537.3
Total	139.0	—	1,348.2

Source: (see Notes).

Notes:

- (1) All numbers for iron ore and coal are presented in millions of tonnes as at 1 January 2017.
- (2) Proved and Probable reserves based on a report issued by IMC dated June 2006, prepared in accordance with JORC reporting standards.
- (3) Measured and Indicated resources, based on a report issued by IMC dated June 2006, prepared in accordance with JORC reporting standards.
- (4) Audited reserves, adjusted on actual production since the date of reporting, as at 31 December 2015.
- (5) Inferred and Indicated and Measured Resources based on a report issued by SRK Consulting issued in September 2012.
- (6) Resources based on the Russian Classification and legislation: A, B, C1 and C2 categories within current state licenses.
- (7) Resources and Reserves audited in 2013 by IMC Montan according to JORC reporting standards.
- (8) Coal reserves for Vorkutaugol are provided according to an estimate based on the Russian Classification.

Supply Chain

In order to take advantage of savings, Severstal Resources has centralised the purchasing of raw materials, equipment and other products that are used by members of the Group. There is a centralised procurement department based in Moscow for purchases of mining and railway equipment including spare parts, conveyors, oil products and metal-based raw materials. This department supplies products for companies of the Group and employs various optimal procurement methods and strategies (including by segregating and classifying suppliers into categories) aimed at reducing costs, gaining efficiencies, controlling quality and obtaining volume discounts.

Raw materials. Raw materials used by Severstal Resources include oil products, liquid explosives and metallic raw materials.

Oil products are the largest raw material type consumed by Severstal Resources. Purchases of oil products are centralised and made under annual contracts, some of which include credit terms, with several large suppliers and their subsidiaries, such as PAO “NK Rosneft”, PAO “Gazpromneft” and PAO “Lukoil”. Suppliers are selected based on competitiveness of their commercial terms. Actual prices are determined on a monthly basis with a group of the suppliers chosen from the wider group based on their proposals. The purchase is carried out via direct contract with suppliers or their subsidiaries. The purchasing of explosives and metallic raw materials is also centralised.

Products

Severstal Resources produces a high proportion of premium products, such as iron ore pellets from iron ore and coking coal concentrate from coal, for domestic and international customers. In the years ended 31 December 2015 and 2016, iron ore pellets constituted 71.9 percent and 72.5 percent of Severstal Resources’ iron ore products sales volume, respectively, whilst pellets with high iron content accounted for 43 percent and 46 percent of the total iron ore pellets sales volume in 2015 and 2016, respectively. Coking coal concentrate constituted 72.6 percent and 67.0 percent of Severstal Resources’ coal sales volume, respectively.

The following table sets out Severstal Resources’ sales volumes in 2015 and 2016.

Sales volumes by products —Severstal Resources⁽¹⁾

	Year ended 31 December	
	2015	2016
	(thousand tonnes)	
Raw coking coal	9	-
Coking coal concentrate	5,666	4,147
Steam coal	2,134	2,040
Iron ore pellets	10,604	10,842
Iron ore concentrate	4,143	4,103

(1) Includes intersegment sales.

Raw coking coal and coking coal concentrate. Vorkutaugol’s two main products are premium hard coking coal in concentrate form and semi-soft coking coal in concentrate form with an ash content of 9.0 percent.

Steam coal. Vorkutaugol also produces steam coal. It is sold to local heating and power plants in the Komi region, and it is also sold to industrial customers.

Iron ore pellets and concentrate. Karelsky Okatysh produces iron ore pellets. These have an iron content of 65.0 percent for non-fluxed and 66.0 percent for fluxed pellets. Pellets are a high value-added iron ore product, as they can be used directly in the blast furnace without intermediate sintering. They also ensure optimal coke consumption in the furnace and significantly reduce the carbon dioxide emissions in the furnace operation. Olkon produces iron ore fines with an iron content of 66.5 percent. Currently these fines are shipped only to Severstal Russian Steel where they are used as sinter feed, before being blended with coke and loaded into the blast furnace.

Sales, Marketing and Competition

Severstal Resources sells its products internally within the Group as well as to the international and Russian domestic markets. Severstal Resources aims to maintain its domestic market share and expand its international market share with high-quality pellets and coking coal concentrate.

Severstal Resources sales are dominated by iron ore pellets, which accounted for approximately 41 percent of sales by revenue in 2015 and 46 percent in 2016. Raw coking coal and coking coal concentrate accounted for approximately 33 percent of sales by revenue in 2015 and 28 percent in 2016. All other products and shipping represented approximately 26 percent of sales by revenue in 2015 and 2016.

The following table sets out sales by products for Severstal Resources in 2015 and 2016.

Sales by Products—Severstal Resources⁽¹⁾

Product	Year ended 31 December			
	2015		2016	
	(thousand tonnes)	(US\$ million)	(thousand tonnes)	(US\$ million)
Raw coking coal	9	-	-	-
Coking coal concentrate	5,666	412	4,147	326
Steam coal	2,134	42	2,040	38
Iron ore pellets	10,604	507	10,842	535
Iron ore concentrate	4,143	133	4,103	129
Other and shipping	—	146	—	126
Total revenue	—	1,240	—	1,154

Note:

(1) Includes intersegment sales.

Customers. Within the Group, Severstal Resources sells iron ore pellets and coking coal to Severstal Russian Steel.

Severstal Resources total iron ore and coking coal sales were 22.6 million tonnes in 2015 and 21.1 million tonnes in 2016. *Raw material companies contracts.* Severstal Resources operates through direct contracts with customers. Usually contracts for coking coal with domestic customers have a three-month term, after which both the volume and price may be reviewed. Contracts for pellets have a one-year term with formula pricing. The majority of export sales are made through one to three-year contracts, with price terms reviewed annually.

Competition

The Group believes that Severstal Resources is favourably positioned on the global cost curve for both iron ore and coking coal, with strong competitive positions in domestic markets and in its core export markets of northern and eastern Europe. This is evident in respect of the pellets produced at Karelsky Okatysh and coking coal concentrate produced at Vorkutaugol, the two assets with stronger orientation towards the export market and high value-added products.

Severstal Resources has a strong market position in the Russian iron ore and coking coal markets. The following table sets forth the principal competitors of Severstal Resources in the Russian markets for coking coal and iron ore as at 31 December 2015.

Principal Competitors of Severstal Resources—Russian Coking Coal Market

Company	Group	Year ended 31 December 2015 (million tonnes)
Raspadskaya	EVRAZ	6.6
Vorkutaugol	Severstal	5.7
Yuzhkuzbassugol	EVRAZ	5.4
Yakutugol	Mechel	5.1
Sibuglemet	Independent producer	4.8
Yuzhny Kuzbass	Mechel	2.7
KRU	UMMC	4.0
Other		15.6
Russia		49.9

Source: Metal Expert

The Russian coking coal market is less consolidated than the Russian iron ore market, with high competition in low quality coking coals. Severstal Resources' key competitors in this market include Raspadskaya, Yuzhkuzbassugol, Sibuglemet and Yakutugol. Severstal Resources believes that its location provides it with an advantage over its competitors, many of whom are located in the Kuzbass region, which is located over 2,000 kilometres away from the major purchasers of coking coal in the European part of Russia and Ukraine.

Severstal Resources' main competitor in the Russian iron ore pellets market is Metalloinvest, which delivered approximately 18.3 million tonnes of pellets and iron ore concentrate into the Russian domestic market in 2015. Other large producers are Evraz, NLMK and Mechel who predominantly supply iron ore to their own steelmaking operations. The only significant company importing iron ore into the Russian market is the Kazakh producer OAO SSGPO, mostly to MMK (approximately 5.4 million tonnes in 2015) and Mechel (approximately 0.9 million tonnes in 2015). The following table shows principal competitors of Severstal Resources in the Russian iron ore market.

Principal Competitors of Severstal Resources—Russian Iron Ore Market

Company	Group	Year ended 31 December 2015 (million tonnes)
Lebedinsky GOK.....	Metalloinvest.....	21
Mikhailovsky GOK.....	Metalloinvest.....	17
Stoilensky GOK.....	NLMK.....	15
Karelsky Okatysh.....	Severstal.....	11
Kachkanarsky GOK.....	EVRAZ.....	11
Kovdorskiy GOK.....	Eurochem.....	6
Korshunovskiy GOK.....	Mechel.....	3
Olkon.....	Severstal.....	4
Others.....		10
Russia		98

Source: Metal Expert

Capital Expenditure Programme

In 2015 and 2016, Severstal Resources' capital expenditure amounted to approximately US\$228 million and US\$229 million, respectively.

Further capital improvements are currently underway at each of Severstal Resources' mining assets, with a planned total capital expenditure of approximately US\$266 million in 2017. These projects are designed to further modernise equipment, increase the production of premium products, stabilise the mix of products, optimise degasification systems, utilise coal mine methane, develop new iron ore and coal reserves, improve cost efficiency and expand extraction and beneficiation capacities. In recent years, Severstal Resources has replaced all of its major equipment for both its underground operations and open pit mines.

In carrying out its capital expenditure programme, Severstal Resources plans to improve its internal processes for sourcing supplies, including by consolidating purchasing and seeking to enter long-term contracts with key suppliers, such as suppliers of heavy machinery.

Karelsky Okatysh. Capital expenditure programme at Karelsky Okatysh in 2016 and 2017 includes the following main projects: launching of extra hard DRI pellets, beneficiating plant modernisation, construction of tailings thickening units, shovel and truck fleet renovation, heating plant reconstruction, exploration works at the Korpanga and the Kostomuksha iron ore deposits.

Overall, the Group expects the planned improvements to lead to an increase of approximately 5 percent in pellets production as compared to 2015 up to an estimated 11.1 million tonnes by 2017 with focus on new high quality products.

Olkon. In accordance with the development strategy of a manufacturing base of Olkon for the period 2016-2019, the Group expects to implement a number of investment projects which are designed to maintain the natural resource base and update the mining fleet and the factory complex, including crushing and factory equipment, the fleet of dump trucks, bulldozers and underground equipment.

Vorkutaugol. The capital expenditure programme at Vorkutaugol for the period between 2017 and 2019 is primarily focused on infrastructural projects necessary for the development of certain coal fields within the reach of existing deep mines and mine safety measures. Overall, the Group expects that the planned investments will lead to the maintenance of the average production output at the level of 9.7 million tonnes of raw coal per year until 2019.

Employees

The number of employees in Severstal Resources declined from 13,025 in 2015 to 12,914 in 2016. The reduction in headcount is due to retirement, outsourcing of certain low-qualified work, corporate restructuring and implementation of optimisation programmes. Severstal Resources has entered into collective bargaining agreements in respect of employees of Karelsky Okatysh, Olkon and Vorkutaugol, which expired at the end of 2016. Such agreements are in line with the best practices in the coal industry and provide for compensation and benefits to all employees.

Health, Safety and Environment

The business of mining, particularly underground mining, can be dangerous. All underground mines are hazardous production facilities in compliance with the national regulation. Severstal Resources is required to comply with a range

of health and safety laws and regulations, for which the Group has established a significant health, safety and environmental protection system for its mining operations. Each mine has an environmental specialist and a health and safety specialist to focus on compliance with law and the Group's own objectives. Total expenditures on occupational health and safety measures amounted to approximately US\$51.2 million in 2014 and US\$33.8 million in 2015. Expenditures on the implementation of environmental protection measures amounted to approximately US\$38.2 million in 2014 and US\$25.5 million in 2015. Management believes that any injuries, occupational diseases and other operational incidents can be prevented and that all employees of the Group are responsible for preventing such occurrences. The Group's mining operations have experienced significant accidents in recent periods, including accidents that have resulted in fatalities and disruptions to operations. In particular, on 11 February 2013, there was an accident involving an explosion at the Vorkutinskaya mine that resulted in 19 fatalities. Further, in February 2016, a series of methane explosions at Vorkutaugol's Severnaya mine resulted in the deaths of 31 miners and 5 rescue workers. The mining operations at Vorkutaugol's Severnaya mine have been suspended since the accident and the Group has taken a decision to seal off Severnaya mine to avoid the risk of airflow, which may cause further underground fires and explosions in the mine. See *"Risk Factors—Risk Factors relating to the Group and the Steel and Mining Industries—The Group's mining operations are subject to hazards and risks that could lead to unexpected production delays, increased costs, damage to property, loss of mining assets and injury or death to persons"*.

During the period between 2014 and 2016, 191 work-related lost time injuries occurred in Severstal Resources, 38 of which occurred in 2014, 47 in 2015 and 106 in 2016. In the years ended 31 December 2014, 2015 and 2016, LTIFR amounted to 1.93, 2.51 and 3.22, respectively.

Insurance

Severstal Resources maintains a level of insurance commensurate with the standards of other large mining companies in Russia. In particular, it insures the property, plant and equipment of Karelsky Okatysh and Olkon at the actual cash value but does not insure against interruption.

Insurance coverage in respect of property, plant and equipment at the coal mines is provided on a limited basis. Procedures are being put in place to ensure insurance coverage for all newly built major facilities. All employees are insured against accidents that occur within the workplace.

DISCONTINUED OPERATION AND ASSETS HELD FOR SALE

The Group's discontinued operation represents the Severstal International reporting segment.

The Group's assets held for sale represents Redaelli Tecna S.p.A., an Italian steel company and Group subsidiary included in the Severstal Russian Steel reporting segment.

Severstal International reporting segment

In September 2014, the Group sold its 100.0 percent stakes in Severstal Dearborn LLC and Severstal Columbus LLC comprising, together with their subsidiaries and investments in joint ventures and associates, the Severstal International reporting segment.

Redaelli Tecna S.p.A. (included in Severstal Russian Steel segment)

As at 31 December 2016, Redaelli Tecna S.p.A., an Italian steel company and Group subsidiary included in the Severstal Russian Steel reporting segment, was classified as assets held for sale in the Annual Financial Statements.

MANAGEMENT

ANNUAL GENERAL SHAREHOLDERS' MEETING

The annual general shareholders' meeting is the Company's highest governing body and has exclusive powers to take certain decisions by a vote of the shares represented at the meeting. The powers of the Company's shareholders, acting through the general shareholders' meeting, are derived from, and their scope is limited to, the powers set forth in the Federal Law dated 26 December 1995 No. 208-FZ "On Joint Stock Companies", as amended (***Federal Law on Joint Stock Companies***), and the Company's charter effective as at the date of this Base Prospectus (***Charter***). Voting at a general shareholders' meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which must be done through cumulative voting. Ordinarily, a majority vote of the voting shares present at a general shareholders' meeting is required for a decision of the general shareholders' meeting to be valid. However, a three quarters majority vote of the voting shares present at a general shareholders' meeting is required to approve certain decisions.

Issues for which a majority vote is required include:

- the number of members of the Board of Directors, and the election and dismissal of its members;
- the election and dismissal of the Internal Audit Commission;
- the approval of the Company's independent auditor;
- the increase of the Company's share capital by way of an increase in the nominal value of the Company's shares;
- the reduction of the Company's share capital by way of the repurchase of part of the Company's shares for the purpose of decreasing the total number of outstanding shares and the cancellation of the acquired or repurchased shares;
- the approval of the Company's annual reports and financial statements;
- the declaration and payment of dividends;
- the splitting and consolidation of the Company's shares;
- the approval of interested party transactions in cases provided for by the Federal Law on Joint Stock Companies;
- the approval of the Company's participation financial and industrial groups, associations and other unions of commercial organisations;
- the approval of internal regulations in relation to management bodies of the Company;
- formation of the Company's executive body and early termination of its authority; and
- other issues as provided by the Federal Law on Joint Stock Companies and the Company's Charter.

Issues for which a three quarters majority vote is required include:

- amendments to the Company's Charter;
- the reorganisation of the Company;
- the liquidation of the Company, appointment of the liquidation commission and approval of the interim and final liquidation balances;
- the number, nominal value and type of authorised shares, and the rights attached to those shares;
- submission of an application for the delisting of the Company's shares and (or) the Company's issuable securities convertible to its shares;
- the approval of major transactions in cases provided for by the Federal Law on Joint Stock Companies;

- the acquisition by the Company of issued shares in cases provided for by the Federal Law on Joint Stock Companies;
- any issue of additional shares, or securities convertible into shares, by a closed subscription;
- the reduction of the Company's share capital by way of a reduction of the nominal value of the Company's shares;
- the increase of the Company's share capital by issuing additional ordinary shares by means of an open subscription if the ordinary shares to be additionally issued would constitute over 25.0 percent of the total number of ordinary shares issued prior to such additional issue; and
- the issue of securities convertible into ordinary shares by means of an open subscription if the shares into which the securities would be converted would constitute over 25.0 percent of the total number of ordinary shares issued prior to such issue.

A quorum for a general shareholders' meeting of the Company is achieved if the holders of more than 50.0 percent of the issued outstanding voting shares are attending in person or by proxy. If a 50.0 percent quorum is not achieved, the quorum shall be at least the holders of 30.0 percent of the issued outstanding voting shares to attend (in person or by proxy) a meeting duly reconvened to consider the same agenda.

The annual general shareholders' meeting must be convened by the Board of Directors between 1 March and 30 June of each year, and the agenda must include the following items:

- election of the members of the Board of Directors;
- approval of the annual report and annual accounting (financial) statements;
- approval of the distribution of profits and losses;
- approval of the appointment of an independent auditor; and
- election of the Internal Audit Commission.

A shareholder owning, individually or collectively with other shareholders, at least 2.0 percent of the issued voting shares may propose items for the agenda of the annual general shareholders' meeting and may nominate candidates to the Board of Directors and the Internal Audit Commission pursuant to the Charter of the Company. Any agenda items or nominations must be submitted to the Company no later than 60 calendar days after the end of the financial year.

Extraordinary general shareholders' meetings may be convened by the Board of Directors on its own motion or at the request of the Internal Audit Commission, the independent auditor or any shareholder owning, individually or collectively with other shareholders, at least 10.0 percent of the issued voting shares at the date of the request.

A general shareholders' meeting may be held in person or by absentee ballot. A general shareholders' meeting held in person involves the adoption of resolutions by the general shareholders' meeting through the personal attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues on the agenda, provided that if the ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general shareholders' meeting held by absentee ballot involves the determination of shareholders' opinions on the issues on the agenda by means of a written poll.

The following issues cannot be decided by absentee ballot:

- the election of the members of the Board of Directors;
- the election of the Internal Audit Commission;
- the approval of the appointment of an independent auditor; and
- the approval of the annual report, annual accounting (financial) statements, and the distribution of profits and losses.

Notice and Participation

According to the Company's Charter, the notice on conducting the general shareholders' meeting should be delivered no later than 30 days prior to the date of the general shareholders' meeting. If the agenda of the general shareholders' meeting contains an item concerning the election of Board members, such notice is to be made no later than 50 days prior to the date of the general shareholders' meeting. According to the Company's Charter, notice to the shareholders is to be posted on the company's official website (www.severstal.com).

The list of persons entitled to participate in a general shareholders' meeting is to be compiled on the basis of the data in the Company's register of shareholders on the date specified by the Board of Directors. The list of persons entitled to participate in a general shareholders' meeting may not be compiled earlier than ten days of the date of adoption of the Board resolution to hold such meeting and may not be more than 25 days before the date of the meeting or, in the case of an extraordinary general shareholders' meeting to elect the Board of Directors, 55 days before the date of the meeting. Generally, the right to participate in a general shareholders' meeting may be exercised by a shareholder as follows:

- by personal attendance;
- by proxy;
- by absentee ballot; or
- by delegating the right to vote using the absentee ballot to a duly authorised representative.

Ballots for voting on items on the general shareholders' meeting agenda should be forwarded to the Company's shareholders by registered mail no later than 20 days before the general shareholders' meeting.

As required by applicable Russian law and the Company's internal regulations, the resolutions passed at the general shareholders' meeting and the voting results may be announced at the general shareholders' meeting at which voting was carried out, and should be brought to the attention of the shareholders in the form of a Voting Results Report.

The Voting Results Report should be posted on the Company's official website (www.severstal.com) within four business days from the date the general shareholders' meeting is held or the end date for the receipt of voting ballots in case the general shareholders' meeting is held in the form of absentee voting. The company should disclose the resolutions passed at the general shareholders' meeting in the form of Corporate Action Notice as required by applicable Russian law.

BOARD OF DIRECTORS

The Company's Board of Directors is responsible for the general management and performance of the Company's operations, including the discussion, review and approval of its strategy and business model, and closely monitoring its financial and business operations both by segment and as a whole.

Each member of the Company's Board of Directors must be an individual.

The Board of Directors' main objective is to run the Company in a way that increases shareholder value in the medium and long term. Short-term financial and operational issues, such as debt levels and costs, also receive close attention from the Board.

The Board of Directors' decisions are based on the best interests of all stakeholders. This may involve making difficult decisions in complex situations.

The Board of Directors is also responsible for disclosure and dissemination of information about the Company's operations, for implementing the Company's information policy and for matters dealing with the Company's insider information.

The Board of Directors has authority in decisions concerning major aspects of the Company's activity, except in matters within the competence of the general shareholders' meeting.

Members of the Board should:

- act conscientiously and responsibly in the best interests of all shareholders and the entire Company;

- have the appropriate professional skills;
- devote sufficient time to the performance of their duties as members of the Board of Directors, so as to work efficiently;
- once elected, give up representation of the interests of any group of persons within the Company, and act only in the best interests of the shareholders and the Company as a whole; and
- disclose in good faith full information about their interest, if any, in any transactions the Company intends to enter into.

The members of the Board of Directors are elected by the Company's shareholders through cumulative voting at the general shareholders' meeting, for a term of office until the next annual general shareholders' meeting.

At cumulative voting, the votes of each shareholder are multiplied by the number of persons to be elected to the Company's Board of Directors. A shareholder may give all of its votes to one candidate or distribute them between two or more candidates. The candidates with the greatest number of votes are considered elected. If a member of the Board of Directors elects to terminate their term of office, the whole body of the Board of Directors has to be re-elected at a general shareholders' meeting. Those elected to the Company's Board of Directors may be re-elected an unlimited number of times.

New members of the Board of Directors participate in an induction programme when they take office. This induction covers details of the Company's operations and procedures, as well as providing the new Board of Directors' members with information on what is required from them in their role according to the Company's Corporate Governance Code, applicable corporate governance law, and descriptions of best practice to help ensure their early effective contribution to the Company.

Key responsibilities of the Board of Directors:

- strategic direction of the Company;
- approval of issues relating to calling and holding the general shareholders' meeting, other than in certain cases provided by the Federal Law on Joint Stock Companies;
- placement of the Company's additional shares, bonds and other issued securities other than cases reserved for the exclusive competence of the general shareholders' meeting;
- approval of the price (estimated value) of assets, the price of placement or procedure for its determination and redemption of issued securities;
- acquisition of shares placed by the Company, bonds and other securities other than cases reserved for the exclusive competence of the general shareholders' meeting;
- approval of fees to be paid to the Internal Audit Commission and auditors;
- recommendation on the amount of dividends to be paid and the procedure for the payment thereof;
- use of the emergency fund and other funds of the Company;
- approval of the Company's Corporate Governance Code and internal documents regulating Board committees' activity and insider relations;
- opening of the Company's branches and representative offices and their liquidation;
- approval of the Company's registrar and contract relations with it;
- approval of major transactions and transactions with interested parties as required by applicable law;
- approval of transactions with an amount exceeding 10 percent of the book value of the Company assets on the date such transactions are agreed;

- approval of transactions to acquire: (i) shares or participation interests, or rights to manage such shares or participation interests, (ii) fixed or intangible assets if the amount of the transaction specified in sub-clauses (i) or (ii) exceeds the equivalent of US\$500 million;
- review of the consolidated budget and submission of appropriate recommendations;
- review of the appointment and compensation policy applicable to the Company's senior executives and the recommendations regarding such policy;
- submitting an application for listing of the Company's shares and (or) issuable securities convertible to shares; and
- other matters provided for by Russian law and the Company's Charter.

The Board of Directors' activity is regulated under Russian law, the Company's Charter and the Regulations for the Board of Directors.

According to the Company's Charter, the Company's Board of Directors comprises ten members. The Board has a strong independent element. Its current structure represents a balance between five Independent Non-Executive Directors (Sakari Tamminen, Philip Dayer, Alun Bowen, Vladimir Mau and Alexander Auzan), two Non-Executive Directors (Alexey Mordashov (Chairman of the Board of Directors) and Mikhail Noskov) and three Executive Directors (Alexey Kulichenko, Vladimir Lukin and Vadim Larin, who ceased to be a member of the Company's Board of Directors on 7 November 2016 on the basis of his written request). Severstal strongly believes that maintaining a balanced Board is a prerequisite for good decision-making and corporate governance.

The proportion of Independent Non-Executive Directors on the Board guarantees equal regard for the interests of all shareholders. The Board considers all of its Independent Non-Executive Directors to be independent, in line with the UK Corporate Governance Code.

The Board of Directors reviews the independence of all Independent Non-Executive Directors annually, and has determined that all such Directors are independent and have no cross-directorships or significant links, which could materially interfere with them exercising their independent judgment. The Company's Independent Non-Executive Directors play a leading role in corporate accountability and governance through their membership and participation in the Board of Directors committees.

As at 31 December 2016, the active membership of the Board of Directors (the business address of which is Ulitsa Mira 30, Cherepovets, Vologda Region, 162608, Russia, and the telephone of which is +7 8202 53 09 00) is as follows:

Name	Year of Birth	Current position/biography and outside memberships	Since
Alexey A. Mordashov	1965	Chairman of the Board of Directors, Member of the Health, Safety and Environmental Committee.	1996

Alexey Mordashov has been working for Severstal since 1988. He started his career as a Senior Economist, becoming Chief Financial Officer in 1992. In December 1996, he was appointed as Severstal's Chief Executive Officer. Between 2002 and 2006, he served as Chief Executive Officer of Severstal Group and was Chairman of Severstal's Board of Directors. Between December 2006 and December 2014, Mr. Mordashov was Chief Executive Officer of Severstal. From December 2014 until May 2015, Mr. Mordashov served as CEO of AO Severstal Management, the managing company of PAO Severstal. Mr. Mordashov was elected Chairman of the Board of Directors of PAO Severstal in May 2015.

Mr. Mordashov earned his undergraduate degree from the Leningrad Institute of Engineering and Economics. He also holds an MBA degree from Newcastle Business School of Northumbria University (Newcastle, UK). Mr. Mordashov was granted an honorary doctorate from the Saint-Petersburg State University of Engineering and Economics in 2001 and from the University of Northumbria in 2003.

Mr. Mordashov's outside activities include the following:

- Member of the Supervisory Board (since June 2010) of the Non-Profit Partnership Consortium “Russian Steel”, prior to that President of the Consortium (from 2013 to 2015) and since 2016, Chairman of the Supervisory Board
- Member of the Supervisory Board of World Steel Association headquartered in Brussels, Belgium. Prior to that Chairman (from 2012 to 2013), Vice-Chairman (from 2013 to 2015) of World Steel Association headquartered in Brussels, Belgium
- Head of the Russian Union of Industrialists and Entrepreneurs' (RSPP) Committee on Integration, Trade and Customs Policy and WTO
- Serves on the Entrepreneurial Council of the Government of the Russian Federation
- Co-Chairman of the “Trade as a Global Driver” taskforce of the “Business 20” (B20) of “Group of Twenty” (G20)
- Co-Chairman of the Northern Dimension Business Council
- Vice-President of the Russian-German chamber of commerce and member of the Russian-German workgroup responsible for strategic economic and finance issues
- Member of the EU-Russia Business Cooperation Council
- Chairman of the Board of OAO Power Machines
- Member of the Board of Nord Gold S.E.
- Member of the Board of Directors of TUI AG

Mikhail V. Noskov	1963	Non-Executive Director.	1998
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Mikhail Noskov worked at the International Moscow Bank between 1989 and 1993. From 1994 until 1997, he was Trade Finance Director at Credit Suisse (Moscow). He has worked for Severstal since February 1997, first as Head of Corporate Finance and from 1998 as Finance and Economics Director. Between June 2002 and December 2013, he worked as Deputy CEO for Finance and Economics of the Severstal Group. From 2007 to 2008 he was Deputy CEO for Finance and Economics of Severstal. From March 2014 until February 2016 Mr. Noskov was CEO of telecommunication company Tele2 (Russia).

Mr. Noskov graduated from the Moscow Institute of Finance.

Mr. Noskov does not carry out any outside activities.

Alexey G. Kulichenko	1974	CFO Severstal.	2009
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Between 1996 and 2003 Alexey Kulichenko worked for Sun Interbrew, first as a cash flow economist at the Rosar plant in Omsk and lastly as the Efficiency Planning and Managing Director. Between 2003 and 2005 Mr. Kulichenko worked as CFO at Unimilk. From December 2005 to July 2009 he worked as CFO of CJSC Severstal Resource. In July 2009 he was appointed CFO of PAO Severstal.

Mr. Kulichenko graduated from the Omsk Institute of World Economy with a degree in Economics.

Mr. Kulichenko does not carry out any outside activities.

Vladimir A. Lukin	1978	Senior Vice President, Legal Affairs and General Counsel and Member of the Health, Safety and Environmental Committee.	2004
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Vladimir Lukin joined Severstal Group in 2004 as Senior Legal Advisor. In 2007 he became Senior Legal Advisor of PAO Severstal. In January 2008 Mr. Lukin was appointed as head of the International Project Department. In 2009 he was appointed as Senior Vice President, Legal Affairs and General Counsel. Prior to joining the Company, Mr. Lukin worked for law firm Freshfields Bruckhaus Deringer. Since 25 May 2015, Mr. Lukin has been a member of the Board of Directors of AO Severstal Management.

Mr. Lukin graduated in Law from the Moscow State University.

Mr. Lukin's outside activities include the following:

- Member of the Board of Directors of OAO Power Machines
- First Deputy CEO of OOO KAPITAL
- First Deputy CEO of ZAO Severgroup
- Member of the Board of Directors of OOO T2 RTK Holding
- Member of the Board of Directors of OAO AB ROSSIYA
- Member of the Board of Directors of ZAO GK Video International
- Member of the Board of Directors of ZAO National media group

Sakari Tamminen	1953	Senior Independent Director, Chairman of the Remuneration and Nomination Committee	2015
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Sakari Tamminen has extensive relevant experience at Board level within steel and metals companies, including being the President and CEO of the Finnish steel and metal construction company Rautaruukki Corporation from 2003 to 2014. Mr. Tamminen is currently a member of the Board at steel company Ovako AB, and has been the Vice Chairman of the Board of Sanoma Corporation since 2002. He also holds a directorship at Danske Bank Finland Plc and is Chairman of the Board of Versowood. He has also held roles as Executive Vice President and CFO of Metso Corporation (1999-2003) and Rauma Corporation (1991-1999).

Mr. Tamminen studied at Tampere University and holds a degree in Masters of Science (Economics).

Mr. Tamminen's outside activities include the following:

- Member of the Board of Directors of Ovako AB
- Member of the Board of Directors of Danske Bank Finland Plc
- Chairman of the Board of Directors of Versowood
- Chairman of the Board of Directors of M.J. Paasikivi Oy

Alun Bowen	1955	Independent Non-Executive Director, Chairman of the Audit Committee, Member of the Remuneration and Nomination Committee.	2014
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Alun Bowen spent almost 37 years working for KPMG in London, Sydney, Cardiff, Hong Kong and Kazakhstan. He has extensive relevant experience both at Board level and in advisory roles. Having joined Peat, Marwick & Mitchell & Co (subsequently KPMG) in 1976, he was appointed a Partner in 1988, and subsequently managed a number of practice areas including being Managing Partner of KPMG Kazakhstan from 2008 to 2013. He was a member of the audit committees of The Institute of Chartered Accountants in England and Wales (2004 to 2007), Business in the Community (2003 to 2005) and The Prince's Trust (2001 to 2007).

Mr. Bowen holds a Master of Arts degree from Trinity College, Cambridge, where he studied Metallurgy and Materials Science, and he is a Fellow of the Institute of Chartered Accountants in England & Wales.

Mr. Bowen's outside activities include the following:

- Member of the Supervisory Board, Chairman of the Audit Committee, member of the Risk and Internal Controls Committee and Chairman of the Remuneration Committee of JSC Eurasian Bank
- Non-Executive Director, Chairman of the Risk and Conduct Committee and member of the Audit Committee of Julian Hodge Bank Limited
- Non-Executive Director, Chairman of the Risk and Conduct Committee and member of the Audit Committee of Hodge Life Assurance Company Limited
- Non-Executive Director, Chairman of the Risk and Conduct Committee and member of the Audit Committee of Carlyle Trust Limited
- Trustee and Director of the Jane Hodge Foundation

Philip Dayer	1951	Independent Non-Executive Director, Chairman of the Health, Safety and Environmental Committee, Member of the Audit Committee and the Remuneration and Nomination Committee.	2014
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Philip Dayer has extensive experience of advising international companies, including in the CIS. Mr. Dayer sits on the Board of several listed companies in the energy, software and financial services sectors. Mr. Dayer qualified as a Chartered Accountant and pursued a corporate finance career in investment banking providing capital markets advice, including on mergers and acquisition transactions and flotations. Over the past five years he has also held Non-Executive Directorships at Hurricane Exploration plc, Cadogan Petroleum plc, Navigators Underwriting Agency Limited and IP Plus plc.

Mr. Dayer graduated from King's College London in Law and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Mr. Dayer's outside activities include the following:

- Non-Executive Director, member of the Audit Committee and member of the Remuneration Committee of JSC VTB Capital Holding
- Senior Independent Director, member of the Audit Committee and Chairman of the Remuneration Committee of AVEVA Group plc.
- Non-Executive Director and Chairman of the Audit Committee of JSC Kazmunaigas Exploration & Production
- Non-Executive Director and Chairman of the Audit Committee of The Parkmead Group plc.

Vladimir Mau	1959	Independent Non-Executive Director, Member of the Audit Committee.	2015
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Vladimir Mau is an honoured Russian economist. Since 1991 he has participated in the economic reforms in Russia, including working as advisor to the Chairman of the Russian Government from 1992 to 1993. From 1997 through 2002 Mr. Mau was the Head of the Working Center for Economic Reforms of the Russian Government. In 2002 he became the Rector of the Academy of National Economy of the Russian Government (ANE), and in 2010 the Rector of the newly-formed Russian Presidential Academy of National Economy and Public Administration (RANEPA).

Mr. Mau is a Doctor of Economics, Professor, PhD (Université Pierre Mendès, France), Honored economist of the Russian Federation. Mr. Mau graduated from the Moscow Institute of National Economy in 1981.

Mr. Mau's outside activities include the following:

- Independent member of the Supervisory Board, Chairman of the Audit Committee, member of the Nomination and Remuneration Committee of PAO Sberbank of Russia
- Chairman of the Trustees Board of the Fund for Bureau of Economic Analysis
- Member of the Trustees Board of Yegor Gaidar Heritage Foundation
- Member of the Board of Directors of PAO Gazprom
- Member of the Board of Directors, member of the Committee for Corporate Governance, nominations and remunerations of ZAO Transcapitalbank

Alexander Auzan	1954	Independent Non-Executive Director, Member of the Health, Safety and Environmental Committee.	2015
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Alexander Auzan is Dean of the Faculty of Economics at Lomonosov Moscow State University and founder of the National Projects Institute. He is one of Russia's leading economists. In the late 1980s, he took part in the establishment of consumer protection associations and has been a Member of the Executive Bureau of the Council of Consumers International (a worldwide consumers association). In 2005-2011 he was President of the Association of Russian Economic Think Tanks (ARETT). Mr. Auzan was also a member of the President's Commission for Modernisation and Technological Development of Russian Economy and President's Council for Development of Civil Society and Human Rights. He is currently a member of the Presidential Economic Council. He has written numerous papers on the modernisation of Russia, national values, and the dynamics of a social contract. His work involves economic and development consulting for national and regional governments, including participation in development of "Strategy-2020" for Russia in 2011-2012. In 2015 he headed the working group on preparation of proposals for structure, directions, resource's provision and plan for the social and economic development strategy of Russia up to 2030.

Mr. Auzan graduated from Moscow State University and holds a PhD in Economics.

Mr. Auzan's outside activities include the following:

- Independent Director of OAO RVK
- Independent Director of OAO Rostelecom

There are no current or potential conflicts between the private interests and duties of the members of the Board of Directors or the Chief Executive Officer and the duties of those officers to the Company.

In the previous five years, no member of the Board of Directors has been convicted of any fraudulent offence; served as a director, partner, founder or senior manager of any organisation that has been the subject of any bankruptcies, receiverships or liquidations; was subject to any official public incrimination or sanctions by statutory or regulatory authorities, including designated professional bodies, or has been disqualified by a court from acting as a director of an issuer or from acting in the management or conduct of the affairs of any issuer.

Company's Board of Directors includes the following committees:

- the Audit Committee;
- the Remuneration and Nomination Committee; and
- the Health, Safety and Environmental Committee.

The Board Committees serve as consultative and advisory bodies that deal with issues raised by the Board of Directors. The Committees may not act on behalf of the Board of Directors and are not considered to be management bodies of the Company. They have no powers in relation to managing the Company.

Committee meetings are held as and when necessary, but at least three times a year (except for the Health, Safety and Environmental Committee, which meets at least twice a year). They are held separate from the Board meetings so that extra attention can be given to discussing issues which actually require preliminary Board consideration prior to approval by the Board of Directors members, and ultimately the Board of Directors' approval.

Decisions of each Committee are taken by a majority vote of all Committee members taking part in the meeting. Each member has one vote and the Committee Chairman has no casting vote in the event of a tie.

AUDIT COMMITTEE

The Audit Committee assists the Board of Directors in monitoring the Company's risk management processes and control environment, and in reviewing the Company's annual and quarterly financial statements and audit.

The Audit Committee consists of three Independent Non-Executive Directors. Currently they are:

- Alun Bowen (Chairman),
- Philip Dayer, and,
- Vladimir Mau.

The Audit Committee has sufficient recent relevant financial experience, as well as the overall skills required for financial statements, business risk analysis and financial management. No senior executive of the Company can be a member of the Audit Committee.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee's role is to help the Company engage qualified professionals to manage the Company, and create the incentives necessary to ensure their successful work for the Company. It also reviews remuneration and compensation for the Company's senior managers and Independent Board members.

The Remuneration and Nomination Committee consists of three Independent Non-Executive Directors. Currently they are:

- Sakari Tamminen (Chairman);
- Philip Dayer; and
- Alun Bowen.

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

The Health, Safety and Environmental Committee is responsible for assisting the Board in obtaining assurance that appropriate systems are in place to deal with the management of health, safety and environmental risks.

The functions of the Health, Safety and Environmental Committee include:

- Advise the Board of Directors on safety policy and the establishment of safety procedures including the reporting system to the Company's executive body and through the executive body to the Board of Directors;
- Review the safety performance of the Company and its constituent parts against targets as established either by the Company's Board of Directors or its executive body;
- Review major safety incidents and advise on lessons learnt and/or sanctions to be applied;
- Initiate and review comparisons with best safety and environmental practice;
- Advise the Board of Directors on environmental policies, the establishment of procedures and practices and the reporting system on environmental performance to the Company's executive body and through the executive body to the Board of Directors;

- Review the environmental performance of the Company and its constituent parts against targets as established by the Board of Directors or its executive body, as well as compliance with legal obligations or objectives and restrictions set by the authorities; and
- Review major environmental incidents or breaches of compliance and advise on lessons learnt and/or sanctions to be applied.

The Health, Safety and Environmental Committee currently consists of:

- Philip Dayer (Chairman);
- Alexey Mordashov;
- Vladimir Lukin; and
- Alexander Auzan.

Details of the abovementioned Health, Safety and Environmental Committee members can be found in their biographies.

SOLE EXECUTIVE BODY

The authority of the Company's Sole Executive Body is exercised by the Chief Executive Officer / General Director of the Company.

Upon a decision of the general shareholders' meeting, the powers of the Company's Sole Executive Body can be transferred to a commercial organisation (managing company) on a contract basis. The general shareholders' meeting may take such a decision following a proposal by the Company's Board of Directors.

The Company's shareholders resolved to transfer the powers and responsibilities of the Company's Executive Management Team including those of its Chief Executive Officer, to a new managing company, Severstal Management. This arrangement has been in effect since 1 January 2015.

This change is in line with the Company's stated strategic focus of optimising its management structure and further enhancing management efficiency and transparency. Severstal Management expects to achieve this enhanced efficiency and transparency by reducing management layers, centralising certain administrative functions and removing duplication of work. In November 2016 the Severstal Management appointed Alexander Shevelev as Chief Executive Officer effective 12 December 2016.

Alexander Shevelev previously held the positions of CEO of SVEZA Group, a subsidiary of Severgroup, and CEO of Severstal-Metiz, an international metalware manufacturer and subsidiary of PAO Severstal.

The managing company has authority to manage all issues regarding the Company's current operations except for those issues reserved for the Company's general shareholders' meeting and the Board of Directors.

EXTERNAL AUDITORS AND INTERNAL AUDIT COMMISSION

As required by Russian law, the Company's financial and economic activities are monitored by the Company's Internal Audit Commission (a body established by the general shareholders' meeting of the Company).

JSC KPMG conducts the statutory audit of the Company's standalone accounts produced under Russian Accounting Standards. The appointment of JSC KPMG as the statutory auditors of the Company is approved by the annual general shareholders' meeting.

An external auditor is appointed annually by the general shareholders' meeting. The external auditor's role is to review the Company's financial and reporting performance. The auditor's fee is subject to approval by the Board following recommendation by the Audit Committee.

Auditor name: JSC KPMG

Legal address: Olympiyskiy prospect, 18/1-3035, 129110, Moscow, Russia

Postal address:	10, Presnenskaya Naberezhnaya, Block C, floor 31, Moscow, 123112, Russia
State registration:	Registered with the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585. Included 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
Membership in self-regulating auditors' organisation:	Member of the self-regulated organisation of auditors "Russian Union of Auditors" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.11603053203.

Audits of the Company's financial and economic performance are conducted on the basis of the Company's annual results, but may also be carried out at any time on the initiative of the Internal Audit Commission or at the resolution of the general shareholders' meeting, the Board of Directors or any shareholder owning a total of at least 10 percent of the Company's voting shares.

The Company's Internal Audit Commission is a full-time internal control body that supervises the Company's financial and business operations, in order to obtain adequate assurance that the Company's operations are in full compliance with Russian law and to ensure that the rights of the Company's shareholders are observed and the Company's reports and accounts have no material misstatements. The Internal Audit Commission acts in the best interests of shareholders and reports to the general shareholders' meeting.

The Company's Internal Audit Commission comprises three persons, elected for a period up to the next AGM. Members of the Internal Audit Commission cannot be members of the Company's Board and simultaneously occupy any other position in the Company's management structure.

The Company's Internal Audit Commission was re-elected at the annual general shareholders' meeting on 24 June 2016 and currently consists of:

- Nikolay Lavrov (Chief Internal Audit Executive);
- Roman Antonov (Deputy Chief Internal Audit Executive); and
- Svetlana Guseva (Manager of Internal Audit Department).

COMPENSATION OF SENIOR MANAGERS, EXECUTIVE OFFICERS AND DIRECTORS

Key management's remuneration for the year ended 31 December 2016, consisting of salaries and bonuses, totalled US\$10 million (2015: US\$10 million; 2014: US\$23 million). Additionally, in 2016, a provision for key management's long-term cash-settled share-based incentive programmes of US\$3 million was accrued (2015: US\$2 million, 2014: US\$7 million). This provision is subject to further adjustments, dependent on a range of the Group's financial indicators.

Upon a decision of the general shareholders' meeting, the remuneration may be paid to members of the Company's Board of Directors during execution of their duties and/or by way of compensation of their expenses connected to their functions as members of the Company's Board of Directors. The amount of such a remuneration and/or compensation are established by the decision of the general shareholders' meeting.

PRINCIPAL SHAREHOLDERS

The table below sets out certain information regarding the ownership of the Company as at 31 December 2016 according to the Company's share register:

Shareholder	Percentage of shares
Deutsche Bank Trust Company Americas ⁽¹⁾	12.0
ASTROSHINE LIMITED	21.35
LORANEL LIMITED	21.35
RAYGLOW LIMITED	18.15
PEARLGREEN LIMITED	18.15
Other minority shareholders	9.0
Total	100.0

Note:

- (1) Deutsche Bank Trust Company Americas is the Depositary for the Company's Global Depositary Receipts programme. The Company placed GDRs, which were admitted to trading on the regulated main market of the London Stock Exchange on 14 November 2006 and remain listed on the London Stock Exchange. Each GDR represents one ordinary share.

As at 31 December 2016, approximately 79.2 percent of the Company's share capital was indirectly controlled by Mr. Mordashov, Chairman of the Board of Directors. As at 31 December 2016, approximately 0.01 percent of the Company's shares were controlled by members of the Board of Directors through GDRs representing such shares.

RELATED PARTY TRANSACTIONS

The following is a summary of the Group's most significant transactions with related parties for the years ended 31 December 2016, 2015 and 2014. For further details of these transactions, see Note 11 to the Annual Financial Statements for the years ended 31 December 2016, 2015 and 2014.

In the ordinary course of its business, the Group has engaged, and continues to engage, in transactions with parties that are under common control with the Group or that are otherwise related parties to the Group. Transactions with entities under common control with the Group constitute transactions with parties that have the same beneficial owners as the Company, or who are also members of the Board of Directors. See "Principal Shareholders". Other than the transactions with entities under common control described herein, the Group did not engage in any transactions with members of its Board of Directors during the period under review.

The Group has transactions with related parties in respect of revenue, purchases, financing and other types of transactions. Because of the varying ownership percentages of its Majority Shareholder in such related parties, as well as other factors, there may be incentives for transactions between the Group and its related parties to be effected on other than arm's length basis, which could result in subsidies or other transfers of value and could have a material adverse effect on the Group's business, results of operations and financial condition.

The following related parties and their transactions are considered to be significant to the Group.

REVENUE

As disclosed in the Annual Financial Statements, the Group's revenue from related parties totalled US\$104 million, US\$73 million and US\$115 million for the years ended 31 December 2016, 2015 and 2014, respectively.

Revenue from associates and joint ventures amounted to US\$71 million, US\$49 million and US\$72 million for the years ended 31 December 2016, 2015 and 2014, respectively, and mainly comprised revenue of the Severstal Russian Steel segment from AO Air Liquide Severstal, Severstal-Gonvarri-Kaluga LLC and Rutgers Severtar LLC.

Revenue from other related parties amounted to US\$33 million, US\$24 million and US\$43 million for the years ended 31 December 2016, 2015 and 2014, respectively, and mainly comprised revenue of the Severstal Russian Steel segment from PJSC Power Machines and its subsidiaries; the remaining revenues came from other counterparties which individually did not represent any significant revenue transactions.

AO Air Liquide Severstal, an associate of the Group, is an industrial gas producer with a production capacity of 4,500 kg/h of liquid oxygen. Severstal has a 25.0 percent ownership plus one share in Air Liquide Severstal, which was established jointly with Air Liquide. Air Liquide Severstal has been set up within the Cherepovets steel complex in the Vologda region, Russia.

Severstal-Gonvarri-Kaluga LLC is designed to produce 170 thousand tonnes of rolled metal products per year for the automotive and electrical industries.

Rutgers Severtar LLC, a joint venture with Rutgers, based at the Cherepovets Steel Mill plant, produces vacuum pitch, technical oils and naphthalene.

PJSC Power Machines, a related party of the Group, one of the leading power engineering companies of the world. Power Machines has the wealth of experience and competence in the area of design, production and complete deliveries of equipment for nuclear, thermal and hydro power plants, electricity supply network, shipbuilding and transport systems. The key competence and competitive advantage of the Company is performance of the integrated turnkey projects in the field of electric power industry. Power Machines has manufactured equipment with a combined capacity over of 300,000 MW.

Such transactions were undertaken as part of divisions' normal business operations and are expected to continue in the foreseeable future.

PURCHASES

As disclosed in the Annual Financial Statements, the Group's purchases from related parties totalled US\$89 million, US\$88 million and US\$127 million for the years ended 31 December 2016, 2015 and 2014, respectively.

The main part of the Group's purchases is represented by purchases from associates and joint ventures totalling US\$60 million, US\$62 million and US\$91 million for the years ended 31 December 2016, 2015 and 2014, respectively, and mainly comprised purchases by the Severstal Russian Steel segment from Air Liquide Severstal.

Such transactions were undertaken as part of divisions' normal business operations and are expected to continue in the foreseeable future.

FINANCING

The Group's cash flows have been used, from time to time, to finance the development of various companies.

As disclosed in the Annual Financial Statements, the Group's interest income from related parties totalled US\$14 million, US\$26 million and US\$15 million for the years ended 31 December 2016, 2015 and 2014, respectively, and mainly represented by interest income received on deposits placed to the related party bank JSC Metcombank.

Starting from October 2016, JSC Metcombank is no longer a related party to the Group.

ADDITIONAL INFORMATION

For relevant disclosures for the years ended 31 December 2016, 2015 and 2014 and the balances as at such date, refer to the following parts of the Annual Financial Statements for the years ended 31 December 2016, 2015 and 2014:

Consolidated income statements

Consolidated statements of financial position

Notes to the consolidated financial statements:

Note 11—Related party transactions

Note 12—Related party balances

Note 19—Investments in associates and joint ventures

Note 28—Subsidiaries, associates and joint ventures

Note 29—Segment information

REGULATORY MATTERS

REGULATION OF THE STEEL AND MINING INDUSTRIES IN RUSSIA

Russia has not enacted any specific legislation governing the operation of the steel industry and the business of steel manufacturing companies. The production, sale and distribution of steel in the Russian Federation is regulated by general civil legislation and administrative and special legislation relating to quality standards, industrial safety, environmental, employment and other rules.

The Ministry of Industry and Trade of the Russian Federation on 5 May 2014 approved the “Strategy for Development of Ferrous Metal Manufacturing Industry of the Russian Federation for the Period from 2014 until 2020 and until 2030” and the “Strategy for Development of Non-Ferrous Metal Manufacturing Industry of the Russian Federation for the Period from 2014 until 2020 and until 2030” (the *Strategies*). The Strategies supersede the “Strategy for Development of Metal Manufacturing Industry of the Russian Federation for the Period until 2020” dated 18 March 2009. The Strategies, *inter alia*, outlined the key trends and factors relevant for the development of national ferrous and non-ferrous metallurgy, set out four stages of development of the Russian metallurgy (2014-2016, 2017-2020, 2021-2025 and 2026-2030) and determined that promotion of investments and development of innovation technologies would be the state priorities in the sphere of metal manufacturing industry. Other targets for development of Russian steel industry (including, among others, import substitution, promotion of internal demand for metal products and protection of Russian exporters on foreign markets) are set forth in the Programme “Metal Manufacturing Industry” of the State Programme for Development of Industry and Increase of Its Competitive Abilities approved by the Government of the Russian Federation on 15 April 2014, as well as the Industrial Plan of Measures for Import Substitution in Ferrous Metal Manufacturing Industry and the Industrial Plan of Measures for Import Substitution in Non-Ferrous Metal Manufacturing Industry both approved by the Ministry of Industry and Trade of the Russian Federation on 31 March 2015.

The Federal Law “On Technical Regulation” No. 184-FZ dated 27 December 2002, as amended (the *Technical Regulation Law*), introduced new rules relating to the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation.

The Technical Regulation Law supersedes the Laws of the Russian Federation “On Certification of Goods and Services” No. 5151-1 dated 10 June 1993 and “On Standardisation” No. 5154-1 dated 10 June 1993 and will be followed by the revision of existing legislation and technical rules falling within the scope of its regulation. Under the Technical Regulation Law, technical rules and regulations relating to industrial safety and environmental protection can be enacted by decrees of the president resolutions of the government and by-laws adopted by state authorities responsible for technical regulation.

In those cases where the Technical Regulation Law provides for mandatory confirmation of product conformity to the established technical regulations (standards), certain Group companies are obliged to obtain certificates of compliance evidencing that their products meet the requirements of technical regulations, standardisation documents, codes of practice or terms and conditions of contracts.

Federal, Regional and Local Regulatory Authorities Governing the Steel Industry

At the federal level, regulatory authority over the steel industry is divided primarily between the Ministry of Industry and Trade and the Ministry of Natural Resources and Ecology. The Ministry of Industry and Trade is responsible for the development of governmental policy in, and regulation of, the industry. In addition, it regulates certain aspects of Russian exports and imports of steel products. The Ministry of Natural Resources and Ecology is responsible for the development of governmental policy and regulation in the sphere of natural resources, including subsoil. Particularly, the Ministry of Natural Resources and Ecology passes regulations, *inter alia*, setting safety requirements to the process of exploration, development of natural resources, the order of re-issuance and transfer of subsoil licenses, the rules of access to the geological information, which belongs to the state, and establishes rules of accounting for natural resources on the state balances and of classification and evaluation of natural resources.

The federal ministries in Russia are not responsible for compliance control or management of state property and provision of services, which are directed by the federal services and the federal agencies, respectively. The federal services and agencies that are relevant to the Group’s activities include:

- The Federal Service for Environmental, Technological and Nuclear Supervision, which sets procedures for, and oversees compliance with, industrial safety and environmental rules and issues licences for certain industrial activities and activities relating to safety and environmental protection;

- The Federal Agency for Subsoil Use, which organises auctions and issues licences for subsoil use and approves design documentation for geological survey activities;
- The Federal Agency for Technical Regulation and Metrology, which determines and oversees levels of compliance with obligatory state standards and technical regulations; and
- the Federal Service for the Supervision of the Use of Natural Resources (“Rosprirodnadzor”), which exercises supervision over the observance of environmental legislation (including legislation relating to handling of hazardous wastes), controls geological exploration, the rational use and protection of subsoil (including compliance with the relevant terms and conditions of subsoil licenses) and exercises the land control.

Aside from the federal executive bodies mentioned above, which are directly involved in regulating and supervising the steel sector in Russia, there are a number of other federal regulators that, together with their structural subdivisions, have authority over general issues relevant to the Russian steel industry, such as defence, internal affairs, security, border services, justice, tax enforcement, rail transport and other matters.

Generally, regional and municipal authorities with jurisdiction over the specific territory in which a steel producing enterprise is located have authority in certain matters, in particular with regard to land-use allocations.

Licensing of Operations

The Group is required to obtain numerous licences, authorisations and permits from Russian governmental authorities for its operations. The Federal Law No. 99-FZ “On Licensing of Certain Types of Activities” of 4 May 2011, as amended (the **Licensing Law**), as well as other laws and regulations, set forth the activities subject to licensing and establish procedures for issuing licences. Some of the Group’s Russian companies will need to obtain certain licences to carry out certain activities, including, *inter alia*:

- the use of subsoil, which is described in more detail below in “—*Subsoil Licensing*”;
- the exploitation of chemically hazardous, explosive and flammable industrial objects of hazardous classes from I to III;
- the collection, transportation, processing, utilisation, deactivation and disposing of hazardous waste of hazard classes from I to IV;
- the handling of explosives for industrial use;
- surveying works; and
- transportation activities.

These licences are usually issued for an indefinite term. Licences for carrying out of certain types of geological survey may be issued for a period of 10 years. Licences for the use of natural resources may be issued for shorter or longer periods.

The requirements imposed by regulatory authorities may be costly and time-consuming, which may result in delays in the commencement or continuation of exploration or production operations. Accordingly, the licences that the Group needs may not be issued in a timely fashion, or may impose requirements that restrict its ability to conduct its operations or to do so profitably.

As part of the Group’s obligations under licensing regulations and the terms of its licences and permits, the Group must comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, monitor operations, maintain and make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect their activities. Failure to comply with these requirements may result in suspension and subsequent revocation of the licenses by the court order. Special rules apply to suspension and revocation of subsoil licenses.

Subsoil Licensing

In Russia, mining minerals requires a subsoil licence with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land where such licensed mineral deposit is located. In addition, as discussed above, operating permits are required with respect to specific mining activities.

The licensing regime for use of subsoil for geological survey, exploration and production of mineral resources is established primarily by the Federal Law of the Russian Federation “On Subsoil” No. 2395-1 dated 21 February 1992, as amended (the **Subsoil Law**). The procedure for subsoil use licensing, as well as certain rules of exploration and production of mineral resources was established by Resolution of the Supreme Soviet of the Russian Federation No. 3314-1 dated 15 July 1992, as amended (the **Licensing Regulation**).

There are two major types of licences: (1) an exploration licence, which is a non-exclusive licence granting the right of geological exploration and assessment within the licence area, and (2) a production licence, which grants the licensee an exclusive right to produce minerals from the licence area. In practice, some of the licences are issued as combined licences, which grant the right to explore, assess and produce minerals from the licence area.

There are three major types of payments with respect to the use of subsoil: (1) a lump-sum payment for granting the right to use the subsoil, (2) periodic payments for geological exploration under the Subsoil Law, and (3) the minerals extraction tax under the Tax Code. Failure to make these payments could result in refusal to grant the right to use the subsoil or in the suspension or termination of the subsoil licence.

Issuance of subsoil licences. Subsoil licences are issued by the Federal Agency for Subsoil Use. Most of the currently existing production licences owned by companies derive from (1) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state owned enterprises that were subsequently reorganised in the course of post-Soviet privatisations; or (2) tender or auction procedures held in the post-Soviet period. The Subsoil Law and the Licensing Regulation set out the major requirements relating to such tenders and auctions.

Amendments to the Subsoil Law passed in August 2004 significantly changed the procedure for awarding exploration and production licences, in particular abolishing the joint grant of licences by federal and regional authorities. Under the 2004 amendments, production licences and combined exploration and production licences are awarded by tender or auction conducted by the Federal Agency for Subsoil Use. While the auction or tender commission may include a representative of the relevant region, the separate approval of regional authorities is no longer required in order to issue subsoil licences. The winning bidder in the tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. At the auction, the success of the bid is determined by the attractiveness of the financial proposal.

Exploration licences are generally awarded without a tender or auction by the special commission formed by the Federal Agency for Subsoil Use, which includes the representatives of the relevant regional executive authority. The Ministry of Natural Resources and Ecology maintains an official list of deposits in respect of which exploration licences can be issued. The company may obtain a license for geological exploration (which will be conducted at the company’s own expense) of the deposit included into the above mentioned list by filing an application with the Federal Agency for Subsoil Use (or its regional department). Unless there is more than one application with respect to the same deposit (in which case the Federal Agency for Subsoil Use sets up an auction for combined exploration and production license for the deposit) the special commission makes the decision to grant the license upon examination of the application.

The Subsoil Law allows for production licences to be issued without a tender or auction procedure only in limited circumstances, such as instances when a mineral deposit is discovered by the holder of an exploration licence at its own expense during the exploration phase. In those circumstances, as a matter of practice, the production licence will be issued to the holder of the exploration licence, but, legally, the right of the holder of the exploration licence to receive the production licence in the event of discovery is not guaranteed.

Regional authorities may issue production licences for “common” mineral resources, such as clay, sand or limestone. A recipient of a licence from a regional authority is also usually granted rights to use the land surrounding the licence area.

Extension of subsoil licences. The term of any subsoil licence is set forth in the licence and runs from the date the licence is registered. Prior to January 2000, exploration licences could have a maximum term of five years, production licences a maximum term of 20 years, and combined exploration, assessment and production licences a maximum term of 25 years. After amendment of the Subsoil Law in January 2000 and in July 2013, exploration licences may still have a maximum term of five years (except for exploration licences in relation to certain regions of Russia, which may be issued for a period of up to 7 years, and exploration licences in relation to inland sea waters, territorial sea and continental shelf, which may be issued for a period of up to 10 years); production licences may have a one-year term in a limited number of special cases, but are generally granted for a term of the expected operational life of the field based on a feasibility study; and combined exploration, assessment and production licences can be issued for the term of the expected operational life of the field based on a feasibility study. These amendments did not affect the terms of licences issued prior to January 2000, but permit licensees to apply for extensions of such licences for the term of the expected operational life of the field in accordance with the amended Subsoil Law.

The Subsoil Law permits a subsoil licensee to request an extension of a production licence in order to complete the production from the subsoil plot covered by the licence or the procedures necessary to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the licence and the relevant regulations.

In practice, the factors that may affect a company's ability to obtain the approval of licence amendments include its compliance with the licence terms and conditions and its management's experience and expertise relating to subsoil issues, including experience in amending licences.

Maintenance and termination of subsoil licences. A licence granted under the Subsoil Law is generally accompanied by the terms and conditions for use of subsoil which are attached to the licence. The terms and conditions for use of subsoil are executed by the Federal Agency for Subsoil Use and are obligatory for the licensee once the licence is granted.

Under the terms and conditions for use of subsoil, the licensee makes certain environmental, safety and production commitments, including extracting annually an agreed target amount of reserves; conducting agreed mining and other exploratory and development activities; protecting the environment in the licence areas from damage; providing geological information and data to the local authorities; submitting on a regular basis formal progress reports to relevant authorities and making all obligatory payments when due. Most of the conditions set out in a licence are based on mandatory rules contained in Russian law, and the terms and conditions for use of subsoil are generally not negotiable. The Group expects that it will be able to meet the commitments set forth in the terms and conditions for use of subsoil.

The fulfilment of a licence's conditions is a major factor in the good standing of the licence. If the subsoil licensee fails to fulfil the licence's conditions, upon notice, the licence may be terminated by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a licence, it may apply to amend the relevant licence conditions, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for licence termination. A licensee can be fined or the licence can be limited, suspended or terminated for the reasons noted above, for repeated breaches of the law, upon the occurrence of a direct threat to the lives or health of people working or residing in the local area, or upon the occurrence of certain emergency situations. A licence may also be limited, suspended or terminated for violations of "material" licence terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for suspension or termination of licences. Consistent underproduction and failure to meet obligations to finance a project or to submit data reports (as required by law) would also likely constitute violations of material licence terms. In addition, certain licences provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for limiting, suspending or terminating the licence.

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to a licence limitation, suspension or termination or the refusal to reissue an existing licence, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases of termination, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such a three-month period, no termination or other action may be taken.

Licences may be transferred only under certain limited circumstances that are identified in the Subsoil Law, including the reorganisation of the licence holder or in the event that an initial licence holder transfers its licence to its subsidiary, provided that the transferee possesses the equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred licence.

Land Use Rights

Land use rights are needed and granted for the portions of the licence area actually being used, including the plot being mined, access areas and areas where other mining related activity is occurring.

Under the Land Code of the Russian Federation No. 136-FZ of 25 October 2001, as amended (the ***Land Code***), legal entities may generally have the rights of ownership or lease with regard to land plots in the Russian Federation.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal bodies, which can sell or lease land to private users.

Legal entities may also have a so-called "right of perpetual use" of land plots, provided such type of title was obtained by them prior to the enactment of the Land Code; however, the Federal Law on Introduction of the Land Code of 25 October 2001, with certain exceptions, requires legal entities using land plots on the right of perpetual use to purchase or to lease the respective land plot from the relevant federal, regional or municipal authority by 1 July 2012.

The Group's mining subsidiaries (composing Severstal Resources) generally have a property right to their plots or a long-term lease. There are also several land plots in perpetual use that are currently in the process of being transferred to long-term lease or to ownership. The amendments to the Land Code introduced in June 2014 provide that a lessee of a plot of state or municipal land does not generally have priority rights to enter into new land lease agreements, save for the cases when a plot of land has been leased without conducting an auction. Any lease agreement for a period of one year or more must be registered with the relevant state authorities.

Environmental Considerations

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law "On Environmental Protection" No. 7-FZ of 10 January 2002, as amended (the **Environmental Protection Law**), as well as by a number of other federal and local legal acts.

Pay-to-pollute. The Ministry of Natural Resources and Ecology, the Federal Service for the Supervision of the Use of Natural Resources and other government agencies establish guidelines for setting limits for different types of permissible impact on the environment, including the emission, disposal of substances and waste disposal. According to the recent amendments to the Environmental Protection Law, every entity making a negative impact on the environment or disposing of waste is obliged to pay fees calculated by a payer itself on the basis of relevant limits on environmental pollution or waste disposal. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition to such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest ratio is applied to disposal of waste subject to reutilisation by its producer, intermediate ratio is applied to pollution within the statutory limits, enhanced ratio is applied to pollution within the individually approved limits, and the highest ratio is applied to pollution exceeding such limits. Payments of such fees do not relieve a company of its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Environmental approval. Certain activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with the Federal Law "On Ecological Expert Examination" No. 174-FZ of 23 November 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described in "*—Environmental liability*".

Enforcement authorities. The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources and certain other federal authorities (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and the Ministry of Natural Resources and Ecology are responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability. If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or its employees that fail to comply with the requirements of applicable environmental laws and regulations may be subject to administrative and/or civil liability, while individuals may also be subject to criminal liability. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines.

Subsoil licences generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low.

Health and Safety

Due to the nature of the Group's business, much of its activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Federal Law "On Industrial Safety of Dangerous Industrial Facilities" No. 116-FZ of 21 July 1997, as amended (the **Safety Law**). The Safety Law applies, in particular, to industrial facilities

and sites where certain activities are conducted, including sites where lifting machines and high pressure devices are used, where alloys of ferrous and non-ferrous metals flammable, toxic and explosive substances are produced, used, stored, processed and transported and where certain types of mining are done. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used.

There are also regulations that address safety rules for coal mines, the production and processing of ore, the blast furnace industry, steel smelting, alloy production and nickel production. Additional safety rules also apply to certain industries, including metallurgical and coke chemical enterprises, and the foundry industry.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia effective 1 February 2002, as amended (the **Labour Code**). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programmes, create systems to cope with and inform the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility.

The Federal Service for Environmental, Technological and Nuclear Supervision has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of the Federal Service for Environmental, Technological and Nuclear Supervision conducts a technical investigation of the cause. The company operating the hazardous industrial facility where the accident took place bears all costs of an investigation. The officials of the Federal Service for Environmental, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Federal Service for Environmental, Technological and Nuclear Supervision may suspend the operations of a company or impose administrative fines for non-compliance with industrial safety rules.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health related damages.

Investments in Russian Companies of Strategic Importance

The Federal Law "On the Procedure for Making Foreign Investments in the Companies of Strategic Importance for the Defence and Security of the State" No. 57-FZ, as amended (the **Strategic Investments Law**), came into force in May 2008. The Strategic Investments Law establishes certain restrictions for foreign investments into Russian companies which are deemed strategically important for the defence and security of the Russian Federation (the **Strategic Companies**). The Strategic Investments Law provides for the list of activities that have strategic importance for the national defence and security. This list *inter alia* includes (a) exploration and production of subsoil of federal land plots and/or the exploration and the extraction of minerals from the federal subsoil property and, generally, (b) activities of those companies that have a market share in a particular segment in excess of 35 percent.

Under the Strategic Investments Law, an establishment by foreign entity (or any other person that is a member of the group with the participation of a foreign entity) (a **Foreign Investor**) of direct or indirect control over a Strategic Company requires a permit of the competent state authority. Therefore, *inter alia*, a direct or indirect acquisition by a Foreign Investor of a stake in a Strategic Company which vests an acquirer with right to exercise certain percentage of voting rights (ranging from over 5 to over 50 percent depending on type of the Foreign Investor and type of the Strategic Company) in the charter capital of the Strategic Company, requires obtaining a prior permit of the competent state authority. If an acquisition of a stake over the relevant percentage happens without obtaining such prior permit, the acquisition transaction is void under Russian law and the Foreign Investor may be deprived from voting rights which

correspond to the stake acquired in the Strategic Company. Moreover, completion of the transaction without a prior permit of the competent state authority may result in fines imposed on the Foreign Investor.

Competition and Mergers Control

Federal Law No. 135-FZ “On the Protection of Competition” dated 26 July 2006, as amended (the *Competition Law*), establishes a merger control regime and requires that the FAS be notified of certain transactions.

Under the Competition Law, an investor or several entities constituting “a group of entities and/or individuals” should apply for the prior consent of the FAS or submit to it a post-completion notification in relation to:

- an initial acquisition of more than 25.0 percent of the voting shares in a Russian joint stock company, or 33.3 percent of the participation interest in a Russian limited liability company, provided that the acquirer did not have any shares (participation interest) in such company or had less than the above threshold before the acquisition;
- a subsequent acquisition of the voting shares in a Russian joint stock company or participation interests in a Russian limited liability company such that the level of their holding of the company’s shares (participation interest) passes the threshold of 50.0 percent or 75.0 percent of the voting shares in a joint stock company or 50.0 percent or 66.6 percent of the participation interests in a limited liability company;
- acquisition or lease of production or intangible assets (other than land and non-industrial buildings, constructions, premises and parts thereof or constructions in progress) located in Russia if the book value of such assets exceeds 20.0 percent of the production or intangible assets of the seller (transferor);
- an acquisition of (direct or indirect) rights to determine the terms of the business of a Russian entity (e.g. rights to give binding instructions or control the decision-making process in such entity) or to exercise the powers of its executive body;
- an acquisition of certain blocks of shares, resulting in the acquirer and its group holding in total over 50.0 percent of the voting shares in a foreign company if its Russian turnover in the preceding year exceeded RUB1 billion; and
- an acquisition of (direct or indirect) rights to determine the terms of the business of a foreign company (through shareholdings, agreements, voting arrangements, rights etc.) if its Russian turnover in the preceding year exceeded RUB1 billion.

A prior FAS clearance for an acquisition is required if (i) either the aggregate balance value of assets of the acquirer and the target and the companies of their respective groups exceeds RUB7 billion or the aggregate value of revenues of the same entities in the last calendar year exceeds RUB10 billion and, simultaneously, (ii) the aggregate value of assets of the target and the companies of its group exceeds RUB400 million. Under the Competition Law, a transaction without prior FAS approval or post-notification may be invalidated by a court resolution held upon the FAS claim, provided that such transaction has led or may lead to the restriction of competition, for example, by strengthening a dominant position in the relevant market. Russian law envisages fines to be imposed on the acquirer for completion of the notifiable transaction without the FAS clearance.

More generally, Russian law provides for civil, administrative and criminal liability for the breach of anti-monopoly law.

Intra group transfers are subject to merger control. They may be exempt from the prior approval requirement and may be subject to post-completion notification if:

- an intra group transfer is made to a transferee (a) in which the transferor holds more than 50.0 percent of voting shares or (b) which holds more than 50.0 percent of voting shares in the transferor; or
- not later than 1 month prior to completion a list of group members is disclosed to the FAS in accordance with Article 31 of the Competition Law. The list should specify the grounds for including each of the group members in the group. The list submitted to the FAS will be published on the FAS website.

The Competition Law expressly provides for its extraterritorial application to transactions and actions which are made outside of Russia between Russian and/or foreign entities if such transactions or actions relate to production and/or intangible assets located in the territory of Russia or to the shares (participation interests) in, or rights in relation to, companies operating in the territory of Russia as well as those of non-Russian entities that, during the year preceding the transaction that is subject to merger control, imported to Russia products with a total value in excess of RUB 1 billion.

As part of its competition monitoring activities, the FAS keeps a Register of Entities Holding a Dominant Position or Entities with a Market Share Exceeding 35.0 percent (the **Register**). As a major Russian steel producer, the Company appears on the Register in relation to certain types of steel products.

The FAS may rule that even certain companies do not appear on the Register they have a dominant position in the market. Such companies are subject to more rigorous governmental regulation including the imposition of price controls.

Employment and Labour

Labour matters in Russia are primarily governed by the Labour Code.

Employment contracts. As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties as well as in other cases expressly identified by federal law.

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labour Code, including:

- liquidation of the company or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence, confirmed by appraisal;
- systematic failure of the employee to fulfil his or her duties without a fair excuse if this employee was subject to prior disciplinary action and if a warning or reprimand imposed on the employee has not been withdrawn by the employer;
- any single gross violation by the employee of his or her duties as it is defined in the Labour Code; and
- provision by the employee of false documents or misleading information prior to entry into the employment contract.

An employee dismissed from a company due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, average salary payments for a certain period of time.

The Labour Code also provides protections for specified categories of employees. For example, except in cases of liquidation of a company, an employer cannot dismiss the employees being on a sick-leave, business trip or on a holiday and pregnant women. Mothers with a child under the age of three, single mothers with a child under the age of 14 or disabled child under the age of 18 or other persons caring for a child under the age of 14 or disabled child under the age of 18 without a mother may not be dismissed by the employer unless for guilty actions. Dismissal of minors, except for dismissal due to liquidation of a company, requires prior approval by the State Labour Inspectorate or by the respective Minor Inspectorate.

Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid average salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work time. The Labour Code generally sets the regular working hours at 40 per week. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. Employees who perform underground and open-pit mining works or other work in harmful conditions may be entitled to additional paid vacation ranging from 7 to 36 working days.

The retirement age in the Russian Federation is generally 60 years for males and 55 years for females. However, the retirement age for male miners who have worked in underground mines for at least 10 years, and females who have worked in underground mines for at least seven years and six months, is 50 years and 45 years, respectively. Persons who have worked as miners in open-pit mines and/or underground mines for at least 25 years or who have worked for some leading mining professions for at least 20 years may also retire, regardless of age.

Salary. The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is RUB7,500 as at 1 January 2017.

Strikes. The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike after it has been determined as illegal may be adequate grounds for termination of an employment contract.

Trade Unions. Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. In this regard, the Group's management routinely interacts with trade unions, in particular the Mining and Metallurgical Trade Union, in order to ensure the appropriate treatment of employees and the stability of its business. See "*Business—Russian Steel—Employees*".

The activities of trade unions are generally governed by the Federal Law on Trade Unions, Their Rights and Guaranties of Their Activity of 12 January 1996, as amended (the **Trade Union Law**). Other applicable legal acts include the Labour Code of Russia, which provide for more detailed regulations relating to activities of trade unions.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

- legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consideration of reasoned opinion of the management of the trade union and, in certain circumstances, the consideration of reasoned opinion of the relevant trade union association;
- retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal at the employer's initiative due to some dismissal grounds for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions should present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

The Trade Union Law provides that those who violate the rights and guaranties provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability. The Code of Administrative Delinquencies

of Russia of 30 December 2001 specifies that such violations may lead to the imposition of an administrative fine or, in certain circumstances, administrative suspension of activities for up to 90 days. Although the Criminal Code of the Russian Federation of 13 June 1996 currently has no provisions specifically relating to these violations, general provisions and sanctions may be applicable.

Collective Bargaining Agreements

The Labour Code provides that a collective bargaining agreement applies to all employees of a company whether members or non-members of the trade union. A collective bargaining agreement may be concluded either for the company on the whole, or for its branches, representative offices and other structural subdivisions. A collective bargaining agreement may be concluded for a term not exceeding three years and may be extended for another three years. It is not possible to include in the collective bargaining agreement a provision worsening the employees' standing under the general rule of law, as such provisions would be null and void.

Trade Barriers and Anti-Dumping Regulations

Steel producing countries generally view their steel industries as strategically important and therefore requiring protection from foreign competition. In addition, the governments of some emerging economies employ non-market methods to try to protect and develop their steel industries, and, while those governments seek to achieve the desired balance in their economies between production levels and product mix and consumption, they may resort to protectionist measures against imports from third countries.

Exports of steel from Russia are primarily regulated by the Federal Law "On Fundamentals of State Regulation of Foreign Trade Activities" No. 164-FZ dated 8 December 2003 (as amended) and bilateral agreements between Russia and its trading partners. Following the establishment of the Eurasian Economic Union, export from and import of steel to the Russian Federation are subject to regulation by the Agreement on the Eurasian Economic Union and its implementing regulations. In addition, following the Russian Federation's accession to the WTO on 22 August 2012, exports of steel from the Russian Federation are also subject to the relevant WTO agreements, including the Accession Protocol of Russia and the GATT 1994.

General. In general, the recent trend worldwide has been for the increase of import restrictions and expansion of trade investigations. The largest importers of the Company's products are countries in the EU and North America.

United States. Russia was granted "market economy" status by the United States with effect from 1 April 2002. Russian steel producers, including Severstal Russian Steel, are currently able to sell in the US market hot-rolled steel plates in accordance with a suspension agreement which establishes minimum prices without quotas based on information about the costs and expenses of Russian exporters. Russian exporters entered into this market economy cost-based agreement with the US Department of Commerce on 20 December 2002, replacing the non-market economy agreement that had been in force since 1997. As far as the Group is aware, it is the only exporter from Russia which cooperates with the US Department of Commerce and sells hot-rolled steel plate in the US market pursuant to this agreement.

In relation to cold-rolled, galvanised, semi-finished and long steel products, Russian exporters have been operating in the US market without any restrictions on the import of these products since the expiry of the Comprehensive Steel Agreement on 11 July 2004. Certain hot-rolled products are currently subject to certain US anti-dumping measures as described below.

EU. Russia was granted "market economy" status by the EU in November 2002. Starting from the date of the Russian Federation's formal accession to the WTO, 22 August 2012, Russian steel exporters have been able to operate in the European Union market without any formal restrictions.

Previously Russian steel producers operated in the European Union market in accordance with the agreement between the European Union and the Russian Federation dated 26 October 2007 which regulated trade in certain steel products. This agreement established a quota for the export of Russian metals into the EU and superseded the previous quota system for the export of Russian metals, which had been in place since 1 December 1997 in the form of a bilateral agreement. Pursuant to clause 10.4 of this agreement and Regulation (EU) No. 529/2012 of the European Parliament and of the Council dated 13 June 2012, the October 2007 EU/Russian Federation agreement and associated European Council Regulation implementing the agreement were terminated on the date when the Russian Federation became an official member of the WTO, and, as a result, Russian steel exporters are now able to operate in the European Union market without quota restrictions.

Anti-Dumping Proceedings

Within the last fifteen years, the following key decisions were made regarding Russian steel exporters by foreign government authorities:

- Expiration of the US-Russia Comprehensive Steel Agreement, which established quotas on various types of steel products such as cold-rolled, galvanised and semi-finished steel and long products, on 14 July 2004.
- Termination of anti-dumping measures against hot-rolled and cold-rolled products in Canada.
- Termination of anti-dumping measures against electrical steel products in China.
- Suspension of anti-dumping measures against cold-rolled steel products in China.
- Termination of anti-dumping measures against cold-rolled steel products in South Africa, hot-rolled products in Indonesia and cold-rolled and long steel products in Colombia.
- Opening of US cut-to-length market through the establishment of minimum prices under a market economy suspension agreement with the US Department of Commerce, as the result of co-operation between the Department and the Company.
- Possibility of the export of new grades of hot-rolled products within the framework of the US Russia Suspension Agreement on hot-rolled flat carbon steel products.
- Introduction by Mexico of anti-dumping duties ranging from 15 to 36.8 percent on hot-rolled and cold-rolled steel products.
- Imposition by Thailand of anti-dumping duties ranging from 24.2 to 35.17 percent and safeguard measures ranging from 21.13 to 41.64 percent on hot-rolled steel products.
- Introduction by India of safeguard measures of 18 percent on hot-rolled coils (the local authorities are currently conducting anti-dumping and safeguard investigations on hot-rolled coils and sheets).
- Brazil is currently conducting anti-dumping investigations against hot-rolled flat steel products.

Some of the Group's products which it exports to foreign markets (including the EU, the Group's principal export market) are subject to various trade barriers.

In 2016, the European Commission has introduced five-year anti-dumping duties against Russian cold-rolled steel products ranging from 18.7 percent to 36.1 percent, with a 34 percent duty imposed on the Group's products. The Group believes that the relevant anti-dumping investigations were conducted by the EU authorities with violations. As a result, the Group is considering the possibility to appeal this regulatory decision to impose such duties in the relevant legal institutions and settlement bodies of the EU and the WTO. There can be no assurance that the Group will be successful in any appeals process or that further EU anti-dumping duties will not be introduced. There is currently an ongoing investigation by the European Commission against hot-rolled steel products from Russia and other countries which could result in the introduction of anti-dumping duties on such products leading to the loss of their competitiveness on the EU markets. A provisional determination in these proceedings is currently scheduled for May 2017. Furthermore, in early January 2017, the European Commission introduced regulations requiring the registration of imports of certain hot-rolled flat steel products originating from Russia and Brazil. If the abovementioned proceedings result in the introduction of anti-dumping duties on Russian hot-rolled steel products, such registration of imports would allow the levy of anti-dumping duties retroactively from the date on which the registration requirement came into effect. See *"Risk Factors—Risk Factors Relating to the Group and the Steel and Mining Industries—An increase in existing trade barriers or the imposition of new trade barriers in the Group's principal export markets could cause a significant decrease in the demand for its products in those markets"*.

Currently, the following US anti-dumping measures apply to Russian hot-rolled products: a 53.8 percent anti-dumping duty for the Group's hot-rolled plates and a 73.6 percent anti-dumping duty on the Group's hot-rolled coils and sheets. However, anti-dumping duties for plates are suspended pursuant to the "Agreement Suspending the Antidumping Investigation of Certain Cut-to-Length Carbon Steel Plate From the Russian Federation" that was entered into by the US Department of Commerce and certain Russian steel producers in 2002. As far as the Group is aware, it is the only Russian exporter that is able to sell its products on the US market of hot-rolled plate pursuant to this agreement. In relation to US anti-dumping duties on hot-rolled coils and sheets, the Group has made a request to the US Department of Commerce for the administrative review of this measure in order to recalculate the anti-dumping duty that applies to the

Group's products. Although the Group believes that the sale of its hot-rolled coils and sheets were conducted at fair prices and should not have triggered the imposition of any anti-dumping measures, the US Department of Commerce found that the Group has failed to cooperate with the review and assigned a preliminary anti-dumping rate of 184.56 percent to the Group's products which was originally calculated 17 years ago on the basis of trade relations and conditions prevailing at that time when the US Department of Commerce treated Russia as a non-market economy. The Group has made extensive efforts to prove its position during the review process, it will continue participating in the administrative review and plans on appealing the final results in the US Court of International Trade. In addition, in 2016, the United States International Trade Commission completed anti-dumping and countervailing investigations against Russian cold-rolled products with no anti-dumping or countervailing measures imposed as a result. US steel producers have appealed this decision in the United States Court of International Trade and the Group has, in order to protect its legitimate interests, joined these appellate proceedings. Substantive hearings are scheduled to start in March 2017 and, although the Group does not expect the decision of the US authorities to be reversed as a result of this appeal, no assurance can be given that this will not happen. See *"Risk Factors—Risk Factors Relating to the Group and the Steel and Mining Industries—An increase in existing trade barriers or the imposition of new trade barriers in the Group's principal export markets could cause a significant decrease in the demand for its products in those markets"*.

The Group, along with other Russian steel producers, continues to participate in those proceedings and reviews that it regards as important to its business. The Company intends to continue to participate actively in all inter-governmental consultations relating to Russian steel exports to the United States, the EU and other international markets.

REGULATION OF THE STEEL AND MINING INDUSTRIES

Overview

Steel and mining operations and activities in Europe are extensively regulated at both the national and local level in Europe. Federal, national, regional, state and local authorities in the EU regulate a variety of matters, including employee health and safety; royalties; permitting and licensing requirements; environmental impact assessment, planning and development; and environmental compliance (including, for example, compliance with the regulatory regimes governing waste and waste water treatment and disposal; waste transportation; emissions and discharges; protection of species and habitats; decommissioning, reclamation and restoration of properties used for mining or other activities; surface subsidence from underground mining and the effects that mining and other activities have on surface and/or groundwater quality and availability).

Activities and operations involved in the mining and steel production industries generate hazardous and non-hazardous wastes, effluent and emissions, require waste transportation and treatment, and have other environmental impacts which require various environment related permits and approvals to be held or received. Licences may also be required for the abstraction of the relevant natural resources. Such permits and licences are subject, in certain situations or on the occurrence of certain events, to modification or addition of conditions (including monitoring, upgrading, improvement, decommissioning and aftercare requirements), or revocation by issuing authorities. The carrying out of such activities and operations is also subject to various restrictions and other requirements under environmental, health and safety laws. Violations of health and safety laws relating to a mine or a steel factory, or a failure to comply with the instructions of relevant health and safety authorities, may result in the temporary or permanent shutdown of steel or mining operations in the United States or Europe, as well as the imposition of fines, or penalties corrective procedures.

Steel and mining businesses in Europe are also required in many cases to prepare and present to national, federal, regional, state and/or local authorities information pertaining to the anticipated effect or impact that proposed exploration, mining or production activities may have upon the environment. The preparation and presentation of this information in many cases requires a substantial commitment of personnel and financial resources. In response to such presentations, the national, federal, regional, state and/or local authorities are empowered to determine that mining operations must be suspended or decommissioned.

Climate Change

In December 1997, in Kyoto, Japan, the signatories to the United Nations Convention on Climate Change established individual, legally binding targets to limit or reduce greenhouse gas emissions by developed nations in the period 2008-2012. This international treaty, known as the Kyoto Protocol, came into force in the Russian Federation on 16 February 2005. The Kyoto Protocol enables the emissions reductions to be achieved by a variety of means including emissions trading and investment in overseas emissions reduction projects. Russia is anticipated to offer opportunities in relation to such projects. The 192 parties (191 states and the European Union) have ratified, accepted, accessed or approved the Protocol. Discussions are ongoing as to a possible successor to the Kyoto Protocol. It is currently unclear what emission reduction targets will be adopted, but in light of recent scientific and economic reports on the impact of climate change, these may be more stringent than those adopted in the Kyoto Protocol.

In a separate development, in July 2005 Australia, China, India, Japan, South Korea and the United States formed the Asia-Pacific Partnership on Clean Development and Climate. Members of the partnership intend to cooperate on the development and transfer of technology with a view to reducing greenhouse gas emissions.

Steel and mining operations in Europe are subject to laws, regulations and policies aimed at limiting or reducing greenhouse gas emissions. For example, in the EU, an increasingly stringent regulatory framework is being developed to achieve the EU's Kyoto Protocol commitments and to meet its own emissions reductions targets which affect, among other activities, coke-ovens and steel plants. The introduction of prospective international obligations on greenhouse gases regulations, include the Paris Agreement which will enter into force in 2020. Russia is a signatory to the Paris Agreement and a plan for its ratification in Russia is currently under development. According to a Decree of the Russian Government dated 2 April 2014 Russian companies will be obliged to report on their greenhouse gas emissions to the state authorities starting from 2017. A draft bill amending the Federal Law No. 7-FZ "On the Protection of the Environment" is under parliamentary review which will, among other things, establish certain requirements regarding the level of greenhouse gas emissions. The Group is planning to report its greenhouse gas emissions to the state authorities for 2016 during the course of the first six months of 2017.

In the United States, California's recent legislative initiatives may indicate a trend towards a similarly stringent regulatory system. In addition, government entities and other organisations in Europe and the United States are actively investing in research projects aimed at reducing greenhouse gas emissions. In the past, such legislative and research initiatives have involved additional market regulatory measures such as emissions trading, switching to cleaner forms of energy and/or introducing emissions curbing technologies.

DESCRIPTION OF THE COMPANY

The Company's Charter states in clause 4.1 that the main aim of the Company is to earn profits and use profits in the interests of the Company.

The Company is a public joint stock company incorporated under the laws of the Russian Federation and domiciled in Cherepovets, Russia. The Company's registration number is 1023501236901 and its registered address is 30 Mira Street, Cherepovets, Vologodskaya Oblast, 162608, Russian Federation. The telephone number of the Company's Moscow office is +7 495 926 7766.

The Company has not guaranteed any of the Notes that may be issued under the Programme nor are any of the Notes an obligation of the Company. Noteholders will have no direct recourse to the Company. For further information see "*Risk Factors—The Noteholders have no direct recourse against the Company*".

THE ISSUER

GENERAL

The Issuer is a public limited liability company (*société anonyme*) of unlimited duration that is incorporated, exists and operates under the laws of Luxembourg, in compliance with the Companies' Act 1915, other applicable regulations and its Articles of Incorporation. The Issuer was incorporated on 11 May 2006 and is registered with the Luxembourg Trade and Companies' Register (*Registre de Commerce et des Sociétés*) under registration number B 116975. The registered office of the Issuer is 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, Grand Duchy of Luxembourg. The telephone number of the registered office of the Issuer is +35 242 122 462 and its fax number is +35 242 122 718. The Articles of Incorporation of the Issuer have been published in the *Mémorial, Journal Officiel du Grand Duché de Luxembourg, Recueil des Sociétés et Associations C-No 1522* on 9 August 2006.

The Issuer is a special purpose vehicle and is operated for the purpose of issuing asset backed securities.

The Issuer has entered into an administrative services and domiciliation agreement on 12 May 2006 with Deutsche Bank Luxembourg SA, whereby Deutsche Bank Luxembourg SA provides in Luxembourg certain domiciliary, management, administrative, accounting and related services in relation to the Issuer's business.

The Issuer's share capital, as of the date of this Base Prospectus, is €31,000 divided into 310 registered shares with a par value €100, each of which is fully paid.

The Issuer's Financial Statements have been audited by PricewaterhouseCoopers Société cooperative, Luxembourg, acting as auditor to the Issuer. PricewaterhouseCoopers Société cooperative, Luxembourg has its registered office at 2, Rue Gerhard Mercator, L-2182 Luxembourg.

SHAREHOLDERS

Stichting Steel Capital Luxembourg, a Dutch company owns 309 shares in the Issuer and Stichting Participatie DITC Amsterdam, a Dutch company, owns 1 share.

Stichting Steel Capital Luxembourg is an organisation incorporated in the Netherlands having its registered office at Herengracht 450, 1017 CA Amsterdam. It is registered with the handelsregister van de Kammers van Koophandel of Amsterdam under number 34247473. The objectives of Stichting Steel Capital Luxembourg are, among others, to incorporate, manage and hold shares in the share capital of the Issuer and to exercise all rights attached to such shares.

Stichting Participatie DITC Amsterdam is an organisation incorporated in the Netherlands, having its registered office at Herengracht 450, 1017 CA Amsterdam. It is registered with the handelsregister van de Kammers van Koophandel of Amsterdam under number 34148998. The objectives of Stichting Participatie DITC Amsterdam are, among others, to acquire and hold shares and to exercise all rights attached to such shares.

STATUTES

Article 4 of the Articles of Incorporation provides that the principal objects of the Issuer are the issue of loan participation notes for the purpose of financing loans to PAO Severstal and to its affiliates, the granting of security interests over its assets in relation to the issuance of the loan participation notes and the making of deposits at banks or with other depositaries.

The Issuer may further carry out any transaction, whether commercial or financial, which are directly or indirectly connected with its corporate object at the exclusion of any banking activity. In general, the Issuer may carry out any operation which it may deem useful or necessary to the accomplishment and the development of its corporate purpose.

MANAGEMENT

The Issuer is managed by its board of directors (the ***Issuer's Board of Directors***), who are appointed by the shareholders. The current directors of the Issuer are as follows:

Name	Business Address
Mr. Jenkins Graeme.....	2, Boulevard Konrad Adenauer L-1115 Luxembourg
Ms. Anja Hammes.....	2, Boulevard Konrad Adenauer L-1115 Luxembourg
Mr. Ramassur Kailash	2, Boulevard Konrad Adenauer L-1115 Luxembourg

The Issuer's directors do not perform any principal activities outside of the Issuer that are significant with respect to the Issuer.

There are no current or potential conflicts between the private interests and duties of the members of the Issuer's Board of Directors and the duties of those officers to the Issuer.

OTHER

The Issuer is not aware of any governmental, legal, or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), during the last 12 months, which may have, or have in the recent past, significant effects on the Issuer's financial position or profitability.

FACILITY AGREEMENT

The following is the text of the Facility Agreement entered into between the Company and the Issuer as amended dated 14 February 2017. In the context of each Loan, the Facility Agreement should be read in conjunction with, and is qualified in its entirety by, the relevant Loan Supplement for such Loan.

This Amended and Restated Facility Agreement is made on 14 February 2017 **between:**

- (1) **PAO SEVERSTAL**, a public joint stock company established under the laws of the Russian Federation whose registered office is Ul. Mira 30, 162608 Cherepovets, Vologda Region, Russian Federation (“**Severstal**”); and
- (2) **STEEL CAPITAL S.A.**, a *société anonyme* incorporated in Luxembourg with limited liability whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B116975 (the “**Lender**”, which expression, where the context so admits, includes any successor Lender pursuant to the terms of this Agreement and the Lender acting in its capacity as issuer of the agreed funding).

Whereas:

- (A) Pursuant to an amended and restated facility agreement dated 15 March 2013 (the “**Original Facility Agreement**”) the Lender at the request of Severstal agreed to make available to Severstal a loan facility in the maximum amount of U.S.\$4,500,000,000 or its equivalent in other currencies, on the terms and subject to the conditions of the Original Facility Agreement, as amended and supplemented in relation to each Loan (as defined below) by a loan supplement dated the relevant Closing Date (as defined below) substantially in the form set out in Schedule 1 hereto (each, a “**Loan Supplement**”).
- (B) It was intended that, concurrently with the extension of any Loan under this loan facility, the Lender will enter into agreed funding in the same nominal amount and bearing the same rate of interest as such Loan.
- (C) The parties hereto wish to amend and restate the Original Facility Agreement as set out below.

Now it is hereby agreed as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Facility Agreement (including the recitals), the following terms shall have the meanings indicated:

“**Account**” means an account in the name of the Lender with the Principal Paying and Transfer Agent as specified in the relevant Loan Supplement.

“**Accounting Standards**” means IFRS, U.S. GAAP or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the relevant regulators for the time being.

“**Affiliate**” of any specified person means (i) any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person or (ii) any other person who is a director or officer (a) of such specified person, (b) of any Subsidiary of such specified person or (c) of any person described in (i) above. For the purpose of this definition, “**control**” when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “**controlling**” and “**controlled**” have meanings correlative to the foregoing.

“**Agency**” means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body.

“**agreed funding**” shall mean the Indebtedness (including in the form of securities) that may be incurred to the agreed funding source from time to time by the Lender under the Programme, each such series of agreed funding corresponding to a Loan and, in relation to a Loan, as defined in the relevant Loan Supplement;

“**agreed funding agreements**” shall mean any debt instrument or facility or guarantee thereof, trust deed, agency agreement or subscription agreement entered into in connection with any agreed funding and any side or fee letters ancillary thereto;

“**agreed funding source**” shall mean any person to whom the Lender owes any Indebtedness (including securities), which Indebtedness was incurred to fund a Loan (including a designated representative or trustee of such Person or any assignee or transferee appointed in connection with the agreed funding source);

“**Auditors**” means the auditors of Severstal’s consolidated financial statements (prepared in accordance with applicable Accounting Standards) for the time being or, if they are unable or unwilling promptly to carry out any action requested of them under this Agreement, such other internationally recognised firm of accountants as may be approved in writing by the Lender for this purpose.

“**Average Life**” means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness multiplied by the amount of such payment by (2) the sum of all such payments.

“**Base Prospectus**” means, unless defined in the relevant Loan Supplement in relation to a Loan, the base prospectus relating to the agreed funding dated 14 February 2017.

“**Broken Amount**” has the meaning set out in the Loan Supplement.

“**Business Centre**” has the meaning set out in the Loan Supplement.

“**Business Day**” means:

- (i) save in relation to Clause 4, a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency, and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating (a “**TARGET Business Day**”), and (d) in relation to a Loan corresponding to any agreed funding to be sold pursuant to Rule 144A under the Securities Act, banks and foreign exchange markets are open for business generally in New York City; and
- (ii) in relation to Clause 4, (a) in the case of a Specified Currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such Specified Currency; and/or (b) in the case of euro, a TARGET Business Day; and/or (c) in the case of any Specified Currency where one or more Business Centres is specified in the relevant Loan Supplement a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“**Calculation Agent**” has the meaning specified in the relevant Loan Supplement.

“**Calculation Amount**” has the meaning specified in the relevant Loan Supplement.

“**Capital Stock**” means, with respect to any person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a person other than a corporation; in each case whether now outstanding or hereafter issued.

“**Closing Date**” means the date specified as such in the relevant Loan Supplement.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Loan for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual**” or “**Actual/Actual-ISDA**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period

falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

- (ii) if “**Actual/365 (Fixed)**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;
- (iii) if “**Actual/360**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;
- (iv) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30.

- (v) if “**30E/360**” or “**Eurobond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30

- (vi) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30

(vii) if “**Actual/Actual-ICMA**” is specified in the relevant Loan Supplement:

- (a) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (i) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (ii) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date.

“**Determination Date**” means the date(s) specified in the relevant Loan Supplement or, if none is so specified, the Interest Payment Date(s).

“**Disqualified Stock**” means, with respect to any person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

- (a) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;
- (b) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or
- (c) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part,

in each case on or prior to the date which is six months after the Stated Maturity of the agreed funding; provided, however, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such person to purchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the date which is six months after the Stated Maturity of the agreed funding shall not constitute Disqualified Stock if:

- (i) the “asset sale” or “change of control” provisions applicable to such Capital Stock are not more favourable to the holders of such Capital Stock than the terms applicable to the agreed funding and described under Clause 10.2; and
- (ii) any such requirement only becomes operative after compliance with such terms applicable to the agreed funding, including the purchase of any agreed funding tendered pursuant thereto.

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined; provided, however, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such person.

“**Dollars**”, “**U.S. dollars**”, “**\$**” and “**U.S.\$**” means the lawful currency of the United States of America.

“**Domestic Relevant Indebtedness**” means any Relevant Indebtedness which is not quoted, listed or ordinarily dealt in or traded on any stock exchange or any public or institutional securities market, in each case outside the Russian Federation.

“**Early Redemption Amount**” means 100% of the principal amount of the Loan to be redeemed plus accrued and unpaid interest thereon, if any, to the Redemption Date or such other amount as may be specified in the relevant Loan Supplement.

“**Environmental Laws**” means all laws, rules, regulations, ordinances, judgments, orders, decrees and agreements with, and licences, permits or franchises from, governmental entities, and all other regulatory restrictions (whether or not having the force of law) in existence at the date of each Loan Agreement that (i) have been, are or may become applicable to Severstal or any of its Material Subsidiaries or any properties or business now owned, leased, occupied or operated by Severstal or any of its Material Subsidiaries and (ii) relate to the environment, health and safety, the use, possession, collection, storage, processing, treatment, emission, release, discharge, disposal, transfer or transport of Materials of Environmental Concern, or similar matters, or the remedying of any of the foregoing.

“**euro**” or “**€**” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome, as amended.

“**Euro-zone**” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“**Event of Default**” has the meaning assigned to such term in Clause 11.1 hereof.

“**Fitch**” means Fitch Ratings Limited or any successor to its ratings business.

“**Fixed Amount**” has the meaning set out in the Loan Supplement.

“**Fixed Rate Loan**” means a Loan specified as such in the relevant Loan Supplement.

“**Floating Rate Loan**” means a Loan specified as such in the relevant Loan Supplement.

“**Group**” means Severstal and its Subsidiaries taken as a whole.

“**Guarantee**” means any financial obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Indebtedness of any other person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other

manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term “**Guarantee**” will not include endorsements for collection or deposit in the ordinary course of business. The term “**Guarantee**” used as a verb has a corresponding meaning.

“**IFRS**” means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (“**IASB**”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time).

“**incur**” means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a person existing at the time such person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by such Subsidiary at the time it becomes or is so merged into a Subsidiary.

“**Indebtedness**” means any indebtedness, in respect of any person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of Disqualified Stock; and any amount raised under any other transaction having the economic or commercial effect of a borrowing; and, without duplication of any of the foregoing, the amount of any liability in respect of any Guarantee or indemnity for any of the items referred to above. For the avoidance of doubt the following amounts shall not constitute “Indebtedness”: (i) trade accounts payable, (ii) advances received from customers, (iii) operating lease liabilities, (iv) amounts payable to employees, (v) government grants, (vi) contingent liabilities other than with respect to items of Indebtedness described in the preceding sentence and (vii) other accounts payable and advances received, to the extent that such amounts described in sub-clauses (i) through (vii) arise in the ordinary course of business.

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“**Interest Amount**” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which in the case of Fixed Rate Loans and unless otherwise specified in the relevant Loan Supplement shall mean the Fixed Amount or Broken Amount specified in respect of any Loan as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“**Interest Commencement Date**” means the Closing Date or such other date as may be specified in the relevant Loan Supplement.

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling both two Business Days in London and two Business Days for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“**Interest Payment Date**” means the date(s) specified as such in the relevant Loan Supplement, or, in the event of a prepayment in whole (but not in part) in accordance with Clauses 5.2 or 5.3 the date set for such redemption in respect of the Loan.

“**Interest Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“**Interest Period Date**” means each Interest Payment Date unless otherwise specified in the relevant Loan Supplement.

“Interest Rate Agreement” means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates.

“ISDA Definitions” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement.

“Loan” means each loan to be made pursuant to, and on the terms specified in this Facility Agreement and the relevant Loan Supplement, and includes each Fixed Rate Loan and Floating Rate Loan.

“Loan Agreement” means this Facility Agreement and (unless the context requires otherwise), in relation to a Loan, means this Facility Agreement as amended and supplemented by the relevant Loan Supplement.

“Make Whole Amount” means the excess of (a) the present value at such Redemption Date of the Loan, plus any required interest payments that would otherwise be due to be paid on such Loan from such Redemption Date through to the Repayment Date, together with any accrued and unpaid interest as of such Redemption Date, if any, calculated using a discount rate equal to the Treasury Rate at such Redemption Date plus the number of basis points specified as the Make Whole Premium in the relevant Loan Supplement, over (b) the principal amount of the Loan, provided that if the value of the Make Whole Amount at any time would otherwise be less than zero, then in such circumstances for the purpose of this Loan Agreement, the value of the Make Whole Amount will be equal to zero.

“Margin” has the meaning set out in the Loan Supplement.

“Material Adverse Effect” means a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or immediate prospects of Severstal or the Group; (b) Severstal’s ability to perform or comply with its obligations under a Loan Agreement or (c) the validity or enforceability of a Loan Agreement or the rights or remedies of the Lender thereunder.

“Material Subsidiary” means, at any given time, a Subsidiary of Severstal which:

- (a) has gross revenues (excluding intra-group revenues between entities in the Group) for the six months period from the date of the most recent published financial statements of Severstal representing 10 per cent. or more of the consolidated gross revenues of the Group; or
- (b) has total assets representing 10 per cent. or more of the consolidated total assets of the Group,

in each case calculated on a consolidated basis in accordance with Accounting Standards to which the then most recent published audited consolidated financial statements of Severstal comply, as consistently applied.

Compliance with the conditions set out in paragraphs (a) and (b) above shall be determined by reference to the latest consolidated annual or, as the case may be, interim financial statements of that Subsidiary prepared in accordance with the accounting policies of the Group and the latest consolidated annual or, as the case may be, interim financial statements of the Group, provided, however, that a report based on the above criteria by the Auditors (if such report is requested by the Lender), that a Subsidiary is, or is not, a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

“Materials of Environmental Concern” means any toxic, ignitable, corrosive, reactive, radioactive or caustic substance, and any other substance considered a pollutant, contaminant or hazardous or potentially hazardous substance or waste.

“Maximum Rate of Interest” has the meaning set out in the Loan Supplement.

“Minimum Rate of Interest” has the meaning set out in the Loan Supplement.

“Moody’s” means Moody’s Investors Service Limited or any successor to its ratings business.

“Notification Time” means the time and date specified as such in the relevant Loan Supplement.

“Officers’ Certificate” means a certificate signed on behalf of Severstal by two officers of Severstal at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of Severstal.

“Payment Time” means the time and date specified as such in the relevant Loan Supplement.

“Permitted Security Interest” means:

- (a) any Security Interests:
 - (i) existing as at the date of the relevant Loan Agreement; or
 - (ii) securing Refinancing Indebtedness in respect of any Relevant Indebtedness existing as at the date of the relevant Loan Agreement, provided that such Security Interests are limited to all or part of the assets, undertaking, property or revenues that secured the original Relevant Indebtedness and that the aggregate principal amount of such Refinancing Indebtedness secured over such assets does not exceed the sum of (x) the aggregate principal amount of the Relevant Indebtedness being refinanced; (y) accrued and unpaid interest on such Refinancing Indebtedness and (z) fees, premiums and other costs and expenses incurred in connection with such Refinancing Indebtedness;
- (b) any Security Interest created or existing in respect of Domestic Relevant Indebtedness;
- (c) any Security Interest created in respect of Relevant Indebtedness in the form of, or represented by, notes, debentures, bonds or other debt securities exchangeable or convertible into Treasury Shares or shares in any other company listed on a stock exchange, including American depository receipts and global depository receipts or other depository receipts (as the case may be) representing rights in respect of such shares;
- (d) any Security Interests in respect of Relevant Indebtedness:
 - (i) existing on any undertaking, property, assets or revenues of any person at the time such person becomes a Subsidiary (as defined below) or such undertaking property, assets or revenues are acquired by Severstal or any Subsidiary provided that such Security Interest was not created in contemplation of such event and that no such Security Interest shall extend to other undertaking property, assets or revenues of such person or the Group; or
 - (ii) securing Refinancing Indebtedness in respect of the Relevant Indebtedness specified in paragraph (d)(i) above provided that such Security Interests are limited to all or part of the undertaking, assets, property or revenues that secured the original Relevant Indebtedness and that the aggregate principal amount of such Refinancing Indebtedness secured over such assets does not exceed the sum of (x) the aggregate principal amount of the Indebtedness being refinanced; (y) accrued and unpaid interest on such Refinancing Indebtedness and (z) fees, premiums and other costs and expenses incurred in connection with such Refinancing Indebtedness; or
- (e) any Security Interest on the property, income or assets of Severstal or any of its Subsidiaries securing Relevant Indebtedness of Severstal or such Subsidiaries incurred in an aggregate principal amount outstanding at any one time not to exceed the higher of U.S.\$500,000,000 or 20 per cent. of the total consolidated assets of the Group (determined by reference to the most recent publicly available consolidated annual or interim financial statements of Severstal prepared in accordance with those Accounting Standards to which the then most recent published audited consolidated financial statements of Severstal comply as may be adopted from time to time by Severstal); or
- (f) any Security Interest created or existing in respect of any Indebtedness or other obligation or liability that is not Relevant Indebtedness;

“person” means any individual, company, corporation, firm, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any Agency or political subdivision thereof or any other entity.

“Potential Event of Default” means any event which is, or after notice or passage of time or after making any determination under a Loan Agreement (or any combination of the foregoing) would be, an Event of Default.

“Principal Trust Deed” means the amended and restated principal trust deed dated 15 March 2013 between the Issuer and the Trustee, as amended, supplemented or replaced from time to time.

“Programme” means the programme for the issuance of agreed funding.

“Programme Limit” means U.S.\$4,500,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of agreed funding that may be issued and outstanding at any time under the Programme as may be increased in accordance with the agreed funding agreements.

“Put Settlement Date” has the meaning specified in the relevant Loan Supplement.

“Rate of Interest” has the meaning specified in the relevant Loan Supplement.

“Rating Agency” means Fitch, Moody's or Standard & Poor's or if Fitch, Moody's or Standard & Poor's cease to publish ratings of securities, any other internationally recognised statistical rating organisation.

“Reference Rate” means the rate specified as such in the relevant Loan Supplement.

“Refinancing Indebtedness” means Indebtedness that Refinances any Indebtedness of Severstal or any Subsidiary of Severstal existing on the relevant Closing Date or incurred in compliance with a Loan Agreement, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that:

- (a) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;
- (b) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced;
- (c) such Refinancing Indebtedness has an aggregate principal amount (or if incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if incurred with original issue discount, the aggregate accreted value) then outstanding (plus accrued interest, fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and
- (d) if the Indebtedness being Refinanced is subordinated in right of payment to the a Loan, such Refinancing Indebtedness is subordinated in right of payment to such Loan at least to the same extent as the Indebtedness being Refinanced.

“Relevant Indebtedness” means any Indebtedness which: (a)(i) is in the form of or represented by any bond, note, debenture stock, loan stock, certificate or other debt instrument (but for the avoidance of doubt, excluding term or revolving loans (whether syndicated or unsyndicated), credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities or credit agreements other than loans specified in (a) (ii) below) which is listed or quoted on any stock exchange or (ii) is in the form of a loan to Severstal which is financed by the issuance of any of the foregoing forms of debt in (a)(i) above, where such issuance is by a special purpose company or a bank or any other entity and the rights to payment of the holders of such forms of debt are limited to payments actually made by Severstal pursuant to such loan; and (b) in the case of the debt referred to in (a)(i) above or the debt financing a loan referred to in (a)(ii) above, was initially issued and distributed (as to more than 50 per cent. of the original principal amount of such debt) outside the Russian Federation;

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Loan Supplement.

“Relevant Time” means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time.

“Repayment Date” means the date specified as such in the relevant Loan Supplement.

“Reserved Rights” has the meaning assigned to such term in the agreed funding agreements.

“RUR” or **“Roubles”** means the lawful currency of the Russian Federation.

“Sale/Leaseback Transaction” means an arrangement relating to property now owned or hereafter acquired whereby Severstal or any Material Subsidiary of Severstal transfers such property to a person and Severstal or such Material Subsidiary leases it from such person.

“Same-Day Funds” means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the

country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in Brussels of the type contemplated hereby.

“Screen Rate Determination” has the meaning set out in Clause 4.3 and the relevant Loan Supplement.

“Securities Act” means the U.S. Securities Act of 1933.

“Security Interest” means any mortgage, charge, pledge, lien or other form of security interest securing any obligation of any person.

“Severstal Account” means an account in the name of Severstal as specified in the relevant Loan Supplement for receipt of Loan funds.

“Specified Currency” means the currency specified as such in the relevant Loan Supplement.

“Standard & Poor's” means Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc, or any successor to its ratings business.

“Stated Maturity” means, with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final payment of principal of such Indebtedness is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such Indebtedness at the option of the holder or lender thereof upon the happening of any contingency unless such contingency has occurred).

“Subscription Agreement” means the agreement specified as such in the relevant Loan Supplement.

“Subsidiary” of any specified person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock is held by such first-named person and/or any of its Subsidiaries and such first-named person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business or entity, with respect to which such first-named person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if (in the case of each of (a) and (b)) in accordance with Accounting Principles, as consistently applied, such entity would be fully consolidated with the first-named person for financial statement purposes.

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET 2) System which was launched on 19 November 2007 or any successor thereof.

“Treasury Rate” means a rate equal to the yield, as published by the Treasury Publisher specified in the relevant Loan Supplement, on the actively traded Reference Treasury specified in the relevant Loan Supplement with a maturity comparable to the remaining life of the Loan, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary Reference Treasury dealers in the Business Centre specified in the relevant Loan Supplement selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in the Business Centre specified in the relevant Loan Supplement preceding the Redemption Date.

“Treasury Shares” means any ordinary shares in the charter capital of Severstal and any American Depositary Receipts, Global Depositary Receipts or other depository receipts (as the case may be) representing rights in respect of such shares, as may be owned by Severstal or any of its Subsidiaries.

“Trustee” has the meaning assigned to such term in the Principal Trust Deed.

“U.S. GAAP” means generally accepted accounting principles, standards and practices in the United States of America.

“Voting Stock” means, in relation to any person, Capital Stock entitled (without the need for the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

“Warranty Date” means the date hereof, the date of each Loan Supplement, each Closing Date, each date on which the Base Prospectus or any of the agreed funding agreements is amended, supplemented or replaced and each date on which the Programme Limit is increased.

“Wholly Owned Subsidiary” means a Subsidiary all the Capital Stock of which (other than directors’ qualifying shares or shares of Subsidiaries required to be owned by third parties under applicable law) is owned by Severstal or one or more other Wholly Owned Subsidiaries.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Facility Agreement which are not defined in this Facility Agreement but which are defined in, or are defined by cross-reference to definitions in, or other provisions of, any agreed funding agreements, shall have the meanings assigned to such terms therein, provided that in the case of terms defined or references herein to documents to which Severstal is not a party, Severstal has been sent an up-to-date copy of such documents as soon as reasonably practicable (including any amendments thereto that may affect the meaning or interpretation of any such term or reference).

1.3 Interpretation

Unless the context or the express provisions of this Facility Agreement otherwise require, the following shall govern the interpretation of this Facility Agreement:

- 1.3.1 All references to “Clause” or “sub-Clause” are references to a Clause or sub-Clause of this Facility Agreement.
- 1.3.2 The terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean the relevant Loan Agreement as a whole and not any particular part hereof.
- 1.3.3 Words importing the singular number include the plural and vice versa.
- 1.3.4 All references to “taxes” include all present or future taxes, levies, imposts and duties of any nature and the terms “tax” and “taxation” shall be construed accordingly.
- 1.3.5 The table of contents and the headings are for convenience only and shall not affect the construction hereof.
- 1.3.6 References to “Russia” and “Russian” shall mean the Russian Federation.
- 1.3.7 Any reference herein to a document being in “agreed form” means that the document in question has been agreed between the proposed parties thereto, subject to any amendments that such parties may agree upon prior to the respective effectiveness date.
- 1.3.8 Unless otherwise stated, whenever an amount in one currency needs to be converted into an amount in another currency for the purposes of determining compliance with any provision under this Agreement, such calculation shall be determined in good faith on the basis of reasonable exchange rates by a responsible financial or accounting officer of Severstal and, for the avoidance of doubt, whenever it is necessary thereafter to determine whether Severstal complied with any such provision, such determination shall be made on the basis of the conversion rate applied in compliance with the foregoing provisions hereof.

1.4 Amendment and Restatement

This Agreement amends and restates the Original Facility Agreement. Any Loans made on or after the date hereof shall have the benefit of this Agreement. The amendments set out herein do not affect any Loans made prior to the date of this Agreement.

2 Loans

2.1 Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to Severstal Loans up to the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Loan will be used for general corporate purposes (unless otherwise specified in the relevant Loan Agreement), but the Lender shall not be concerned with the application thereof.

2.3 Separate Loans

It is agreed that with respect to each Loan, all the provisions of this Facility Agreement and the Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Loan and the expressions “**Account**”, “**agreed funding**”, “**Arrangement Fee**”, “**Closing Date**”, “**Day Count Fraction**”, “**Interest Payment Date**”, “**Loan Agreement**”, “**Rate of Interest**”, “**Repayment Date**”, “**Specified Currency**”, together with all other terms that relate to such a Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that each such Loan shall be made pursuant to this Facility Agreement and the relevant Loan Supplement, together comprising the Loan Agreement in respect of such Loan and that, unless expressly provided, events affecting one Loan shall not affect any other.

3 Drawdown

3.1 Drawdown

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on the Closing Date thereof the Lender shall make a Loan to Severstal and Severstal shall make a single drawing in the full amount of such Loan.

3.2 Loan Arrangement Fee

In consideration of the Lender’s undertaking to make a Loan available to Severstal, Severstal hereby agrees that it shall pay to the Lender, in Same-Day Funds, an Arrangement Fee (as defined in the relevant Loan Supplement) in connection with *inter alia*, the arrangement and financing of the relevant Loan, and the negotiation, preparation and execution of the relevant Loan Agreement and the other agreed funding agreements and other costs connected with and necessary for the provision of such Loan. Severstal shall pay the Arrangement Fee promptly following receipt of an invoice from the Issuer providing for the amount due. Following payment of the Arrangement Fee to the Lender by Severstal, Severstal and the Lender shall enter into and sign a delivery and acceptance act as provided in Clause 6.10. To the extent the Arrangement Fee is paid prior to the relevant Closing Date, in the event that following payment of the Arrangement Fee by Severstal to the Lender, closing of the issue of any agreed funding does not take place in accordance with the relevant agreed funding agreements, the Lender shall return the Arrangement Fee to Severstal less certain amounts to be deducted pursuant to arrangements entered into by Severstal in respect of the Loan in relation to costs due in such circumstances, within 3 Business Days of the determination of such amounts by the Lender (and the Lender shall determine such amounts as soon as reasonably practicable). The Arrangement Fee may be paid by Severstal directly to the account of the Lender or in full or in part upon the Lender’s instruction to the accounts of contractors under the agreed funding agreements executed by the Lender or to the accounts of other persons as specified by the Lender in respect of expenses incurred in accordance with this Clause 3.2 (“third parties”). Severstal may pay the Arrangement Fee directly to such third parties if, at the time of such payment, it has documents confirming that such third parties are located in countries that have entered into a double taxation treaty with the Russian Federation. In addition, Severstal may (but is not obliged to), independently of the Lender, conclude such separate agreements as may be necessary to arrange and fund the relevant Loan. In such case, payments under such agreements shall be made by Severstal directly and the corresponding expenses shall not be included by the Lender in the calculation of the Arrangement Fee or in a delivery and acceptance act specified in Clause 6.10.

3.3 Disbursement

Subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on each Closing Date the Lender shall transfer the amount of the relevant Loan to the Severstal Account specified in the relevant Loan Supplement, or such other bank account that is notified in writing to the Lender by Severstal at least one Business Day prior to the Closing Date, in Same-Day Funds.

3.4 Ongoing Fees and Expenses

In consideration of the Lender establishing and maintaining the Programme and agreeing to make Loans to Severstal, Severstal shall pay on demand to the Lender as and when such amounts are due an amount equal to all ongoing fees and costs (which, for the avoidance of doubt, shall include all ongoing costs, charges, liabilities and expenses incurred by the Lender in relation to the agreed funding agreements and the agreed funding as well as

in relation to the maintenance of its good standing). Payments to the Lender referred to in this Clause 3.4 shall be made by Severstal promptly following receipt of the relevant invoice from the Lender. In addition, following each payment of such fees and expenses to the Lender by Severstal, Severstal and the Lender shall enter into and sign a delivery and acceptance act as provided in Clause 6.10.

For the avoidance of doubt, the ongoing fees and expenses referred to in this Clause shall also include all expenses incurred by the Lender in the course of the purchase and cancellation of the agreed funding in accordance with Clause 5.4. Payment by Severstal of the ongoing fees and expenses may be made directly to the Lender's account or in full or in part upon the Lender's instruction to the accounts of contractors under the agreed funding agreements or to the accounts of such third parties as specified by the Lender in respect of expenses incurred in accordance with this Clause 3.4. Severstal may pay the ongoing fees and expenses directly to such third parties if, at the time of such payment, it has documents confirming that such third parties are located in countries that have entered into a double taxation treaty with the Russian Federation. In addition, Severstal may (but is not obliged to) independently, in its own name and without the Lender's involvement, conclude such separate agreements as may be necessary to maintain and service the agreed funding. In such case, payments under such agreements shall be made by Severstal directly and the corresponding expenses shall not be included by the Lender in the ongoing fees and expenses or in a delivery and acceptance act specified in Clause 6.10.

4 Interest

4.1 Rate of Interest for Fixed Rate Loans

Each Fixed Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the applicable Rate of Interest.

4.2 Payment of Interest for Fixed Rate Loans

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear by Severstal to the Account not later than the relevant Payment Time prior to each Interest Payment Date. The amount of interest payable shall be determined in accordance with Clause 4.6.

4.3 Interest for Floating Rate Loans

4.3.1 *Interest Payment Dates:* Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, which interest shall be paid in arrear by Severstal to the relevant Account not later than the relevant Payment Time prior to each Interest Payment Date. The amount of interest payable shall be determined in accordance with Clause 4.6. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 *Business Day Convention:* If any date referred to in the relevant Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each such subsequent date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 *Rate of Interest for Floating Rate Loans:* The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan Supplement and

the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Loan Supplement.

(i) ISDA Determination for Floating Rate Loans

Where ISDA Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (i), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (a) the Floating Rate Option is as specified in the relevant Loan Supplement;
- (b) the Designated Maturity is a period specified in the relevant Loan Supplement; and
- (c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Supplement.

For the purposes of this sub-paragraph (i), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Loans

Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (a) the offered quotation; or
- (b) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, only one of such quotations) and the lowest (or, if there is more than one such lowest quotation, only one of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Loans is specified in the relevant Loan Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Floating Rate Loans will be determined as provided in the relevant Loan Supplement.

- (x) if the Relevant Screen Page is not available or if, sub-paragraph (a) applies and no such offered quotation appears on the Relevant Screen Page or if sub paragraph (b) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (y) if paragraph (b) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is

EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of Severstal and the Lender suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

4.4 Accrual of Interest

Interest shall cease to accrue on each Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the applicable Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made.

4.5 Margin, Maximum/Minimum Rates of Interest and Rounding

- 4.5.1 If any Margin is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- 4.5.2 If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.
- 4.5.3 For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 Calculations

The amount of interest payable per Calculation Amount in respect of any Loan for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified on such Loan, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Loan for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

4.7 Determination and Publication of Rates of Interest and Interest Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date to be notified to Severstal, the Lender, the agreed funding source and the party designated as principal paying agent by the agreed funding agreements and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to sub-Clause 4.3.2, the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of Severstal and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under Clause 11, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously in accordance with this Clause but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Lender otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 Calculation Agent and Determination or Calculation by the agreed funding source

Severstal shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in a Loan Supplement and for so long as any amount remains outstanding under a Loan Agreement. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if it does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount in relation to a Floating Rate Loan or comply with any other requirement, the Lender and Severstal agree that:

- 4.8.1 the Lender shall (with the prior written approval of Severstal) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place; failing which
- 4.8.2 such determination or calculation may be made by or at the direction of the agreed funding source as set out in the conditions of the corresponding agreed funding and such determination or calculation shall be deemed to have been made by the Calculation Agent. The parties acknowledge that in doing so, the agreed funding source shall apply or shall have applied the foregoing provisions of this sub-Clause 4.8.2, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both Severstal and the Lender agree that such successor Calculation Agent will be appointed on the terms of the agreed funding agreement in relation to the agreed funding.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein and in the applicable Loan Supplement, Severstal shall repay each Loan not later than the relevant Payment Time prior to the Repayment Date.

5.2 Prepayment in the event of Taxes or Increased Costs

If, as a result of the application of or any amendments or clarification to, or change (including a change in interpretation or application) in, or determination under, the double tax treaty between the Russian Federation and Luxembourg or the laws or regulations of the Russian Federation or Luxembourg or of any political subdivision thereof or any authority therein having power to tax (each, a “**Taxing Jurisdiction**”) or the enforcement of the security provided for in the agreed funding agreements, Severstal would thereby be required (i) to increase

the payment of principal or interest or any other payment due pursuant to a Loan Agreement as provided in Clause 6.2 or 6.3, or if (for whatever reason) Severstal would have to or has been required (ii) to pay additional amounts pursuant to Clause 8, and in any such case such obligation cannot be avoided by Severstal taking reasonable measures available to it, then Severstal may (without premium or penalty), upon not less than 30 days' notice to the Lender (which notice shall be irrevocable), prepay the Loan relating to such Loan Agreement in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Loan, or at any time, in the case of a Fixed Rate Loan.

No such notice of prepayment shall be given earlier than 90 days prior to the earliest date on which Severstal would be obliged to pay such additional amounts or increase such payment if a payment in respect of the Loan were then due.

Prior to giving any such notice in the event of an increase in payment pursuant to Clause 6.2, Severstal shall deliver to the Lender an Officers' Certificate confirming that Severstal would be required to increase the amount payable, supported by an opinion of an independent tax adviser addressed to the Lender, any trustee or representative for the agreed funding source and Severstal.

5.3 Prepayment in the event of Illegality

If, at any time the Lender reasonably determines that it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any Agency of any state or otherwise for the Lender to allow all or part of the relevant Loan or the corresponding agreed funding agreements to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Loan or the agreed funding or the agreed funding agreements relating thereto and/or to charge or receive or to be paid interest at the rate then applicable to such Loan (an "**Event of Illegality**"), then upon notice by the Lender to Severstal in writing, Severstal and the Lender shall consult in good faith as to a basis which eliminates the application of such Event of Illegality; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 calendar days of the date on which it so notified Severstal. If such a basis has not been determined within the 30 calendar days, then upon written notice by the Lender to Severstal, Severstal shall prepay such Loan in whole (but not in part) on the next Interest Payment Date therefor, in the case of a Floating Rate Loan, or, in the case of a Fixed Rate Loan, on the next Interest Payment Date or on such other date as the Lender (acting reasonably) shall certify to be necessary to comply with such requirements.

5.4 Reduction of a Loan Upon Cancellation of corresponding agreed funding

Severstal or any Subsidiary or affiliate of Severstal or any other company acting for the benefit of Severstal may from time to time purchase any agreed funding (or may provide funding to the Lender to purchase the agreed funding in the open market, by tender or by private agreement) at any price and on such other terms as Severstal may determine. Such agreed funding purchased by Severstal or affiliate of Severstal or any other company acting for the benefit of Severstal may be held, reissued or resold. Alternatively, Severstal (or any Subsidiary or affiliate of Severstal) may from time to time surrender to the Lender for cancellation agreed funding having an aggregate principal value of at least U.S.\$1,000,000 (or its equivalent in a Specified Currency), together with an authorisation addressed to the agent of the Lender designated for such purpose (or instruct the Lender to cancel the agreed funding it has purchased at request of Severstal), whereupon the Lender shall have the relevant agreed funding cancelled and the principal amount of the Loan corresponding to the principal amount of such agreed funding is deemed to have been repaid by Severstal for all purposes as of the date of such cancellation and no further payments shall be made by Severstal in respect of such amounts. For the avoidance of doubt, each purchase and cancellation of agreed funding shall result in the reduction of Severstal's debt obligations to the Lender under the corresponding Loan to the extent of the reduction in the outstanding principal amount of the corresponding Loan.

5.5 Payment of Other Amounts

If a Loan is to be prepaid by Severstal pursuant to any of the provisions of Clauses 5.2 or 5.3 or pursuant to the terms of the relevant Loan Agreement, Severstal shall, simultaneously with such prepayment, pay to the Lender, accrued interest on the Loan to the date of actual payment and all other sums payable by Severstal pursuant to this Agreement in connection with the prepaid amount. For the avoidance of doubt, if the principal amount of such Loan is reduced pursuant to the provisions of Clause 5.4, then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which such Loan is so reduced and Severstal shall not be entitled to any interest in respect of the cancelled agreed funding.

5.6 Optional Prepayment under Call Option

If Call Option is specified in the relevant Loan Supplement, Severstal may, at its option at any time prior to the Repayment Date on giving not less than 30 nor more than 60 days' (or such other time periods as specified in the relevant Loan Supplement) irrevocable notice to the Lender, in whole or in part, repay the Loan at the Early Redemption Amount plus the Make Whole Amount. The notice to be given shall specify the date(s) for repayment of the Loan and the date(s) for the redemption of the agreed funding (the "**Optional Redemption Date(s)**"), which, unless otherwise specified, shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of such notice, the Lender shall forward it to the agreed funding source and the party designated as principal paying agent by the agreed funding agreements. The Loan shall be repaid on the date specified in such notice.

5.7 Optional Repayment under Put Option

If Put Option is specified in the relevant Loan Supplement, following not less than 30 nor more than 60 days' (or such other time periods as specified in the relevant Loan Supplement) notification from the Lender, Severstal shall prepay the Loan (without premium or penalty), to the extent of the aggregate principal amount of the agreed funding to be extinguished as specified in such notice, at the relevant Payment Time on or prior to the Put Settlement Date.

5.8 Notices Irrevocable

Any notice of cancellation or prepayment given under this Clause 5 shall be irrevocable and, unless a contrary indication appears in this Facility Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.

5.9 Provisions Exclusive

Severstal shall not prepay or repay all or any part of any Loan except in accordance with the express terms of the relevant Loan Agreement. Any amount prepaid or repaid may not be reborrowed under such Loan Agreement.

6 Payments

6.1 Making of Payments

All payments of principal, interest and other amounts (other than those in respect of Reserved Rights) to be made by Severstal under each Loan Agreement shall be made unconditionally by credit transfer to the Lender not later than the relevant Payment Time prior to each Interest Payment Date or the Repayment Date (as the case may be) or such other date as may be specified in the relevant Loan Supplement in Same-Day Funds to the relevant Account or as the agreed funding source may otherwise direct following the occurrence of a Relevant Event.

Severstal shall, before the relevant Notification Time prior to each Interest Payment Date or the Repayment Date or such other date (as the case may be), procure that the bank effecting such payments on its behalf confirms to the party designated as principal paying agent by the agreed funding agreements by tested telex or authenticated SWIFT the payment instructions relating to such payment.

The Lender agrees with Severstal that it will not deposit any other monies into such Account and that no withdrawals shall be made from such Account other than as provided for and in accordance with the relevant agreed funding agreements.

For the avoidance of doubt, the parties to any other agreed funding agreement are intended by the parties to this Facility Agreement to have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce the terms of this Clause 6.1.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by Severstal under each Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any taxes. If Severstal shall be required by applicable law to make any deduction or withholding from any payment under a Loan Agreement for or on account of any such taxes, it shall increase any payment due under such Loan Agreement to such amount as may be necessary to ensure that the Lender receives on the relevant date a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such taxes, shall promptly account to the relevant authorities for the relevant amount of such taxes so withheld or deducted and shall deliver to the Lender without undue delay customary evidence of

such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such taxes including penalties or interest, Severstal shall reimburse the Lender in the Specified Currency for such payment on demand.

6.3 Withholding on agreed funding

Without prejudice to the provisions of Clause 6.2, if the Lender notifies Severstal that it has become obliged to make any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Luxembourg or any political subdivision or any authority thereof or therein having the power to tax from any payment which it is obliged to make under or in respect of any agreed funding, Severstal agrees to pay to the Lender, not later than the relevant Payment Time prior to the date on which payment is due to the agreed funding source of such agreed funding in Same-Day Funds to the relevant Account, such additional amounts as are equal to the additional amounts which the Lender would be required to pay in order that the net amounts received by the agreed funding source, after such withholding or deduction, will equal the respective amounts which would have been received by the agreed funding source in the absence of such withholding or deduction; provided, however, that the Lender shall immediately upon receipt from any paying agent of the Lender of any reimbursement of the sums paid pursuant to this provision, to the extent that the agreed funding source of such agreed funding is not entitled to such additional amounts pursuant to the terms and conditions of such agreed funding, pay such amounts received by way of such reimbursement to Severstal (it being understood that neither the Lender, nor any paying agent of the Lender shall have any obligation to determine whether the agreed funding source of such agreed funding is not entitled to any such additional amount).

Any notification by the Lender to Severstal in connection with this Clause 6.3 shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction. The Lender shall, as soon as reasonably practicable following request by Severstal, provide Severstal with reasonable detail in writing as to the reasons for such withholding or deduction.

6.4 Reimbursement

6.4.1 To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which Severstal has made a payment pursuant to this Clause 6 it shall pay to Severstal so much of the benefit it received as will leave the Lender in substantially the same position as it would have been in had no additional amount been required to be paid by Severstal pursuant to this Clause 6; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to Severstal, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender, provided that the Lender shall notify Severstal promptly upon determination that it has received any such benefit. The Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it and the Lender shall in no circumstances be obliged to disclose to Severstal any information regarding its tax affairs or computations.

6.4.2 If as a result of a failure to obtain relief from deduction or withholding of any taxes referred to in Clause 6.2, (i) such taxes are deducted or withheld by Severstal and pursuant to Clause 6.2 an increased amount is paid by Severstal to the Lender in respect of such deduction or withholding and (ii) following the deduction or withholding of taxes as referred to above, Severstal applies on behalf of the Lender to the competent taxing authority for a withholding tax refund and such withholding tax is refunded or repaid by the relevant taxing authority to the Lender, the Lender shall as soon as reasonably practicable notify Severstal of the receipt of such withholding tax refund and promptly transfer the actually received amount of the withholding tax refund in the currency actually received and less any applicable costs to a bank account of Severstal specified for that purpose by Severstal.

6.5 Representations of the Lender

The Lender represents, and on each Warranty Date shall be deemed to represent, that (a) it is a company which is a resident of Luxembourg, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its board of directors or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg and it will be able to receive certification to this effect from the Luxembourg taxing authorities; (b) it does not have a permanent establishment in the Russian Federation; (c) it does not have any current intentions to effect, during the term of any Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Luxembourg or ceasing to be subject to taxation in Luxembourg; and (d) it is not a holding company within the meaning assigned by specific laws of the Grand Duchy of Luxembourg governed by the law of 31 July 1929 and the decree of the Grand Duke dated 17 December 1938 (as abrogated

by the Grand Duchy of Luxembourg law dated 22 December 2006), nor a company in the Grand Duchy of Luxembourg governed by any similar tax law.

The Lender shall make reasonable and timely efforts to assist Severstal to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between the Russian Federation and Luxembourg, including, without limitation, its obligations under Clauses 6.6 and 6.9. The Lender makes no representation as to the application or interpretation of any double taxation treaty between the Russian Federation and Luxembourg.

6.6 Notification and Substitution

6.6.1 The Lender agrees upon becoming aware of such, promptly to notify Severstal if it ceases to be tax resident in Luxembourg or opens a permanent establishment in Russia or if any of the representations set forth in Clause 6.5 are no longer true and correct.

6.6.2 If the Lender ceases, as a result of the Lender's actions, to be tax resident in a jurisdiction for the purposes of a double taxation treaty between the Russian Federation and such jurisdiction, and such cessation results in Severstal being required to make payments pursuant to Clause 6.2, Clause 6.3 or Clause 8 then, except in circumstances where the Lender has ceased to be tax resident in such jurisdiction by reason of any change of law (as described in Clause 5.2) (including, without limitation, a change in a double taxation treaty or in such law or treaty's application or interpretation), Severstal may require the Lender to seek the substitution of the Lender as borrower of the agreed funding and as lender under any Loan. Severstal shall bear all costs and expenses relating to or arising out of such substitution.

6.7 Evidence of Debt

The entries made in the relevant Account shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of Severstal's obligations to pay amounts thereto, as recorded therein.

6.8 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of Severstal to make any deduction, withholding or payment as described in Clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or Severstal's obligations under any of the above mentioned provisions, the Lender shall, upon becoming aware of the same, notify Severstal thereof and, in consultation with Severstal and to the extent it can lawfully do so and without prejudice to its own position, take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; provided that the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might reasonably be expected to have any adverse effect upon its business, operations or financial condition or might be in breach of any provision of the agreed funding agreements.

6.9 Tax Treaty Relief

The Lender shall at Severstal's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, use commercially reasonable efforts to obtain and to deliver to Severstal no later than 25 Business Days before the first Interest Payment Date and thereafter no later than 25 Business Days prior to the first Interest Payment Date in each calendar year, a certificate issued by the competent taxing authority in Luxembourg (the "**Relevant Tax Jurisdiction**") confirming that the Lender is tax resident in such Relevant Tax Jurisdiction and such other information or forms as may need to be duly completed and delivered by the Lender to enable Severstal to apply to obtain relief from deduction or withholding of Russian taxes after the date of this Facility Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. The Lender shall, at the request of Severstal and at Severstal's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, from time to time use its commercially reasonable efforts to obtain and to deliver to Severstal any other information or additional duly completed application forms as may need to be duly completed and delivered by the Lender to enable Severstal to apply to obtain relief from deduction or withholding of Russian taxes or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. The certificate and, if required, other forms referred to in this Clause 6.9 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent taxing authority in the Relevant Tax Jurisdiction, if applicable. Together with any such certificate and, if required, other forms, the Lender shall deliver to Severstal a copy of the same, certified by an appropriate notary to be a true and up to date copy of the original document. Any such notary's certificate shall be apostilled or otherwise legalised. If a relief from deduction or withholding of Russian taxes under this Clause 6.9 has not been obtained and further to an application of Severstal to the relevant Russian taxing authorities the latter requests the Lender's rouble bank

account details, the Lender shall at the request of Severstal (a) use its commercially reasonable efforts, at Severstal's cost, to procure that such rouble bank account of the Lender is duly opened and maintained, and (b) thereafter furnish Severstal with the details of such rouble bank account. Severstal and the Lender (using its best endeavours and in accordance with the law) agree that, should the Russian legislation regulating the procedure for obtaining relief from Russian income tax withholding or the interpretation thereof by the relevant competent authority change then the procedure referred to in this Clause 6.9 will be deemed changed accordingly.

6.10 Acts of Acceptance

In connection with all payments to be made by Severstal under each Loan Agreement, Severstal and the Lender shall, within 30 days of such payment becoming due or, if appropriate, such indemnity claim having been made, execute a delivery and acceptance act (which Severstal shall prepare) with respect to the amounts to be paid by Severstal. Such delivery and acceptance acts shall specify (i) the net amount due, (ii) any applicable Russian income tax withholding, (iii) any applicable Russian value added tax and (iv) the resulting total amount inclusive of tax. In addition, delivery and acceptance acts (if applicable) shall separately specify any amount(s) paid by Severstal pursuant to the Lender's instruction as part of the Arrangement Fee or as part of the ongoing fees and expenses specified in Clause 3.4, to the accounts of contractors under agreed funding agreements and to the accounts of such third parties as specified by the Lender in respect of expenses incurred in accordance with Clauses 3.2 and 3.4. The execution of a delivery and acceptance act shall be considered the Lender's instruction to Severstal to make payments to the specified third parties.

7 Conditions Precedent

The obligation of the Lender to make each Loan shall be subject to the conditions precedent that as of the relevant Closing Date, (a) the representations and warranties made and given by Severstal in Clause 9.1 shall be true and accurate as if made and given on the relevant Closing Date with respect to the facts and circumstances then existing, (b) no event shall have occurred that constitutes an Event of Default or a Potential Event of Default, (c) the relevant agreed funding agreements shall have been executed and delivered, and (d) the Lender shall have received the full amount of the subscription moneys for the corresponding agreed funding.

8 Change in Law or Increase in Cost

8.1 Compensation

In the event that after the date of a Loan Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Lender in respect of any Loan Agreement or any Loan with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central bank or other fiscal, monetary or other authority, Agency or any official of any such authority, which:

- 8.1.1 subjects or will subject the Lender to any taxes with respect to payments of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any taxes referred to in Clauses 6.2 or 6.3); or
- 8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any taxes referred to in Clauses 6.2 or 6.3); or
- 8.1.3 imposes or will impose on the Lender any other condition affecting such Loan Agreement or such Loan, and if as a result of any of the foregoing:
 - (i) the cost to the Lender of making, funding or maintaining such Loan is increased; or
 - (ii) the amount of principal, interest or other amounts payable to or received by the Lender under such Loan Agreement is reduced; or
 - (iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from Severstal hereunder or makes

any payment or foregoes any interest or other return on or calculated by reference to the gross amount of such Loan,

then subject to the following, and in each such case:

- (a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to Severstal, together with a certificate describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and all relevant supporting documents evidencing the matters set out in such certificate; and
- (b) Severstal shall, in the case of sub-Clauses 8.1.3(i) and 8.1.3(iii) above, on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of sub-Clause 8.1.3(ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return, provided however, that the amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to such Loan.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1 then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or Severstal's obligations under the above mentioned provision, the Lender shall, upon becoming aware of the same, notify Severstal thereof and, in consultation with Severstal and to the extent it can lawfully do so and without prejudice to its own position, take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; provided that the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might reasonably be expected to result in a breach of any provision of the agreed funding agreements or the agreed funding.

9 Representations and Warranties

9.1 Severstal's Representations and Warranties

Severstal represents and warrants to the Lender, and on each Warranty Date shall be deemed to represent and warrant to the Lender, in each case with the intent that such shall form the basis of each Loan Agreement, that:

- 9.1.1 it and each of its Material Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation and has the power and legal right to own its property, to conduct its business as described in the Base Prospectus and in the case of Severstal only to enter into and to perform its obligations under each Loan and to borrow Loans thereunder; that it has taken all necessary corporate, legal and other action required to authorise the borrowing of Loans on the terms and subject to the conditions of each Loan Agreement and to authorise the execution and delivery of each Loan Agreement and all other documents to be executed and/or delivered by it in connection with each Loan Agreement, and the performance of each Loan Agreement in accordance with its respective terms;
- 9.1.2 each Loan Agreement including in relation to a Loan, the Loan Supplement in relation thereto, has been duly executed and delivered by and constitutes a legal, valid and binding obligation of Severstal enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and other laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity (ii) to the fact that the gross-up provisions contained in Clauses 6.2 or 6.3 may not be enforceable under Russian law and (iii) with respect to the enforceability of a judgment, to the laws of the relevant jurisdiction where such judgment must be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments;
- 9.1.3 the execution, delivery and performance of each Loan Agreement by Severstal, including in relation to a Loan, the Loan Supplement in relation thereto, will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of Severstal or any of its

Material Subsidiaries, or (iii) any agreement or other undertaking or instrument to which Severstal or any of its Material Subsidiaries is a party or which is binding upon Severstal or any of its Material Subsidiaries or any of their respective assets (except in the case of sub-paragraph (iii) where such breach or violation does not have a Material Adverse Effect), nor result in the creation or imposition of any Security Interests (other than Permitted Security Interests) on any of their respective assets pursuant to the provisions of any such agreement or other undertaking or instrument;

- 9.1.4 all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation required by Severstal in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of each Loan Agreement have been obtained or effected and are and, in relation to a Loan, shall remain up to and including the relevant Closing Date, in full force and effect;
- 9.1.5 no event has occurred that constitutes an Event of Default, a Potential Event of Default or a default under any agreement or instrument evidencing any Indebtedness of Severstal or any Material Subsidiary (unless such default does not have a Material Adverse Effect), and no such event will occur upon the making of each Loan;
- 9.1.6 save as disclosed in the Base Prospectus, there are no judicial, arbitral or administrative actions, proceedings or claims (including, but without limitation to, with respect to taxes) which have been commenced or are pending or, to the knowledge of Severstal, threatened, against Severstal or any of its Subsidiaries, the adverse determination of which could reasonably be expected to have a Material Adverse Effect;
- 9.1.7 Severstal and each of its Material Subsidiaries has good title to its property (except, in each case, where the failure to so have would not have a Material Adverse Effect) free and clear of all Security Interests (except for Permitted Security Interests) and Severstal's obligations under each Loan rank at least *pari passu* with all its other unsecured and unsubordinated Relevant Indebtedness, save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application;
- 9.1.8 save as disclosed in the Base Prospectus, since the date of the last published audited financial statements of the Group, neither it nor any of its Material Subsidiaries has made any loans, granted any credit (save in the ordinary course of business) or given any Guarantee or indemnity (save in the ordinary course of business) to or for the benefit of any person (other than another member of the Group) or otherwise assumed any liability, whether actual or contingent, in respect of any obligation of any person (other than another member of the Group), which loans, credits, Guarantees or indemnities are material to the Group;
- 9.1.9 save as disclosed in the Base Prospectus, there has been no material adverse change since the date of the last published audited financial statements of the Group in the condition (financial or otherwise), results of business, operations or immediate prospects of Severstal or any of its Material Subsidiaries or on Severstal's ability to perform its obligations under each Loan Agreement;
- 9.1.10 the execution, delivery and enforceability of each Loan Agreement is not subject to any tax, duty, fee or other charge, including, but without limitation to, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim, petition or other application filed with a Russian court);
- 9.1.11 neither Severstal nor any Material Subsidiary nor their respective property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to each Loan Agreement;
- 9.1.12 Severstal and each Material Subsidiary is in compliance with all applicable provisions of law, except where a failure to do so does not and will not have a Material Adverse Effect;
- 9.1.13 save as disclosed in the Base Prospectus, there are no strikes or other employment disputes against Severstal or any Material Subsidiary which have been started or are pending or, to the knowledge of Severstal, threatened, that could reasonably be expected to have a Material Adverse Effect;
- 9.1.14 in any proceedings taken in the Russian Federation in relation to each Loan Agreement, the choice of English law as the governing law of each Loan Agreement and any arbitration award obtained in

- England in relation thereto will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and subject to all other legal requirements in Russia;
- 9.1.15 subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any taxes is required to be made from any payment by Severstal under each Loan Agreement (save for VAT that may be payable with respect to the reimbursement of costs and expenses);
- 9.1.16 all licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable Severstal or any of its Material Subsidiaries to own their respective assets and carry on their respective businesses as described in the Base Prospectus are in full force and effect, except for those an absence of which do not and would not have a Material Adverse Effect;
- 9.1.17 save as disclosed in the Base Prospectus, Severstal and its Material Subsidiaries (i) have, duly complied with, and have operated, used and only permitted the use of all properties and businesses owned, leased, occupied or operated by them in compliance with, all Environmental Laws, unless a failure to do so does not and would not have a Material Adverse Effect, (ii) after due inquiry, are not aware and have no reason to suspect that any property or business now owned, leased, occupied or operated by them is or may be contaminated by, or is adjacent to any property that may be contaminated by, or used in connection with, any Material of Environmental Concern where this has or would have a Material Adverse Effect or that any such property or business was used or operated by any prior owner, lessee, occupant or operator or other third party (with or without permission) in any way that constituted or is now capable of constituting a violation of any provision of any Environmental Law that has or would have a Material Adverse Effect, (iii) have not received any notice of any material violation or alleged material violation of any provision of any Environmental Law for which they may be held responsible and (iv) to the best of Severstal's knowledge, have no obligations with which they are not complying or liabilities, contingent or absolute, relating to the use, possession, collection, storage, processing, treatment, emission, release, discharge, disposal, transfer or transport of Materials of Environmental Concern, or the remediation of any of the foregoing, except in each case where such non-compliance or liability does not and would not have a Material Adverse Effect;
- 9.1.18 it is subject to civil and commercial law with respect to its obligations under each Loan Agreement, and its execution of each Loan Agreement constitutes, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial acts done and performed for private and commercial purposes; and
- 9.1.19 Severstal and each Material Subsidiary has no overdue tax liabilities other than those which (i) have been disclosed in the Base Prospectus, (ii) Severstal or the relevant Material Subsidiary (as the case may be) is contesting in good faith and by appropriate proceedings or (iii) the failure to pay or discharge will not have a Material Adverse Effect.

9.2 Lender's Representations and Warranties

The Lender represents and warrants to Severstal, and on each Warranty Date shall be deemed to represent and warrant to Severstal, as follows:

- 9.2.1 the Lender is duly incorporated and validly existing under the laws of and is resident for Luxembourg taxation purposes in Luxembourg and has full power and capacity to execute this Facility Agreement, each Loan Agreement, including in relation to each Loan, the relevant Loan Supplement, and the agreed funding agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same;
- 9.2.2 the execution of this Facility Agreement, each Loan Agreement, including in relation to each Loan, the relevant Loan Supplement, and the agreed funding agreements and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or any agreement or instrument to which it is a party or by which it is bound;
- 9.2.3 this Facility Agreement, each Loan Agreement, including in relation to each Loan, the relevant Loan Supplement, and the agreed funding agreements have been duly executed by and constitute or, as the case may be, will be before the relevant Closing Date duly executed by and will constitute legal, valid and binding obligations of the Lender subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity;

- 9.2.4 all authorisations, consents and approvals required by the Lender for or in connection with the execution of this Facility Agreement, each Loan Agreement, including in relation to each Loan, the relevant Loan Supplement, and the agreed funding agreements and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect;
- 9.2.5 it (i) is a company which at the date hereof is a resident of Luxembourg in the sense of the double taxation treaty between Russia and Luxembourg; and in particular is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg, (ii) does not have any current intentions to effect during the term of any Loans any corporate action or reorganisation or change of its tax jurisdiction that would result in the Lender ceasing to be a tax resident of Luxembourg in the sense of the double taxation treaty between Russia and Luxembourg and be subjected to taxation in Luxembourg and (iii) will be able to obtain a certificate confirming its tax residence in Luxembourg from the Luxembourg tax authorities for the purposes of the double taxation treaty between Russia and Luxembourg;
- 9.2.6 it does not have a permanent establishment in Russia, in particular, it:
- (i) does not have a branch, representation, division, bureau, office, agency or any other economically autonomous subdivision or other place of business in any country other than Luxembourg through which the its business is wholly or partially carried out;
 - (ii) did not explicitly grant any authority to and is not aware of an implied authority for Severstal or any other person located outside Luxembourg to negotiate key parameters of any contracts or sign any contracts on behalf of the Lender, bind the Lender in any contracts by other means or otherwise represent the Lender in dealings with third parties;
 - (iii) has its central management and control in Luxembourg. The Lender's place of effective management is only in Luxembourg. The Lender will have its statutory seat in Luxembourg and will be effectively managed in Luxembourg; and
 - (iv) has and will have only directors that reside professionally in Luxembourg and shall at all times act independently and exercise their authority only from and within Luxembourg by taking all key decisions relating to the Lender in Luxembourg;
- 9.2.7 it will fully account for the Notes and the Loans on its balance sheet; and
- 9.2.8 it is not a holding company within the meaning assigned by the specific laws of the Grand Duchy of Luxembourg governed by the law of 31 July 1929 and the decree of the Grand Duke dated 17 December 1938 (as repealed by the Grand Duchy of Luxembourg law dated 22 December 2006), nor a company in the Grand Duchy of Luxembourg governed by any similar tax law.

10 Covenants

So long as any amount remains outstanding under a Loan Agreement:

10.1 Negative Pledge

Severstal shall:

- (a) not, and shall not permit any of its Material Subsidiaries to, directly or indirectly, create or permit to subsist any Security Interest other than a Permitted Security Interest upon the whole or any part of its respective undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness:
 - (i) payment of any sum due in respect of any such Relevant Indebtedness;
 - (ii) any payment under any guarantee of any such Relevant Indebtedness; or
 - (iii) any payment under any indemnity or other like obligation relating to any such Relevant Indebtedness,

without in any such case at the same time or prior thereto procuring that the relevant Loan is secured at least equally and rateably with such Relevant Indebtedness for so long as such Relevant Indebtedness is so secured.

10.2 Mergers

(i) Severstal shall not enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation), and (ii) Severstal shall ensure that, without the prior written consent of the Lender, no Material Subsidiary (A) enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or (B) in the case of a Material Subsidiary incorporated in a jurisdiction other than Russia participates in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction) if (in the case of either (i) or (ii) above) any such reorganisation or other type of corporate reconstruction is reasonably likely to have a Material Adverse Effect.

10.3 Withholding Tax Exemption

Severstal shall give to the Lender all the assistance it reasonably requires to ensure that, prior to the first interest payment and at the beginning of each calendar year, the Lender can provide Severstal with the documents required under Russian laws for the relief of the Lender from Russian withholding tax in respect of payments hereunder.

10.4 Financial Information

10.4.1 Severstal shall deliver to the Lender within six months after the end of each of its financial years, copies of its audited consolidated financial statements for such financial year, prepared in accordance with applicable Accounting Standards consistently applied.

10.4.2 Severstal shall deliver to the Lender within three months after the end of the first half-year of each of its financial years, copies of its unaudited consolidated financial statements for that half-year, prepared in accordance with applicable Accounting Standards consistently applied.

10.4.3 Severstal shall, to the extent permitted by applicable law, deliver to the Lender, without undue delay, such additional information regarding the financial position or the business of Severstal and its Subsidiaries as the Lender may reasonably request, including a certificate upon request by the Lender as to the amount of the agreed funding purchased but not cancelled by Severstal (or any Subsidiary of Severstal) and retained by it for its own account or the account of any other company.

10.4.4 Severstal shall from time to time, on the request of the Lender and without undue delay, furnish the Lender with such information about the business and financial condition of Severstal and its Subsidiaries as the Lender may reasonably request for regulatory compliance purposes, provided that any such request from the Lender shall specify the relevant regulation on the basis of which it is made, and provided further that Severstal may furnish the information under this sub-Clause 10.4.4 in the format used to provide similar information under or in connection with this Facility Agreement, unless the Lender certifies that a different format is specified by the relevant regulator.

10.5 Certificates

Severstal shall deliver to the Lender within 20 days of any written request by the Lender: (i) an Officers' Certificate as to any fact or matter prima facie within the knowledge of Severstal, as sufficient evidence thereof and (ii) a like certificate to the effect that any particular dealing or transaction or step or thing is, in the opinion of the person so certifying, expedient as sufficient evidence that it is expedient.

10.6 Compliance with Terms of Trust Deed

The Lender agrees that it will observe and comply with its obligations set out in the Principal Trust Deed and will not agree to any amendment to the terms of the Principal Trust Deed without prior consultation with Severstal and, with regard to any amendment of the Terms and Conditions of the Notes or Provisions for Meetings of the Noteholders as set out in schedules 3 and 5 to the Principal Trust Deed, respectively, without the prior written consent of Severstal. In addition, the Lender agrees that it will only exercise its power to appoint a new Trustee pursuant to Clause 28 of the Principal Trust Deed with the prior written consent of Severstal (such consent not to be unreasonably withheld or delayed).

10.7 Lender's Shareholders and Directors

The Lender shall notify Severstal of any modification after the date of this Agreement to the identity or shareholding of its direct and indirect shareholders (including ultimate beneficial owners) and directors within five Business Days following any such modification having occurred.

11 Events of Default

11.1 Events of Default

If one or more of the following events of default (each, an “**Event of Default**”) shall occur, the Lender shall be entitled to the remedies set forth in Clause 11.3:

11.1.1 Severstal fails to pay any amount payable under a Loan Agreement as and when such amount becomes payable in the currency and in the manner specified therein, provided such failure to pay continues for more than five Business Days.

11.1.2 Severstal fails to perform or observe any covenant or agreement contained in a Loan Agreement to be performed or observed by it, provided such failure continues for more than 30 Business Days.

11.1.3 Either:

- (i) any Indebtedness of Severstal or any of its Material Subsidiaries is not paid at its Stated Maturity (after the expiry of any applicable grace period); or
- (ii) any such Indebtedness becomes due and payable prior to its Stated Maturity otherwise than at the option of Severstal or (as the case may be) the relevant Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness;

provided that (x) the individual amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above exceeds U.S.\$50,000,000 (or its equivalent in any other currency or currencies) or (y) the aggregate amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above exceeds U.S.\$150,000,000.

11.1.4 The occurrence of any of the following events: (i) any of Severstal, or any of its Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commissioner (*likvidatsionnaya komissiya*) or a similar officer of any of Severstal, or any of its Material Subsidiaries as the case may be, other than in connection with solvent reorganisations which is not otherwise expressly prohibited by this Agreement; (ii) the presentation or filing of a petition in respect of any of Severstal or its Material Subsidiaries in any court, arbitration court or before any Agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of Severstal or its Material Subsidiaries, unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous or such petition is being contested in good faith and discharged or dismissed within 30 days of its presentation; (iii) the institution of the supervision (*nablyudeniyе*), financial rehabilitation (*finansovoye ozdorovleniye*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over Severstal or any of its Material Subsidiaries, (iv) the entry by Severstal or any of its Material Subsidiaries into, or the agreeing by Severstal or any of its Material Subsidiaries to enter into, amicable settlement (*mirovoye soglasheniye*) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ “On Insolvency (Bankruptcy)” dated 26 October, 2002 (as amended or replaced from time to time); and/or (v) other than in connection with solvent reorganisations which is not otherwise expressly prohibited by this Agreement, any judicial liquidation in respect of Severstal or any of its Material Subsidiaries.

11.1.5 Severstal or any of its Material Subsidiaries is unable or admits inability to pay its debts as they fall due, generally suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations generally with its creditors with a view to rescheduling all or substantially all of its Indebtedness; and/or a moratorium is declared in respect of any Indebtedness of any of Severstal or its Material Subsidiaries if such moratorium has resulted in a Material Adverse Effect.

11.1.6 Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part of, the property, undertaking, revenues or assets of Severstal or any of its Material Subsidiaries which is not removed, satisfied, stayed, dismissed or otherwise discharged within 60 days of being levied or taking possession, as the case may be.

- 11.1.7 Any governmental or Agency authorisation necessary for the performance of any obligation of Severstal under a Loan Agreement fails to be in full force and effect and such failure continues for more than 30 Business Days.
- 11.1.8 Any government, Agency or court takes any action that has a Material Adverse Effect.
- 11.1.9 The shareholders of Severstal shall have approved any plan of liquidation or dissolution of Severstal.
- 11.1.10 Any unsatisfied judgment, decree or order of a court or other appropriate law-enforcement body for the payment of money against Severstal and other Material Subsidiaries has not within 120 days of the entry thereof been appealed, discharged, waived or the execution thereof stayed and has, on its own or when taken together with any other such unsatisfied judgments, decrees or orders, a Material Adverse Effect.
- 11.1.11 At any time it is or becomes unlawful for Severstal to perform or comply with any or all of its obligations under a Loan Agreement or any of such obligations (subject as provided in sub-Clause 9.1.3) are not, or cease to be, legal, valid, binding and enforceable and any such event under this sub-Clause 11.1.11 remains unremedied for more than 30 Business Days.
- 11.1.12 Severstal repudiates a Loan Agreement or the agreed funding agreements to which it is a party or evidences an intention to repudiate a Loan Agreement or the agreed funding agreements to which it is a party.
- 11.1.13 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in sub-Clauses 11.1.4, 11.1.5, 11.1.6, 11.1.9, 11.1.10, 11.1.11 and 11.1.12, subject in each case to the same thresholds and cure periods as set out in the applicable Clauses.

11.2 Notice of Default

Severstal shall deliver to the Lender within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate of any event which is a Potential Event of Default or an Event of Default, its status and what action Severstal is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice to Severstal, (a) declare the obligations of the Lender under the relevant Loan Agreement to be terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under such Loan Agreement by Severstal that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by Severstal; provided, however, that if any event of any kind referred to in sub-Clauses 11.1.4 or 11.1.5 occurs, the obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by Severstal that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by Severstal.

11.4 Right of Set-off

If any amount payable by Severstal under a Loan Agreement is not paid as and when due, Severstal authorises the Lender to proceed, to the fullest extent permitted by applicable law, without prior notice, by right of set-off, banker's lien, counterclaim or otherwise, against any assets of Severstal in any currency that may at any time be in the possession of the Lender, at any branch or office, to the full extent of all amounts payable to the Lender under such Loan Agreement.

11.5 Rights Not Exclusive

The rights provided for in each Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12 Indemnity

12.1 Indemnification

Severstal undertakes to the Lender, that if the Lender or any of its Affiliates, each director, officer, employee or agent of the Lender and each person controlling the Lender within the meaning of the United States securities laws (each an "**indemnified party**") incurs any loss, liability, cost, fee, claim, charge, expense (including without limitation taxes, legal fees, costs and expenses), demand or damage (a "**Loss**") as a result of or in

connection with a Loan, this Facility Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the corresponding agreed funding and/or the corresponding agreed funding being outstanding, Severstal shall pay to the Lender on demand an amount equal to such Loss and all costs, fees, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, fees, charges and expenses are incurred unless such Loss was either caused by such indemnified party's negligence or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in this Facility Agreement or in the agreed funding agreements. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause.

12.2 Independent Obligation

Clause 12.1 constitutes a separate and independent obligation of Severstal from its other obligations under or in connection with each Loan Agreement or any other obligations of Severstal in connection with the issue of the agreed funding by the Lender and shall not affect, or be construed to affect, any other provision of any Loan Agreement or any such other obligations.

12.3 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 12.1 and specifying in full detail the basis therefor shall (in the absence of manifest error) be conclusive evidence of the amount of such losses, expenses and liabilities.

12.4 Currency Indemnity

To the fullest extent permitted by law, the obligation of Severstal in respect of any amount due in the Specified Currency under each Loan Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the Specified Currency that the party entitled to receive such payment may, acting reasonably in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in the Specified Currency that may be so purchased for any reason falls short of the amount originally due, Severstal hereby agrees to indemnify the Lender against any such deficiency in the Specified Currency. Any obligation of Severstal not discharged by payment in the Specified Currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in the relevant Loan Agreement, shall continue in full force and effect.

13 Survival

The obligations of Severstal pursuant to sub-Clauses 6.2, 6.3 and 12 shall survive the execution and delivery of each Loan Agreement and the drawdown and repayment of the Loan, in each case by Severstal.

14 General

14.1 Stamp Duties

14.1.1 Severstal shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the Russian Federation or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure to pay such taxes or similar charges.

14.1.2 Severstal agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the Russian Federation or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and any documents related thereto as well as the corresponding agreed funding, Severstal shall reimburse the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify on demand the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by Severstal to procure the payment of such taxes or similar charges.

14.2 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or Severstal, any right, power or privilege under any Loan Agreement and no course of dealing between Severstal and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies in each Loan Agreement provided are cumulative and not exclusive of any rights or remedies provided by applicable law.

14.3 Prescription

In the event that any agreed funding becomes void pursuant to the conditions of such agreed funding, the Lender shall forthwith repay to Severstal the principal amount of such agreed funding subject to the Lender having previously received from Severstal a corresponding amount in respect of principal pursuant to the relevant Loan Agreement.

15 Notices

All notices, requests, demands, invoices, acts of acceptance or other communications to or upon the respective parties to each Loan Agreement shall be given or made in the English language by fax or by hand or by courier and shall be deemed to have been duly given or made, in the case of a fax, when the relevant delivery receipt is received by the sender and, in the case of delivery by hand or courier, at the time of delivery, as follows:

15.1.1 if to Severstal:

2 Klary Tsetkin Street
127299 Moscow
Russia

Fax: +7 495 926 7766
Attention: Chief Financial Officer

15.1.2 if to the Lender:

Steel Capital S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg

Fax: +352 421 22 718
Attention: Board of Directors

or to such other address or facsimile number as any party may hereafter specify in writing to the other.

16 Assignment

16.1 General

Each Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Loan Agreement. Any reference in a Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of any rights, benefits and discretions by, or the making of any determinations (including forming an opinion) by, and the delivery of notices or other information to, the Lender, following notification to Severstal of the assignment referred to in Clause 16.3, shall be references to the exercise of such rights, benefits or discretions by or on behalf of, or the making of any determinations (including forming an opinion) by, and the delivery of notices or other information to, the agreed funding source, or any assignee or transferee appointed in connection with the agreed funding source, without regard to the Lender.

16.2 By Severstal

Severstal shall not be entitled to assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement to any other person.

16.3 By the Lender

Subject to the provisions of the any agreed funding agreement, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement other than the Reserved Rights except (i) the charge by way of charge granted by the Lender to or on behalf of the agreed funding source of certain of the Lender's rights and benefits under such Loan Agreement and (ii) the absolute assignment by the Lender to or on behalf of the agreed funding source of certain rights, interests and benefits under such Loan Agreement, in each case, pursuant to the agreed funding agreement.

17 Law and Jurisdiction

17.1 Choice of Law

This Facility Agreement, and any non-contractual obligations arising out of or in connection with it, shall be governed by, and construed in accordance with, the laws of England.

17.2 Arbitration

17.2.1 Any dispute arising out of or in connection with this Facility Agreement or any non-contractual obligations arising out of or in connection with it (including a dispute regarding the existence, validity or termination of this Facility Agreement) (a “**Dispute**”) shall be referred to and finally resolved by arbitration under the LCIA Arbitration Rules (the “**Rules**”).

17.2.2 Any provision of such Rules relating to the nationality of an arbitrator shall, to that extent, not apply.

17.2.3 The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondent(s), irrespective of number, shall nominate jointly the second arbitrator; and a third arbitrator, who shall serve as Chairman, shall be selected by the two party nominated arbitrators. For the avoidance of doubt, the parties to this Facility Agreement agree for the purpose of Article 8.1 of the Rules, that the claimant(s), irrespective of number, and the respondent(s), irrespective of number, constitute two separate sides for the formation of the arbitral tribunal.

17.2.4 In the event that the claimant(s) fail to nominate an arbitrator in accordance with the Rules, such arbitrator shall be nominated by the LCIA Court as soon as possible, preferably within 15 days of such failure. In the event that the respondent(s) or both the claimant(s) and the respondent(s) fail to nominate an arbitrator within the time limits specified in the Rules, all three arbitrators shall be nominated and appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure, and such arbitrators shall then designate one amongst them as chairman.

17.2.5 The seat of arbitration shall be London, England and the language of the arbitration shall be English.

17.2.6 Where Disputes arise under a Loan Agreement and any other agreed funding agreement which, in the reasonable opinion of the first arbitral tribunal to be appointed in any of the Disputes, are so closely connected that it is expedient for them to be resolved in the same proceedings, that arbitral tribunal shall have the power to order that the proceedings to resolve that Dispute shall be consolidated with those to resolve any of the other disputes (whether or not proceedings to resolve those other Disputes have yet been instituted), provided that no date for the hearing on the merits of the Dispute in the first arbitration has been fixed. If the first arbitral tribunal so orders, the parties to each Dispute which is a subject of its order shall be treated as having consented to that Dispute being finally decided:

- (i) by the arbitral tribunal that ordered the consolidation unless the LCIA Court decides that any member of such tribunal would not be suitable or impartial; and
- (ii) in accordance with the procedure, at the seat and in the language specified in the arbitration agreement in this Facility Agreement or the agreed funding agreement under which the arbitral tribunal that ordered the consolidation was appointed, save as otherwise agreed by all parties to the consolidated proceedings or, in the absence of such agreement, ordered by the arbitral tribunal in the consolidated proceedings.

For the avoidance of doubt, the parties to any other agreed funding agreement are intended by the parties to this Facility Agreement to have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce the terms of this sub-Clause 17.2.6.

17.3 Consent to enforcement etc

Severstal and the Issuer consent generally in respect of any arbitration proceedings to the giving of any relief or the issue of any process in connection with the enforcement of such proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement which is made or given in such proceedings.

18 Severability

In case any provision in or obligation under this Facility Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

19 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Facility Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Facility Agreement except to the extent expressly provided herein, including in Clause 6.1 and sub-Clause 17.2.6.

20 Language

The language which governs the interpretation of this Facility Agreement is the English language. This Facility Agreement will be signed in the English language and may be translated into Russian and signed in the Russian language. In the event of any discrepancies between the English and Russian versions of any such Loan Agreement or any dispute regarding the interpretation of any provision in the English or Russian versions of any such Loan Agreement, the English version of any such Loan Agreement shall prevail and questions of interpretation shall be addressed solely in the English language.

21 Amendments

Except as otherwise provided by its terms, each Loan Agreement may not be varied except by an agreement in writing signed by the parties hereto.

22 Counterparts

Each Loan Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

IN WITNESS whereof, the parties hereto have caused this Facility Agreement to be executed on the date first written above.

For and on behalf of **PAO SEVERSTAL**:

By:

Name:

Title:

For and on behalf of **STEEL CAPITAL S.A.**:

By:

Name:

Title:

Schedule 1
Form of Loan Supplement

[DATE]

PAO Severstal

and

Steel Capital S.A.

LOAN SUPPLEMENT
to be read in conjunction with a Facility Agreement dated 14 February 2017

in respect of
a Loan of [●]

Series [●]

This Loan Supplement is made on [SIGNING DATE] **between:**

- (1) **PAO SEVERSTAL**, a public joint stock company established under the laws of the Russian Federation whose registered office is Ul. Mira 30, 162608 Cherepovets, Vologda Region, Russian Federation ("**Severstal**"); and
- (2) **STEEL CAPITAL S.A.**, a *société anonyme* incorporated in Luxembourg with limited liability whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B116975 (the "**Lender**").

Whereas:

- (A) Severstal has entered into an amended and restated facility agreement dated 14 February 2017 (the "**Facility Agreement**") with the Lender in respect of Severstal's U.S.\$4,500,000,000 Programme for the Issuance of agreed funding (the "**Programme**").
- (B) Severstal proposes to borrow [●] (the "**Loan**") and the Lender wishes to make such Loan on the terms set out in the Facility Agreement and this Loan Supplement.

It is agreed as follows:

1 Definitions

Capitalised terms used but not defined in this Loan Supplement shall have the meaning given to them in the Facility Agreement save to the extent supplemented or modified herein.

2 Additional Definitions

For the purpose of this Loan Supplement, the following expressions used in the Facility Agreement shall have the following meanings:

"**Account**" means the account in the name of the Lender with the Principal Paying and Transfer Agent (account number [●], [●]);

"**Base Prospectus**" means [●];

["**Business Centre**" means [●];]

["**Calculation Agent**" means [●];]

"**Calculation Amount**" means [●];

"**Closing Date**" means [●];

["**Early Redemption Amount**" means [●] per [●] amount of the Loan, plus accrued interest, if any, to the Redemption Date;]

["**Financial Adviser**" means [●];]

"**Loan Agreement**" means the Facility Agreement as amended and supplemented by this Loan Supplement;

["**Make Whole Premium**" means [●] basis points;]

"**Notification Time**" means 10 a.m. (Relevant Time) [●] Business Days [*which for U.S.\$, € and £ shall be two Business Days and for ¥ and RUR shall be three Business Days*];

"**Payment Time**" means [●] a.m./p.m. (Relevant Time) [●] Business Day[s] [*which for U.S.\$, € and £ shall be one Business Day and for ¥ and RUR shall be two Business Days*];

["**Put Settlement Date**" means [●];]

"**Rate of Interest**" means the rate of interest in respect of the Loan, as set forth in Clause 4.2 below;

["**Redemption Date**" means such date as Severstal will repay Loan pursuant to the exercise of its call option;]

["**Reference Banks**" means [●];]

["**Reference Treasury**" means [●];]

"**Repayment Date**" means [●] [*amend as required for Floating Rate Loans*];

"**Severstal Account**" means the account in the name of Severstal (account number [●])[FURTHER DETAILS];

"**Specified Currency**" means [●];[and]

[“Treasury Publisher” means [●].]

3 Incorporation by Reference

Except as otherwise provided, the terms of the Facility Agreement shall apply to this Loan Supplement as if they were set out herein and the Facility Agreement shall be read and construed, only in relation to the Loan constituted hereby, as one document with this Loan Supplement.

4 The Loan

4.1 Drawdown

Subject to the terms and conditions of the Loan Agreement, the Lender agrees to make the Loan on the Closing Date to Severstal and Severstal shall make a single drawing in the full amount of the Loan on that date.

4.2 Interest

The Loan is a [Fixed Rate][Floating Rate] Loan. Interest shall be calculated, and the following terms used in the Facility Agreement shall have the meanings, as set out below:

4.2.1 Fixed Rate Loan Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Interest Commencement Date	[●]
(ii) Rate[(s)] of Interest:	[●] per cent. per annum payable [annually/semi-annually quarterly/monthly/other (<i>specify</i>)] in arrear
(iii) Interest Payment Date(s):	[●] in each year [adjusted in accordance with [<i>specify Business Day Convention and any applicable Business Centre(s) for the definition of “Business Day”</i>]/not adjusted]
(iv) Fixed Amount[(s)]:	[●] per Calculation Amount
(v) Broken Amount:	[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
(vi) Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/other]
(vii) Determination Date(s):	[●] in each year. [<i>Insert regular interest payment dates, ignoring Closing Date or maturity date in the case of a long or short first or last coupon – N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)</i>]
4.2.2 Floating Rate Loan Provisions	[Applicable/Not Applicable] (<i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i>)
(i) Interest Commencement Date	[●]
(ii) Interest Period(s):	[●]
(iii) Specified Interest Payment Dates:	[●]
(iv) First Interest Payment Date:	[●]
(v) Interest Period Date(s):	[●] (<i>Not applicable unless different from Interest Payment Date</i>)
(vi) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (<i>give details</i>)]

- (vii) Business Centre(s): [●]
- (viii) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (*give details*)]
- (ix) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent): [●]
- (x) Screen Rate Determination:
 - Reference Rate: [●]
 - Interest Determination Date: [●]
 - Relevant Screen Page [●]
- (xi) ISDA Determination:
 - Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
- (xii) Margin(s): [+/-][●] per cent. per annum
- (xiii) Minimum Rate of Interest: [●] per cent. per annum
- (xiv) Maximum Rate of Interest: [●] per cent. per annum
- (xv) Day Count Fraction: [●]

4.2.3 Put/Call Options

[Put Option/Call Option/Relevant Waiver Put Option/Not Applicable]

5 Fees and Expenses

Pursuant to Clause 3.2 of the Facility Agreement and in consideration of the Lender making the Loan to Severstal, Severstal hereby agrees that it shall, promptly upon the receipt of an invoice from the Lender, pay to the Lender, in Same-Day Funds, the total amount of [●], being the “**Arrangement Fee**” in respect of the Loan, representing the reasonable costs and expenses incurred by the Lender in connection with such Loan, increased by front-end fees, commissions and expense, which shall include the amount of all of the commissions, fees, costs and expenses as set forth in the agreed funding agreements and Clause 3.2 of the Facility Agreement pursuant to an invoice submitted by the Lender to Severstal in the total amount.

6 Governing Law

This Loan Supplement, and any non-contractual obligations arising out of or in connection with it, shall be governed by and construed in accordance with English law. Other provisions of Clause 17 of the Facility Agreement shall apply to this Loan Supplement *mutatis mutandis*.

This Loan Supplement has been entered into on the date stated at the beginning.

IN WITNESS whereof, the parties hereto have caused this Loan Supplement to be executed on the date first written above.

PAO SEVERSTAL

By:

Name:

Title:

STEEL CAPITAL S.A.

By:

By:

Authorised Signatory

Authorised Signatory

Schedule 2
Form of Officers' Certificate

To: Steel Capital S.A.

From: PAO Severstal

Dated: [●]

Dear Sirs

PAO Severstal – Amended and Restated Facility Agreement dated 14 February 2017 (the “Facility Agreement”)

1 We refer to the Facility Agreement. Terms defined therein shall have the same meaning herein.

2 This is an Officers' Certificate for the purposes of Clause 10.5 of the Facility Agreement.

3 We confirm that the following Subsidiaries are Material Subsidiaries:

[specify relevant Subsidiaries]

4 We confirm that no Potential Event of Default or Event of Default has occurred¹.

for and on behalf of PAO Severstal

Signed:

[principal executive officer/ principal
accounting officer/ principal financial
officer] of PAO Severstal

[officer]
of
PAO Severstal

¹ If this statement cannot be made, the certificate should identify any Default or Event of Default that is continuing and the steps, if any, being taken to remedy it.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which (subject to completion in accordance with the provisions of Part A of the relevant Final Terms) will be endorsed on the Definitive Certificates (as defined in "Summary of the provisions relating to the Notes in Global Form"), if issued, and (subject to the provisions thereof) apply to the Global Certificates representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the relevant Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Definitive Certificates. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed and Part A of the relevant Final Terms. Those definitions will be endorsed on the Definitive Certificates. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified hereon (the "**Supplemental Trust Deed**") supplemental to an amended and restated trust deed (as amended or supplemented as at the Issue Date, the "**Principal Trust Deed**") dated 15 March 2013, each made between Steel Capital S.A. (the "**Issuer**") and Citibank, N.A. (the "**Trustee**", which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee for the holders of the Notes (the "**Noteholders**"). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the "**Trust Deed**".

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan (in respect of the loan funded by the Notes, the "**Loan**") as specified hereon to PAO Severstal ("**Severstal**"). The Issuer and Severstal have recorded the terms of the Loan in an amended and restated facility agreement (the "**Facility Agreement**") dated 14 February 2017, as supplemented on the Issue Date specified hereon by a loan supplement (the "**Loan Supplement**" and, together with the Facility Agreement, the "**Loan Agreement**") each between the Issuer and Severstal. In each case where amounts of principal, interest and additional amounts (if any) are stated hereon or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively on the covenant to pay under the Loan Agreement and the credit and financial standing of Severstal. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer. None of the Noteholders, the Trustee or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors or the Trustee for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes and under the Trust Deed (a) all principal, interest and other amounts payable by Severstal to the Issuer as lender under the Loan Agreement, (b) the right to receive all sums which may be or become payable by Severstal under any claim, award or judgment relating to the Loan Agreement and (c) all the rights, title and interest in and to all sums of money now or in the future deposited in an account with Citibank, N.A. in the name of the Issuer (the "**Account**") and debts represented thereby, including interest from time to time earned on the Account (other than any rights and benefits constituting Reserved Rights and amounts relating to the Reserved Rights (as defined in the Trust Deed)) (the "**Charge**") and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the "**Assignment**" and together with the Charge, the "**Security Interests**").

"**Reserved Rights**" are the rights excluded from the Charge, being all and any rights, interests and benefits of the Issuer in respect of the obligations of Severstal under Clauses 3.2, 3.4, 5.3 (other than the right to receive any amount payable under such Clause), 6.2 (to the extent that Severstal shall reimburse the Issuer on demand for any amount paid by the Issuer in respect of Russian Federation taxes, penalties or interest), 6.3 (only to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 8, 12.1-12.3 and 14.1 (to the extent that Severstal shall reimburse the Issuer for any amount paid by the Issuer in respect of such taxes, charges or costs) of the Facility Agreement and, for the avoidance of doubt, Clause 6.4 of the Facility Agreement.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or

by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of the relevant funds from Severstal) pursuant to, an amended and restated paying agency agreement (the “**Agency Agreement**”) dated 15 March 2013 and made between the Issuer, Severstal, the Trustee, Citibank, N.A., London Branch, Citibank, N.A., New York Branch and Citigroup Global Markets Deutschland AG. Citibank N.A., London Branch will act as principal paying and transfer agent (the “**Principal Paying and Transfer Agent**” and a “**Paying Agent**”), a transfer agent (a “**Transfer Agent**”), calculation agent (the “**Calculation Agent**”), Citigroup Global Markets Deutschland AG will act as registrar (“**Registrar**”). Citibank, N.A., New York Branch will act as United States paying agent (the “**US Paying Agent**” and a “**Paying Agent**”) and a transfer agent (a “**Transfer Agent**”).

Copies of the Trust Deed, the Loan Agreement, the Agency Agreement and the Final Terms are available for inspection by Noteholders during normal business hours at the principal office of the Trustee being, at the date hereof, at 6th floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, at the specified office of the Principal Paying and Transfer Agent and at the specified office of the Paying Agent.

Certain provisions of these terms and conditions (the “**Conditions**”) include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Final Terms, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

All capitalised terms used but not otherwise defined in these Terms and Conditions have the meanings given to them in the Trust Deed.

1 Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights, will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided hereon and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off, counterclaim or of banker’s lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and Severstal.

Noteholders have notice of, and have accepted, these Terms and Conditions, the Final Terms and the contents of the Trust Deed, the Agency Agreement and the Loan Agreement. It is hereby expressly provided, and Noteholders are deemed to have accepted, that:

- 1.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph 1.6 below, liability or obligation in respect of the performance and observance by Severstal of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from Severstal under the Loan Agreement;
- 1.2 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of Severstal;
- 1.3 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of Severstal under or in respect of the Loan Agreement;
- 1.4 neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying and Transfer Agent, any of the Paying Agents, the Registrars or the Transfer Agents, of their respective obligations under the Agency Agreement;

- 1.5 the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by Severstal of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. Severstal has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of Severstal; and
- 1.6 the Issuer and the Trustee shall be entitled to rely on certificates signed by the requisite number of duly authorised officers of Severstal as a means of monitoring whether Severstal is complying with its obligations under the Loan Agreement and identifying Material Subsidiaries and shall not otherwise be responsible for investigating any aspect of Severstal's performance in relation thereto and, subject as further provided in the Trust Deed, neither the Issuer as lender under any Loan Agreement nor the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the assigned property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of or for insuring such security.

The obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by Severstal to, or to the order of, the Trustee or the Principal Paying and Transfer Agent, they will, subject to Clauses 2.4 and 2.8 of the Trust Deed, pro tanto satisfy the obligations of the Issuer in respect of the Notes, except to the extent there is a failure in the subsequent payment of such amounts to the relevant Noteholder.

Save as otherwise expressly provided hereon and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to Severstal except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction.

2 Form and Denomination

The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon (which, in the case of any Notes shall be not less than €100,000 or its equivalent in any other currency as at the date of issue of the Notes) or integral multiples in excess thereof, without interest coupons, provided that (i) interests in the Rule 144A Notes shall be held in amounts of not less than US\$200,000 or its equivalent in any other currency as at the date of issue of the Notes and (ii) Notes with a maturity of less than 365 days shall be held in amounts not less than £100,000 (or its equivalent in other currencies).

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

3 Register, Title and Transfers

3.1 Registers

The Registrar will maintain a register in respect of the Notes (the "**Register**"), all in accordance with the provisions of the Agency Agreement. In these Conditions the "**holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A Note will be issued to each Noteholder in respect of its registered holding. The Issuer will also maintain a register (the "**Issuer's Register**") at its registered office. Under the terms of the Agency Agreement, the Registrar will provide to the Issuer such information about changes in the Register as shall enable the Issuer to maintain the Issuer's Register up-to-date. In case of inconsistency between the Register and the Issuer's Register, the Issuer's Register shall prevail.

3.2 Title

The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

3.3 Transfers

Subject to Conditions 3.6 and 3.7, a Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of a Transfer Agent, together with such evidence as the Registrar or such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

3.4 Registration and Delivery of Notes

Within five Business Days of the surrender of a Note in accordance with Condition 3.3, the Registrar will register the transfer in question and deliver a new Note to each relevant holder for collection at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, “**Business Day**” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office.

3.5 No Charge

The transfer of a Note will be effected without charge but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.6 Closed Periods

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

3.7 Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Registrar and the other parties to the Agency Agreement. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations from the Registrar.

4 Restrictive Covenants

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Trust Deed or the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not:

- (i) engage in any business whatsoever, other than (a) entering into limited recourse debt securities programmes and other limited recourse debt securities issues for the benefit of the Borrower (including the Programme) (“**Permitted Debt Issuances**”), (b) issuing limited recourse notes thereunder from time to time for the sole purpose of financing any loans (including Loans) to the Borrower in accordance with the relevant loan documentation for the Permitted Debt Issuance (in the case of the

Programme, being the Facility Agreement and each Loan Supplement), (c) the making of deposits, including fiduciary deposits at banks or with other depositaries, (d) entering into related agreements and transactions (which shall, for the avoidance of doubt, include entering into derivatives contracts and other documents with third parties where related to and for the purposes of a particular Series or other limited recourse debt securities issues), (e) granting the Security Interests in relation to the Programme or other security interests under an applicable loan agreement or Permitted Debt Issuances and (f) performing any act incidental to or necessary in connection with any of the foregoing:

- (ii) enter into a single transaction, or series of, transactions (whether related or not and whether voluntary or involuntary) to sell, factor, lease, pledge, charge, assign, transfer or otherwise deal with any Permitted Debt Issuances or any charged or secured property or any right or benefit either present or future arising under or in respect of a loan agreement or a bank account in relation to a Permitted Debt Issuances (“**Permitted Account**”) or any part thereof or any interest therein, or create any mortgage, charge or other security or right of recourse in respect thereof in favour of any person other than any security interest referred to specifically in the documents relating to Permitted Debt Issuances;
- (iii) cause or permit any Loan Agreement or the priority of the Security created by the Supplemental Trust Deed to be amended, terminated, discharged, novated, transferred or assigned (other than as contemplated by the Trust Deed and the Conditions);
- (iv) release or waive any party to any Loan Agreement, this Principal Trust Deed or any Supplemental Trust Deed from or in respect of any existing obligations or breach thereunder;
- (v) have any subsidiaries;
- (vi) consent to any variation of, or exercise any powers or consents or waiver pursuant to, the terms of the Dealer Agreement, the Agency Agreement, the Conditions, any Loan Agreement, this Principal Trust Deed, any Supplemental Trust Deed or any other agreement relating to the issue of Notes or the making of Loans or any other related transactions;
- (vii) (to the extent the same is within the control of the Issuer) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person (other than as contemplated by the Trust Deed and the Conditions);
- (viii) have any employees;
- (ix) (to the extent the same is within the control of the Issuer) issue or allot any shares (other than such shares as are in issue at the date hereof) or make any distribution to its shareholders;
- (x) open or have any interest in any account with a bank or financial institution other than an account in relation to a Permitted Debt Issuance, an account for the making of deposits as per paragraph (i) above, or unless such account relates to any notes or other debt security or any charged property in relation to a Permitted Account or any party thereto or any rouble account as contemplated by agreements relating to a Permitted Debt Issuance, save where either such account or the Issuer’s interest in it is simultaneously charged in favour of the Trustee so as to form part of such Charged Property or such account is opened in connection with the administration and management of the Issuer and only moneys necessary for that purpose are credited to it;
- (xi) declare any dividends;
- (xii) subject as provided in paragraph (i) above, (including the issuing of further Notes (which may be consolidated and form a single series with the Notes of any Series) or other limited recourse notes for the purposes of financing Permitted Debt Issuances and/or creating or incurring further limited recourse obligations relating to such Notes or limited recourse notes), incur any other indebtedness for borrowed moneys;
- (xiii) purchase, own, lease or otherwise acquire any real property (including office premises or like facilities);
- (xiv) give any guarantee or assume any similar liability;
- (xv) use proceeds of the Notes for purposes other than funding a Loan to the Borrower; or
- (xvi) subject to the laws of Luxembourg, petition for winding-up or bankruptcy.

5 Interest

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified in the Final Terms which shall be equal to the rate per annum at which interest under the Loan accrues. Interest at the Rate of Interest shall accrue on each Fixed Rate Note from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear by Severstal pursuant to the relevant Loan Agreement to the Account not later than the Payment Time specified hereon prior to each Interest Payment Date. Accordingly, on each Interest Payment Date or as soon as possible thereafter as the same is received the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement. The amount of interest payable shall be determined in accordance with Condition 5.4.

5.2 Interest on Floating Rate Notes

5.2.1 Interest Payment Dates: Each Floating Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrear on each Interest Payment Date or as soon as thereafter as the same is received. The amount of interest payable shall be determined in accordance with Condition 5.4. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

5.2.2 Business Day Convention: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each such subsequent date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

5.2.3 Rate of Interest for Floating Rate Notes: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period (as defined in the Loan Agreement) shall be determined in the manner specified hereon and as set out in the Loan Agreement.

5.3 Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

5.4 Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of

any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

5.5 Publication of Rates of Interest and Interest Amounts

As soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, the Calculation Agent shall cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, Severstal, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed and/or admitted to trading on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination, but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5.2(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If a Loan become due and payable under Clause 11 of the Facility Agreement, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon the Noteholders, the Trustee, Severstal and the Issuer.

“**Interest Amount**” means:

in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified in the Final Terms as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

in respect of any other period, the amount of interest payable per Calculation Amount for that period.

5.6 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as is fair and reasonable in all the circumstances.

6 Redemption

6.1 Scheduled redemption

Unless the Loan is previously prepaid or repaid pursuant to Clause 5 of the Facility Agreement, Severstal will be required to repay the Loan by the Payment Time specified hereon prior to its Repayment Date (as defined in the Loan Agreement) and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will be redeemed or repaid by the Issuer in the relevant Specified Currency on the Maturity Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100 percent of the principal amount thereof).

6.2 Early redemption

If the Loan should become repayable (and be repaid) or be prepaid pursuant to the Loan Agreement prior to its scheduled Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will endeavour to give not less than fifteen nor more than thirty days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

To the extent that the Issuer receives amounts of principal, interest and/or additional amounts, if any, (other than amounts in respect of the Reserved Rights) following acceleration of the Loan pursuant to Clause 11 of the Facility Agreement, the Issuer shall pay an amount equal to and in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 7.

6.3 Rule 144A notes

The Issuer may compel any beneficial owner of an interest in the Rule 144A Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a US person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51) of the US Investment Company Act of 1940).

6.4 Call Option

If Call Option is specified in the Final Terms, then pursuant to Clause 5.6 of the Facility Agreement and the relevant Loan Supplement, Severstal may, at its option at any time prior to the Repayment Date specified in the Final Terms on giving not less than 30 nor more than 60 days' (or such other time period as specified as the Call Option Period in the Final Terms) irrevocable notice to the Issuer, in whole or in part, repay the Loan at the Early Redemption Amount specified in the Final Terms plus the Make Whole Amount specified below (the "**Call Option**"). The notice to be given (the "**Call Option Notice**") shall specify the date for repayment of the Loan and the date(s) for the redemption of the Notes (the "**Optional Redemption Date(s)**"), which, unless otherwise specified, shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of the Call Option Notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying and Transfer Agent. If the Loan should become repayable following exercise of the Call Option by Severstal (and be repaid) prior to the Repayment Date, the Notes will thereupon become due and repayable and the Issuer shall, subject to receipt of such amounts from Severstal under the Loan, redeem the Notes on the Optional Redemption Date(s). In the case of a partial redemption, the Notes shall be redeemed pro rata and otherwise in such manner as the Trustee deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant regulatory requirements. The Issuer's obligations in respect of this Condition to redeem and make payment for the Notes shall constitute an obligation only to account to Noteholders on the Redemption Date for an amount equivalent to the sums received by or for the account of the Issuer pursuant to the Loan Agreement.

For the purposes of this Condition 6.4:

"**Make Whole Amount**" means the excess of (a) the present value at such Repayment Date of the Notes, plus any required interest payments that would otherwise be due to be paid on the Notes from such Repayment Date through to the Maturity Date, together with any accrued and unpaid interest as of such Repayment Date, if any, calculated using a discount rate equal to the Treasury Rate at such Repayment Date plus the number of basis points specified as the Make Whole Premium in the Final Terms, over (b) the principal amount of the Notes, provided that if the value of the Make Whole Amount at any time would otherwise be less than zero, then in such circumstances for the purpose of these Conditions, the value of the Make Whole Amount will be equal to zero; and

"**Treasury Rate**" means a rate equal to the yield, as published by the Treasury Publisher specified in the Final Terms, on the actively traded Reference Treasury specified in the Final Terms with a maturity comparable to the remaining life of the Notes, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary Reference Treasury dealers in the Business Centre specified in the Final Terms selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in such Business Centre preceding the Repayment Date.

6.5 Put Option

If Put Option is specified in the Final Terms, the Issuer shall, at the option of any Noteholder redeem such Note on the Put Settlement Date specified in the Final Terms (the "**Put Option**") at its principal amount together with accrued interest. To exercise such option a Noteholder must deposit the Note or Notes to be redeemed with any Paying Agent together with a duly completed Put Redemption Notice in the form obtainable from any of the Paying Agents, not more than 60 but not less than 30 days (or such other time period as specified as the Put Option Period in the Final Terms) prior to the Put Settlement Date. No Note so deposited may be withdrawn. Provided, however, that if, prior to the Put Settlement Date, a Relevant Event has occurred or, upon due presentation of any Note on the Put Settlement Date, payment of the redemption moneys is improperly withheld

or refused, such Note shall, without prejudice to the exercise of the Put Option, be returned to the Noteholder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Redemption Notice. The Issuer shall notify Severstal, not more than three Business Days after receipt of notice thereof from the Paying Agent, of the amount of the Loan to be prepaid as a consequence of the exercise by Noteholders of the option contained in this Condition 6.5. Subject to timely receipt of the relevant amounts from Severstal under the Loan Agreement, the Issuer shall redeem the Notes in accordance with this Condition 6.5 on the Put Settlement Date, subject as provided in Condition 7.

6.6 Purchase and Cancellation

Severstal or any Subsidiary or affiliate of Severstal or any other company acting for the benefit of Severstal (acting either directly or through an agent) may, among other things, from time to time purchase any Notes (or may provide funding to the Issuer to purchase any Notes) in the open market, by tender or by private agreement at any price and on such other terms as Severstal may determine. The Notes purchased by Severstal or its affiliate or any other company acting for the benefit of Severstal may be held, reissued or resold. Alternatively, Severstal or any affiliate of Severstal or any other company acting for the benefit of Severstal (acting directly or through an agent) may, from time to time deliver Notes to the Issuer, having an aggregate principal value of at least US\$1,000,000 (or its equivalent in a Specified Currency), or request the Issuer to purchase such Notes on behalf or at the request of Severstal, and deliver to the Issuer a request to present such Notes to the relevant Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the relevant Global Certificates with instructions to cancel a specified aggregate principal amount of Notes (being at least US\$1,000,000 or its equivalent in a Specified Currency) represented thereby whereupon the Issuer shall, pursuant to the Agency Agreement, request the relevant Registrar to cancel such Notes. Upon any such cancellation by or on behalf of the relevant Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation together with all accrued interest and other amounts shall be deemed to have been prepaid by the Borrower and extinguished as of the date of such cancellation and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

7 Payments and Agents

7.1 Principal

Payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying and Transfer Agent or at the specified office of any Transfer Agent or Registrar and in the manner provided in the Condition below.

7.2 Interest

Interest shall be paid to the person shown on the relevant Issuer's Register at the opening of business (in the place of the Issuer's specified office) on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest shall be made in the Specified Currency by cheque drawn on a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access to the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET 2) System which was launched on 19 November 2007 or any successor thereof (a "**Bank**") and mailed to the Noteholder (or to the first named of joint Noteholders) of such Note at its address appearing in the relevant Register. Upon application by the holder to the specified office of the relevant Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank, or by transfer to an account in the Specified Currency maintained by the payee with, a Bank in the principal financial centre of such Specified Currency or in the case of euro, a Bank specified by the payee or at the option of the payee, by a euro-cheque and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying and Transfer Agent or at the specified office of any Transfer Agent.

7.3 Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

7.4 Payments on Business Days

If the due date for payments of interest or principal is not a Business Day, a Noteholder shall not be entitled to payment of the amount due until the next following Business Day and shall not be entitled to any further interest

or other payment in respect of any such delay. In this paragraph, “**Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) (in the case of a payment in euro) which is a TARGET Business Day.

7.5 Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out below. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying and Transfer Agent or any of the Paying Agents, and appoint additional or other paying agents provided that (i) so long as the Notes are listed and/or admitted to trading on any stock exchange or market or admitted to listing by any other relevant authority, there will be a paying agent and transfer agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or market or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days’ and not less than 30 days’ notice thereof shall have been given to the Noteholders in accordance with Condition 14.

7.6 Accrued Interest

If the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified hereon shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

7.7 Payments by Severstal

Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 6 of the Agency Agreement require Severstal to make all payments of principal and interest and any additional amounts to be made pursuant to the Loan Agreement to the Principal Paying and Transfer Agent to an account in the name of the Issuer (the “**Account**”). Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of the Noteholders.

8 Taxation

All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes, duties or assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Luxembourg or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes, duties, assessments or governmental charges is required by law.

In such event, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives an equivalent amount from Severstal under the Loan Agreement. To the extent that the Issuer receives a lesser additional amount from Severstal, the Issuer will account to each Noteholder for an additional amount equivalent to a pro rata proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, provided that no such additional amount will be payable in respect of any Note:

- 8.1 to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with Luxembourg other than the mere holding of such Note or the receipt of payments in respect thereof;

- 8.2 presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;
- 8.3 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- 8.4 presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used hereon, “**Relevant Date**” (i) means the date on which any payment under the Loan Agreement first becomes due but (ii) if the full amount payable by Severstal has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference hereon or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9 Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails to do so within a reasonable time and such failure is continuing.

At any time an Event of Default (as defined in the Facility Agreement) or a Relevant Event (as defined in the Trust Deed) has occurred and is continuing, the Trustee may, at its discretion and without notice and shall, if requested to do so by Noteholders holding 25 percent or more in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified and/or prefunded to its satisfaction, institute such steps, actions or proceedings as it may think fit to enforce the rights of the Noteholders and the provisions of the Trust Deed, including to declare all amounts payable under the Loan Agreement by Severstal to be due and payable (in the case of an Event of Default), or enforce the security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided hereon, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

10 Meetings of Noteholders; Modification and Waiver; Substitution; Exercise of Powers: Appointment and Removal of Trustee

10.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement or the Trust Deed. Noteholders will vote pro rata according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, inter alia, the amounts payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

10.2 Written Resolutions

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than two-thirds in the principal amount of the Notes outstanding at the time shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

10.3 Modification and Waiver

As provided in the Trust Deed, the Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed or the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders (as a class). The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions or the Trust Deed or by Severstal of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (as a class), all subject as further provided in the Trust Deed and provided always that (subject to certain exceptions) the Trustee may not exercise such power of waiver in contravention of any express direction by an Extraordinary Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

10.4 Substitution

The Trust Deed contains provisions to the effect that the Issuer may, and at the request of Severstal shall, having obtained the consent of Severstal (if such substitution is not to be made at the request of Severstal) and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such requirements as set out in the Trust Deed, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 or Severstal shall use its best endeavours to ensure that the substitute obligor does so.

10.5 Exercise of Powers

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, Severstal or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

10.6 Appointment and Removal of Trustee

The Trust Deed contains provisions for the appointment or removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, provided that, in the case of removal of a Trustee, at all times there remains a trustee in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders by the Issuer in accordance with Condition 14. The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such resignation shall not become effective unless there remains a trustee in office after such resignation.

11 Prescription

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12 Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction and to be paid its costs and expenses in priority to the claims of Noteholders. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or Severstal and any entity related to the Issuer and/or Severstal without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by Severstal in respect of the Loan Agreement. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests.

The Trustee has no obligation to take any action (or step) which would or might in its opinion result in it incurring liabilities of any nature unless it is indemnified and/or secured and/or prefunded to its satisfaction in respect of the same and in forming any such opinion the Trustee shall be entitled to rely on legal advice or other advice received by it (as provided for by the Trust Deed) as to the existence and extent of such liabilities without liability to Noteholders for so doing regardless of whether and the extent to which the taking of any action or step by the Trustee is thereby delayed.

Nothing contained in these Conditions shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any right, power, authority or discretion hereunder if it has grounds for believing the repayment of such funds or adequate indemnity against and/or security for and/or prefunding, such risk or liability is not reasonably assured to it.

13 Replacement of Notes

If any Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of either Registrar or at the specified office of the Principal Paying and Transfer Agent in London on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14 Notices

All notices to the Noteholders shall be deemed to have been duly given if (i) posted to such Noteholders at their respective addresses as shown on the relevant Register and (ii) so long as the Notes are listed and/or admitted to trading on the Irish Stock Exchange or another stock exchange and the rules of that exchange so require, publish on the Regulatory News Service via the Companies Announcements Office of the Irish Stock Exchange or such other publication/information channel that is compliant with the rules or guidelines of such stock exchange. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

15 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and the date of the first payment of interest) so as to be consolidated and form a single Series with the Notes. Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other Series in certain circumstances where the Trustee so decides. In relation to any further issue which is to be consolidated and form a single Series with the Notes, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with Severstal on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Notes). The Issuer will provide a further fixed charge in favour of the Trustee and amend the existing Security Interests in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement which will secure both the Notes and such further Notes and which will amend and supplement the Security Interests in relation to the existing Notes of such Series.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

The Notes, the Agency Agreement and the Trust Deed, and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England. For the avoidance of doubt, the provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915, as amended, on commercial companies are excluded.

FORM OF FINAL TERMS

Final Terms dated •

The form of Final Terms that will be issued in respect of each Series, subject only to completion and the deletion of non-applicable provisions, is set out below.

PAO SEVERSTAL

Issue of [Aggregate Principal Amount of Series] [Title of Loan Participation Notes]

by Steel Capital S.A.

a *société anonyme* incorporated in Luxembourg with limited liability whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B116975

for the sole purpose of financing a Loan to PAO SEVERSTAL

under a US\$4,500,000,000 Programme for the Issuance of Loan Participation Notes (the “**Programme**”)

Part A—Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 14 February 2017 [and the supplemental Base Prospectus dated •] which [together] constitute[s] a base prospectus (the “**Base Prospectus**”) for the purposes of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on Severstal, the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus is available for viewing at [address] [and] [website] and copies may be obtained from the Issuer at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.]

[The following alternative language applies if the first issuance of a Series which is being increased was issued under a Base Prospectus with an earlier date.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the [Base Prospectus] dated [original date] [and the supplemental Base Prospectus dated •]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”), and must be read in conjunction with the Base Prospectus dated [original date] [and the supplemental Base Prospectus dated •], which [together] constitute[s] a base prospectus (the “**Base Prospectus**”) for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the [Base Prospectus] dated [original date] [and the supplements to it dated •]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the [Base Prospectus] dated [original date] [and the supplements thereto dated • and •]. [The [Base Prospectus] is available for viewing at [address] [and] [website] and copies may be obtained from [address].]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

1	(i) Issuer:	Steel Capital S.A.
	(ii) Borrower:	PAO SEVERSTAL
2	[(i)] Series Number:	•
	[(ii)] Tranche Number:	•
	[(iii)] Date on which the Notes will be consolidated and form a single series with existing Notes:	[Not Applicable] [•]
3	Specified Currency:	•
4	Aggregate Principal Amount of Notes:	•
	[(i)] Series:	•
	[(ii)] Tranche:	•]
5	Issue Price:	• percent of the Aggregate Principal Amount [plus accrued interest from [•]]

6	(i)	Specified Denomination(s):	•
	(ii)	Calculation Amount	•
7	(i)	Closing Date:	•
	(ii)	Interest Commencement Date:	[•/Closing Date/Not Applicable]
8		Issue Date:	[•]
9		Maturity Date:	[•] [The Interest Payment Date falling in or nearest to [•]]
10			[• percent Fixed Rate]
			[•] +/- • percent Floating Rate]
		Interest Basis:	(further particulars specified in paragraph [18][19] below)
11		Redemption/Payment Basis:	Redemption at par
12		Change of Interest Basis:	[•] [Not Applicable]
13		[Date of [Board] approval for issuance of Notes and borrowing of Loan obtained:	• [and •, respectively]]]
14		Method of distribution	•
15		Financial Centres in respect of Condition 7.2 (Payments on Business Days):	•
16		Specified Currency and Principal Amount of Loan:	
	(i)	Specified Currency	•
	(ii)	Principal Amount	•
17		Put/Call Options:	[Put Option/Call Option/Not Applicable] [(further particulars specified in paragraph [22][23] below)]
PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE UNDER THE LOAN			
18		Fixed Rate Note Provisions:	[Applicable/Not Applicable]
	(i)	Rate [(s)] of Interest:	• percent per annum [payable [annually/semi-annually/quarterly/monthly/•]] in arrear]
	(ii)	Interest Payment Date(s):	• in each year[, not adjusted] [adjusted in accordance with [the [Floating Rate Business Day Convention] [Following Business Day Convention] [Modified Following Business Day Convention] [Preceding Business Day Convention]
		Business Centre(s)	•
	(iii)	Fixed Coupon Amount[(s)]:	• per Calculation Amount
	(iv)	Broken Amount:	per Calculation Amount payable on the Interest Payment Date falling [in/on] •
	(v)	Day Count Fraction:	[30/360] [30E/360][Actual/Actual (ICMA/ISDA)]
	(vi)	Determination Date(s):	• in each year.
19		Floating Rate Note Provisions:	[Applicable/Not Applicable]
	(i)	Interest Period(s):	•
	(ii)	Specified Interest Payment Dates:	•
	(iii)	First Interest Payment Date:	•
	(iv)	Interest Period Date(s):	•
	(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(vi)	Business Centre(s):	•
	(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent):	•
	(ix)	Screen Rate Determination:	[Yes] [No]
	(x)	ISDA Determination:	[Yes] [No]
	(xi)	Margin(s):	[+/-] • percent per annum
	(xii)	Minimum Rate of Interest:	• percent per annum
	(xiii)	Maximum Rate of Interest:	• percent per annum
	(xiv)	Reference Rate:	[LIBOR/EURIBOR]
	(xv)	Day Count Fraction:	[Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]

PROVISIONS RELATING TO REDEMPTION

- 20 Final Redemption Amount of each Note: • per Calculation Amount
- 21 Early Redemption Amount(s) per Calculation Amount payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date: •
- 22 **Call Option:** [Applicable/Not Applicable]
 (i) Early Redemption Amount: Per Calculation Amount plus accrued interest, if any to the Redemption Date
 (ii) Make Whole Premium: • basis points
 (iii) Optional Redemption Date(s): •
 (iv) Call Option Period: •
 (v) Treasury Publisher: •
 Reference Treasury: •
 Business Centre: •
 Financial Adviser: •
- 23 **Put Option:** [Applicable/Not Applicable]
 (i) Put Settlement Date(s): •
 (ii) Put Option Period: •
- DISTRIBUTION**
- 24 (i) If syndicated, names of Managers: [Not Applicable/give names]
 (ii) Stabilising Manager(s) (if any): [Not Applicable/give names]
- 25 If non-syndicated, name of Dealer: [Not Applicable/give names]
- GENERAL PROVISIONS APPLICABLE TO THE NOTES**
- 26 Form of Notes: Registered Notes
- 27 Payment Time: • a.m./p.m. (Relevant Time) • Business Day[s]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading on the Main Securities Market of the Irish Stock Exchange the issue of Notes described herein pursuant to the U.S.\$4,500,000,000 Programme for the Issuance of Loan Participation Notes by Steel Capital S.A. for the sole purpose of financing a Loan to PAO SEVERSTAL.]

RESPONSIBILITY

The Issuer and Severstal accept responsibility for the information contained in these Final Terms. [• has been extracted from • . Each of the Issuer and Severstal confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by • , no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By:

Duly authorised

By:

Duly authorised

Signed on behalf of Severstal:

By:

Duly authorised

Part B—Other Information

1 LISTING

- (i) Listing: [Irish Stock Exchange/ • /None]
- (ii) Admission to trading: [Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List (the “**Official List**”) and trading on its regulated market (the “**Main Securities Market**”) with effect from •] [Not Applicable]
- (iii) Estimate of total expenses related to admission to trading: •

2 RATINGS

- Ratings: The Notes to be issued have been rated:
 [Standard & Poor’s Credit Market Services Europe Limited: •]
 [Moody’s Investors Service Limited: •] [Fitch Ratings Limited: •]
 [[Insert credit rating agency] is established in the European Community and has applied for registration under Regulation (EC) No 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.] [[Insert credit rating agency] is established in the European Community and registered under Regulation (EC) No 1060/2009.] [[Insert credit rating agency] is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009.] [[Insert credit rating agency] is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009 but is endorsed by [insert credit rating agency] which is established in the European Union and registered under Regulation (EC) No 1060/2009.] [[Insert credit rating agency] is not established in the European Community and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.] A rating must be issued by a credit rating agency established in the European Community and registered under the Regulation (EC) No 1060/2009 (the “**CRA Regulation**”) unless the rating is provided by a credit rating agency that operated in the European Community before 7 June 2010 and which has submitted an application for registration in accordance with the CRA Regulation and such application for registration has not been refused. (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3 [NOTIFICATION]

The Central Bank has provided the competent authority(ies) of [insert details of relevant Host Member State(s)] with a certificate of approval attesting that the [Base Prospectus—insert details of relevant Base Prospectus] has been drawn up in accordance with Directive 2003/71/EC and Commission Regulation (EC) No809/2004.]

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

If applicable a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest is to be included. This may be satisfied by the inclusion of the following statement:
 “Save as discussed in “Subscription and Sale”, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer”.]

5 [YIELD]

- Indication of yield: •
 The yield is calculated at the Closing Date on the basis of the Issue Price. It is not an indication of future yield.]

6 ESTIMATED TOTAL EXPENSES

- Estimated Total Expenses: •

7 OPERATIONAL INFORMATION

- ISIN Code (Reg S Notes): •
 ISIN Code (Rule 144A Notes): •
 Common Code (Reg S Notes): •
 Common Code (Rule 144A Notes): •
 Rule 144A CUSIP number: •

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme or DTC and the relevant identification number(s):	[Not Applicable][●]
Names and addresses of initial Paying Agent(s):	●
Names and addresses of additional Paying Agent(s) (if any):	●
THE LOAN	
Terms of the Loan	
(i) Principal Amount of the Loan:	●
(ii) Specified Currency:	●
(iii) Put Settlement Date:	[Not Applicable/●]
(iv) Repayment Date:	●:
(v) Early Redemption Amount:	Per Calculation Amount plus accrued interest, if any to the Redemption Date
(vi) [Make Whole Premium:	[●] basis points
(vii) Treasury Publisher:	●
Reference Treasury:	●
Business Centre:	●
Financial Adviser:	●
(viii) Put/Call Options:	[Put Option/Call Option/Not Applicable]
Interest	
Fixed Rate Loan Provisions	[Applicable/Not Applicable]
(i) Interest Commencement Date:	●
(ii) Rate of Interest:	● percent. per annum payable [annually/semi-annually] in arrear
(iii) Interest Payment Date(s):	● in each year[, not adjusted] [adjusted in accordance with [the [Floating Rate Business Day Convention] [Following Business Day Convention] [Modified Following Business Day Convention] [Preceding Business Day Convention]]]
(iv) Fixed Amount(s):	● per ● in principal amount
(v) Broken Amount:	[●]
(vi) Day Count Fraction:	●
(vii) Determination Date(s):	● in each year
Floating Rate Loan Provisions	[Applicable/Not Applicable]
(i) Interest Commencement Date:	●
(ii) Interest Period(s):	●
(iii) Specified Interest Payment Dates:	●
(iv) Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(v) Business Centre(s):	●
(vi) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii) Interest Period Date(s):	[Not Applicable]
(viii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	
(ix) Screen Rate Determination:	
– Reference Rate:	[LIBOR/EURIBOR]
– Interest Determination Date(s):	[●]
– Relevant Screen Page:	[●]
– Reference Banks (if Primary Source is “Reference Banks”):	[●]
– Relevant Financial Centre:	[●]
– Reference Rate:	[LIBOR/EURIBOR]
– Representative Amount:	[●]
– Effective Date:	[●]
– Specified Duration:	[●]
(x) ISDA Determination:	
– Floating Rate Option:	●

- Designated Maturity:
- Reset Date:
- (xi) Margin(s):
 - percent. per annum
- (xii) Minimum Rate of Interest:
 - percent. per annum
- (xiii) Maximum Rate of Interest:
 - percent. per annum
- (xiv) Day Count Fraction:
 - [Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Certificates

Each Series of Notes will be evidenced on issue (i) in the case of Regulation S Notes, a Regulation S Global Certificate deposited with a common depository for, and registered in the name of a nominee for, Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, a Rule 144A Global Certificate deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See “—*Book-Entry Procedures for the Global Certificates*”. By acquisition of a beneficial interest in a Regulation S Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a US person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying and Transfer Agent by the relevant Dealer (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying and Transfer Agent shall notify each such relevant Dealer when all relevant Dealers have so certified) (the ***distribution compliance period***), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-US person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See “*Selling and Transfer Restrictions*”. Beneficial interests in a Rule 144A Global Certificate may only be held through DTC at any time. See “—*Book-Entry Procedures for the Global Certificates*”. By acquisition of a beneficial interest in a Rule 144A Global Certificate, the purchaser thereof will be deemed to represent, among other things, that if it is a US person (within the meaning of Regulation S), it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Paying Agency Agreement dated 19 October 2010 (the ***Paying Agency Agreement***). See “*Selling and Transfer Restrictions*”.

Beneficial interests in each Global Certificate will be subject to certain restrictions on transfer set forth therein and in the Paying Agency Agreement, and with respect to Rule 144A Global Certificate, as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under “*Selling and Transfer Restrictions*”. A beneficial interest in a Regulation S Global Certificate may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Certificate in denominations greater than or equal to the minimum denominations applicable to interests in a Rule 144A Global Certificate and only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in a Rule 144A Global Certificate may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Certificate only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) from the transferor to the effect that the transfer is being made to a non-US person and in accordance with Regulation S.

Any beneficial interest in a Regulation S Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Certificate will, upon transfer, cease to be an interest in the Regulation S Global Certificate and become an interest in the Rule 144A Global Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Certificate for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Certificate will, upon transfer, cease to be an interest in the Rule 144A Global Certificate and become an interest in the Regulation S Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in Global Certificates will not be entitled to receive physical delivery of certificated Notes in definitive form (the ***Definitive Certificates***). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Certificate contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions. Certified terms not defined in this section have the same meaning as set out in the Global Certificate:

- *Payments.* All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the register of Noteholders as holder of the Global Certificate at the close of business on the Clearing System Business Day immediately prior to the date for payment (the **Record Date**), where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January. Such payments shall be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. No person shall however be entitled to receive any payment on the Global Certificate falling due after the Exchange Date, unless the exchange of the Global Certificate for Definitive Certificates is improperly withheld or refused by or on behalf of the Issuer.
- *Notices.* All notices to Noteholders shall be deemed to have been duly given if (i) posted to such Noteholders at their respective addresses as shown on the relevant register and (ii) so long as the Notes are listed and/or admitted to trading on the Irish Stock Exchange and the rules of that exchange so require, file a notice with a Regulatory News Service via the Companies Announcements Office of the Irish Stock Exchange. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.
- *Meetings.* For the purposes of any meeting of Noteholders, the holder of a Global Certificate will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and as being entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes.
- *Trustee's Powers.* In considering the interests of Noteholders while a Global Certificate is held on behalf of a clearing system, the Trustee may, to the extent it reasonably considers it appropriate to do so in the circumstances (i) have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and (ii) consider such interests as if such accountholders were the holders of the Global Certificate.
- *Cancellation.* Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Certificate.

Exchange for Definitive Certificates

Exchange

Each Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Certificate is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Certificate or ceases to be a “clearing agency” registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 of the Notes which would not be suffered were the Notes in definitive form and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Certificate for Definitive Certificates on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the relevant Global Certificate may surrender such Global Certificate to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Certificate, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Certificates in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Certificate for definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

Exchange Date means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Certificate shall be exchanged in full for definitive Notes and the Issuer will, at the cost of the Company (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Certificates issued in exchange for a beneficial interest in a Rule 144A Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “Selling and Transfer Restrictions”.

Legends

The holder of a Definitive Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Certificate bearing the legend referred to under “Selling and Transfer Restrictions” or upon specific request for removal of the legend on a Rule 144A Definitive Certificate, the Issuer will deliver only Rule 144A Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Certificates

For each Series of Notes evidenced by both a Regulation S Global Certificate and a Rule 144A Global Certificate, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “—*Book Entry Ownership—Settlement and Transfer of Notes*”.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**Direct Participants**) or indirectly (**Indirect Participants** and together with Direct Participants, **Participants**) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the US Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Certificates directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Certificates as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “Exchange for Definitive Certificates”, DTC will surrender the relevant Rule 144A Global Certificates for exchange for individual Rule 144A Definitive Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Certificate representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, B1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Certificate representing Rule 144A Notes of any Series will have a CUSIP number and, if specified in the relevant Final Terms or Series Prospectus, an ISIN and Common Code and unless otherwise indicated in such Final Terms or Series Prospectus, will be deposited with a custodian for and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System. The address of DTC is 55 Water Street, New York, New York 10041, U.S.A.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Certificate, the common depository by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the **Beneficial Owner**) will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Certificate held within a clearing system are exchanged for Definitive Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement (*SDFS*) system in same-day funds, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Certificate (subject to the certification procedures provided in the Paying Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Certificate will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Certificate of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Certificate (subject to the certification procedures provided in the Paying Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Certificate who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Certificate; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Certificate.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Certificates among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three business days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisers.

TAXATION

The following is a general summary of certain Russian, Luxembourg, United Kingdom and United States tax considerations relating to the Notes and the Loans and does not purport to be a comprehensive analysis of all tax considerations relating to the Notes and the Loan.

This summary should not be used for the purposes of the analysis of any tax implications arising for any instruments other than the Notes and the Loans. It is based upon the laws as in effect on the date of this Base Prospectus. Neither the Borrower nor the Issuer assumes any obligation to update this summary after the date of this Base Prospectus for any changes or amendments in the applicable laws.

The information and analysis contained within this section are limited to tax issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes and/or the Loans.

Prospective purchasers of the Notes are advised to consult their own tax advisors with respect to tax consequences of the purchase, ownership and disposal of the Notes arising in their particular circumstances under the tax laws of countries of which they are tax residents, or any other country, including, but not limited to, the consequences of the receipt of interest on the Notes and the sale or redemption of the Notes (in particular, in view of the applicability and effect of any other tax laws or double tax treaties, and of pending or proposed changes to the applicable tax laws as at the date of this Base Prospectus, and of any actual changes in the applicable tax laws after such date). No representation with respect to tax consequences relevant to any particular Noteholder is made hereby.

RUSSIAN FEDERATION

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of any Series of the Notes, as well as taxation of interest payments on the corresponding Loans. This summary is based on the laws and regulations of Russia as in effect at the date of this Base Prospectus (where they are subject to changes which could occur frequently, at short notice and could apply retroactively).

This summary does not seek to address the applicability of, and/or any procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia or tax implications arising for the Noteholders applying special tax regimes available under the Russian tax legislation. Similarly, this summary does not seek to address the availability of the double tax treaty relief to, and the eligibility for, the double tax relief of any Noteholder in respect of income payable to that Noteholder on any Series of the Notes or practical difficulties connected with claiming such double tax treaty relief. The analysis set out herein does not include any comments on tax implications which could arise for the Noteholders in connection with entering into REPO or stock-lending transactions with any Series of the Notes or into term deals, derivatives or any similar types of transactions with any Series of the Notes.

Many aspects of Russian tax laws and regulations are subject to significant uncertainty and lack of the interpretive guidance resulting in different interpretations and inconsistent applications of them by various authorities in practice. Further, provisions of Russian tax laws and regulations applicable to financial instruments may be subject to more rapid and unpredictable changes (possibly with the retroactive effect) and inconsistent interpretations than in jurisdictions with more developed capital markets and tax systems. In practice, interpretation and application of Russian tax laws and regulations by different tax inspectorates and their representatives may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Furthermore, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may be inconsistent or contradictory.

Taxation of the Notes

General

For the purposes of this summary, the term “**Resident Noteholder**” means:

- a Noteholder (the “**Resident Noteholder-Legal Entity**”) who is (1) a Russian legal entity or an organisation; or (2) a legal entity or an organisation, in each case organised under a non-Russian law, which acquires, holds and disposes of the Notes through its permanent establishment in Russia (as defined by Russian tax law); or (3) a foreign organisation recognised as Russian tax resident in accordance with the requirements set out in the Russian Tax Code. A foreign organisation shall be deemed to be a tax resident of the Russian Federation for purposes of the Russian Tax Code if its place of management is in the Russian Federation, unless a different conclusion follows from an applicable double tax treaty; and

- a Noteholder who is an individual and who satisfies the criteria for being a Russian tax resident (the “**Resident Noteholder–Individual**”). A “**Russian tax resident**” is an individual who is actually present in the Russian Federation in aggregate for 183 calendar days or more in any period comprised of 12 consecutive months.

The presence in Russia for Russian personal income tax residency purposes is not considered interrupted if an individual during this 12 consecutive months departs from Russia for short periods of time (less than 6 months) for medical treatment, education purposes or completion of employment or other duties related to work (rendering services) at offshore hydrocarbon fields.

Currently, the Russian Tax Code is generally interpreted by both the Russian tax authorities and taxpayers such that days of arrival as well as days of departure should be taken into account when calculating the total number of days of presence of an individual in Russia. However, the Group is aware of a court case where the court expressed the opinion that days of arrival should not be taken into account as opposed to days of departure.

For the purposes of this summary, a “**Non-Resident Noteholder**” means:

- a Noteholder which is a legal entity or an organisation, in each case not organised under Russian law which acquires, holds and disposes of the Notes otherwise than through its permanent establishment in Russia and does not satisfy the criteria for being a Russian tax resident as defined above (the “**Non-Resident Noteholder–Legal Entity**”); and
- a Noteholder who is an individual and does not satisfy the criteria for being a Russian tax resident as defined above (the “**Non-Resident Noteholder–Individual**”).

For the purposes of this summary, definitions of “Resident Noteholder” and “Non-Resident Noteholder” in respect of individuals are taken at face value based on the wording of the Russian tax law as written as of the date of this Base Prospectus. In practice, however, the application of the above formal residency definitions by the Russian tax authorities may differ depending on their position in each case. The law is currently worded in a way that implies the potential for a split year residency for individuals. However, both the Russian Ministry of Finance and the Russian tax authorities have expressed the view that an individual should be either a tax resident or non-tax resident in Russia for the full calendar year.

Consequently, if the travel pattern dictates a differing tax residency status for an individual for a part of the tax (calendar) year, the application of Russian personal income residency tax rate may in practice be disallowed. This situation may be altered by the introduction of amendments to provisions of the Russian Tax Code dealing with taxation of individuals, a change in the position of the Russian tax authorities or by positive outcomes of tax controversy through the courts.

Although, the Russian Tax Code states that tax residency for individuals depends exclusively on the number of days spent in Russia, the Federal Tax Service (the “**FTS**”) has issued several private clarifications promulgating a view that besides number of days of physical presence such factors as permanent home and central of vital interest (country where family, business are located) must be taken into account for the purposes of determination of tax residency. Although the Ministry of Finance has subsequently cancelled these letters of the FTS, the risk remains of challenge of non-resident status for individuals who do not meet the physical presence test for residents but have ties (property, family, business, etc.) to Russia.

Russian taxation rules may be affected by the provisions of the applicable double tax treaties. The Russian tax treatment of interest payments made by the Company to the Issuer (or to the Trustee, as the case may be) under any Loan Agreement may affect the Noteholders.

Resident Noteholders

Resident Noteholders will be subject to all applicable Russian taxes in respect of income realised by them in connection with the acquisition, ownership, sale and/or other disposal of the Notes.

Resident Noteholders should consult their own tax advisers with respect to the effect that the acquisition, holding and/or disposal of the Notes may have on their tax position.

Non-Resident Noteholders

Taxation of Non-Resident Noteholders-Individuals

Acquisition of the Notes

Under the Russian tax legislation, Russian tax treatment of income derived by Non-Resident Noteholders-Individuals will depend on whether this income qualifies as received from Russian or non-Russian sources. In case the income is not

qualified as received from Russian sources no tax consequences should arise. However, pursuant to provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of the acquisition of securities, the acquisition of the Notes by Non-Resident Noteholders-Individuals may constitute a taxable event for Russian personal income tax purposes. In particular, if the acquisition price of the Notes is below the lower margin of the fair market value of the Notes determined for Russian personal income tax purposes, the difference may become subject to Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of the acquisition) provided such material benefit is viewed as income from Russian sources.

Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit receivable by individuals should be sourced, in practice the Russian tax authorities may infer that such income should be considered as Russian source income, if the Notes are purchased “in Russia”. In the absence of any explicit guidance as to what should be considered as a purchase of securities “in Russia”, in practice the Russian tax authorities may apply various criteria to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the place of location of the Issuer, or other similar criteria.

There is no assurance therefore that as a result any material benefit received by the Non-Resident Noteholders-Individuals in connection with the acquisition of the Notes will not become taxable in Russia. In case however the Notes are initially issued at par, the above provisions are likely to be relevant for the acquisitions of the Notes in the secondary market only.

Interest on the Notes and Repayment of Principal on the Notes

Non-Resident Noteholders-Individuals should not generally be subject to Russian personal income tax in respect of payments of interest and principal on the Notes received from the Issuer.

Taxation of interest payable on the Notes may be affected however by the tax treatment of interest payable on the Loans (please see “*Sale or other Disposal of the Notes*” and “*Taxation of Interest Payments on the Loans*” below).

Sale or other Disposal of the Notes

Non-resident Noteholder-Individuals should not be subject to any Russian taxes in respect of gains or other income realised on a redemption, sale or other disposal of the Notes outside of Russia, provided that the proceeds of such sale, redemption, or disposal are not received from a source within Russia.

If proceeds from the sale or other disposal of the Notes received by a Non-Resident Noteholder-Individual qualify as Russian source income for Russian personal income tax purposes, these proceeds will be subject to Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of disposal).

Since the Russian Tax Code does not contain any additional guidance as to when the sales or other disposal proceeds should be deemed to be received from Russian sources by an individual not qualifying as a Russian tax resident, in practice the Russian tax authorities may infer that such income should be treated as Russian source income if the Notes are sold or disposed “in Russia”. In the absence of any explicit guidance as to what should be considered as the sale or other disposal of securities “in Russia”, the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of the conclusion of the sales transaction, the place of location of the Issuer, or other similar criteria. There is no assurance therefore that as a result sales or other disposal proceeds received by the Non-Resident Noteholders-Individuals will not become subject to Russian personal income tax.

In case the sales or other disposal proceeds are considered as derived from Russian sources, Russian personal income tax will apply to the gross amount of proceeds decreased by the amount of any available cost deductions (including the original acquisition costs of the Notes and expenses relating to the acquisition, holding and sale or other disposal) provided that duly executed supporting documentation is provided to the person obliged to calculate and withhold Russian personal income tax in relation to this income in a timely manner. There is a risk that, if the documentation supporting the cost deductions is deemed to be insufficient by the Russian tax authorities or the person remitting the respective income to a Non-Resident Noteholder-Individual (where such person is considered as the tax agent obliging to calculate and withhold Russian personal income tax and remit it to the Russian budget), the deduction will be disallowed and Russian personal income tax will apply to the gross amount of sales or other disposal proceeds.

Furthermore, there is also some uncertainty regarding tax treatment of the portion of the sales or disposal proceeds derived by a Non-Resident Noteholder-Individual from Russian sources in connection with the sale or disposal of the Notes, that is attributable to accrued interest on the Notes, if any. The Russian tax authorities could argue that such portion should be subject to Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of payment), even if the sale or other disposal of the Notes results in a loss.

In certain circumstances, if sales and/or disposal proceeds are paid to a Non-Resident Noteholder-Individual by a licensed broker or an asset manager that is a Russian legal entity or organisation carrying out operations for the benefit of the Non-Resident Noteholder-Individual under an asset management agreement, a brokerage agreement, an agency agreement, a commission agreement or a commercial mandate agreement, the applicable Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of payment) will be withheld at source by that person considered as the tax agent. The amount of tax withheld will be calculated after taking into account available documented deductions for the original acquisition costs and related expenses on the acquisition, holding and sale or other disposal of the Notes to the extent such deductions and expenses can be determined by the entity making the payment of income to a Non-Resident Noteholder-Individual.

In the context of deducting duly documented acquisition costs, if the costs were borne in connection with the acquisition of the Notes within the relationship with the party other than tax agent which is obliged to calculate and withhold Russian personal income tax under the respective agreement, upon the sale or other disposal of the Notes they may be taken into account by the tax agent upon written application of the Noteholders and presentation of the documents confirming the costs.

If the Notes are sold by a Non-Resident Noteholder-Individual to other legal entities, organisations (other than licensed brokers or asset managers as mentioned above) or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder Individual will then be required to file a personal income tax return individually, report on the amount of income realised to the Russian tax authorities and apply for a deduction in the amount of the acquisition and other expenses relating to the purchase, holding and sale or other disposal of the Notes confirmed by the supporting documentation. The applicable personal income tax must then be paid by the Non-Resident Noteholder-Individual on the basis of the filed personal income tax return.

Under certain circumstances, gains received and losses incurred by a Non-Resident Noteholder-Individual as a result of the sale or other disposal of the Notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes, which could affect the total amount of income of the Non-Resident Noteholder-Individual subject to taxation in Russia.

There is also a risk that any gain derived by a Non-Resident Noteholder Individual from the sale or other disposal of the Notes may be affected by changes in the exchange rate between the currency of the acquisition of the Notes, the currency of the sale or other disposal of the Notes and roubles.

Taxation of Non-Resident Noteholders—Legal Entities

Acquisition of the Notes

The acquisition of the Notes by the Non-Resident Noteholders-Legal Entities (whether upon their issue or upon their acquisition in the secondary market) should not trigger any adverse Russian tax implications for the Non-Resident Noteholders-Legal Entities.

Interest on the Notes and Repayment of Principal on the Notes

Non-Resident Noteholders-Legal Entities should not generally be subject to any Russian taxes in respect of payments of interest and repayment of principal on the Notes received from the Issuer.

Taxation of interest on any Series of the Notes may however be affected by the tax treatment of interest on the Loans (please see “Taxation of Interest Payments on the Loans” below).

Sale and/or other Disposal of the Notes

According to the Russian Tax Code the list of Russian source income includes interest on Russian state and municipal securities as well as interest on debt obligations of Russian entities. Interest on debt obligations of foreign companies (including any portion of the sales or disposal proceeds derived in connection with the disposal of the debt obligations of such non-Russian entities (such as the Notes)), even if payable from Russian sources, is not included in the list of Russian source income and should not therefore be subject to Russian withholding tax.

There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the bonds (i.e. debt obligations) where proceeds from sale or other disposition of the Notes are received from a source within Russia by a Non-Resident Noteholder-Legal Entity, which is caused by isolated precedents in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the Notes. Although the Russian Ministry of Finance in its

most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest paid to a non-Russian organisation should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having registered tax presence in Russia which purchases the Notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20% (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions allowing to reduce or eliminate the applicable Russian income taxes imposed on income received by Non-Resident Noteholders from Russian sources in connection with the acquisition, holding, disposal (including sale) of the Notes. To the extent double taxation benefits are available, in order to obtain them, a Non-Resident Noteholder will have to comply with the certification, information and reporting requirements which are in force in Russia (relating, in particular, to the confirmation of the entitlement and eligibility to the respective double tax treaty benefits).

In order to benefit from the double tax treaty, a Non-Resident Noteholder–Legal Entity which has the actual right to receive income (i.e., who qualifies as a “beneficial owner of income”) should provide the tax agent with a tax residency certificate issued by the competent authorities of his/ her country of residence for tax purposes before the date of each income payment. The tax agent that pays Russian source income has the right to request confirmation that a Non-Resident Noteholder–Legal Entity has an actual right to receive the income in question. From 1 January 2017, a Non-Resident Noteholder–Legal Entity will have an obligation to provide a beneficial ownership confirmation to the tax agent.

In order to apply for tax exemption or payment of tax at a reduced tax rate under the respective double tax treaty a Non-Resident Noteholder–Individual which has the actual right to receive income should confirm his/ her tax residency status to the tax agent. For these purposes a Non-Resident Noteholder–Individual resident in a country that has a double tax treaty with Russia can provide to the tax agent a passport of a foreign citizen or other document that is deemed to be an identification document under the Federal law or an applicable international treaty. If this document is not sufficient to prove the residency status, the tax agent will request the Non-Resident Noteholder–Individual to provide a tax residency certificate issued by the competent authorities in his/ her country of residence for tax purposes.

It is not explicit whether under the new law Russian citizens may enjoy exemption from taxation at source under the respective double tax treaty. The law does not clearly establish how the tax agent shall determine whether a passport is sufficient to confirm the individual’s eligibility to double tax treaty benefits. There are no requirements under Russian law for the individuals to provide evidence that they can be deemed as actual recipients (beneficial owners) of income from the Russian sources.

The procedure of elimination of double taxation of Non-Resident Noteholders–Individuals in case of absence of a tax agent is not explicitly indicated in the Russian Tax Code.

Non-Resident Noteholder-Individuals should consult their own tax advisors with respect to possible tax treaty relief and procedures which have to be satisfied in order to obtain tax relief in regards of Russian personal income tax, which may apply to interest on the Notes or proceeds received by them from the acquisition, sale or other disposal of the Notes.

Tax Reclaim

If Russian withholding tax is withheld at source from interest on the Notes payable to a Non-Resident Noteholder–Legal Entity, despite the domestic release available for the Russian tax agents, a claim for a refund of the Russian income tax that was excessively withheld at source can be filed by this Non-Resident Noteholder–Legal Entity with the Russian tax authorities within three calendar years following the calendar year in which the tax was withheld, provided that such Non-Resident Noteholder–Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income. There is no assurance that such refund will be available in practice.

If Russian personal income tax applicable to income derived from Russian sources by a Non-Resident Noteholder–Individual for whom double tax treaty relief is available was withheld at source despite the right of this Non-Resident Noteholder–Individual to rely on the benefits of the applicable double tax treaty allowing not to pay the tax in Russia or allowing to pay the tax at the reduced rate in relation to this income, a claim for the refund can be filed with the Russian tax authorities together with the supporting documents. Such claim for refund of tax withheld in excess and application of the benefits of the applicable double tax treaty may be filed by the Non-Resident Noteholder–Individual with the tax agent within three years following the year when the corresponding income was received. In the absence of a tax agent to withhold the Russian personal income tax on such income (e.g., in case of a liquidation of the tax agent), an application for a refund may be filed with the Russian tax authorities within the same period (three years from the date

when the tax was paid) with the Russian tax return, a tax residency certificate and documents proving tax withholding to the Russian tax authorities.

Although the Russian Tax Code arguably contains the exhaustive list of documents and information which have to be provided by the Non-Resident Noteholder-Individual to the Russian tax authorities for tax refund purposes, the Russian tax authorities, in practice, may require a wide variety of documentation confirming the right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

Obtaining a refund of Russian income taxes that were excessively withheld at source is likely to be a time-consuming process requiring great efforts, and no assurance can be given that such refund will be granted to Non-Resident Noteholders in practice.

Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain the refund of Russian income taxes which were excessively withheld at source.

Taxation of Interest on the Loans

In general, payments of interest on borrowed funds made by a Russian legal entity to a non-resident legal entity or organisation having no registered presence and/or no permanent establishment in Russia are subject to Russian withholding tax at a rate of 20 percent, which could be reduced or eliminated pursuant to the terms of an applicable double tax treaty subject to timely compliance with the respective treaty clearance formalities by the interest recipient.

In particular, the double tax treaty allows to eliminate Russian withholding tax applicable to interest provided that the recipient may be deemed as the actual (beneficial) owner of income and that certain criteria specified in the double tax treaty are satisfied. The concept of beneficial ownership has been introduced into the Russian Tax Code since 2015. In accordance with the Russian tax law, beneficial owner is defined as the person who based on direct or indirect participation in an entity, control over the entity or due to other reasons has the right to use and dispose of the relevant income for his/her own benefit. Functions undertaken and risks borne by such person are taken into account when determining the beneficial ownership to income. A person cannot be regarded as a beneficial owner if he/ she (1) has limited authorities to use or dispose the income, (2) acts as an intermediary and has no additional functions or risks, (3) is obliged to pass the income to a third party that has no treaty benefits.

Notwithstanding anything to the contrary above, no withholding tax should be withheld from interest on the loans payable under the Eurobonds structures by virtue of the exemption, which stipulates that Russian borrowers should be fully released from the obligation to withhold Russian withholding tax from interest payable to foreign legal entities provided that the following conditions are all simultaneously met:

- (1) interest is paid on debt obligations of Russian entities that arose in connection with the placement by foreign entities of “issued bonds”, defined as bonds or other debt obligations
 - (a) listed and/or admitted to trading on one of the specified foreign exchanges, and/or
 - (b) that have been registered in the specified foreign depository/clearing organisations.

The lists of qualifying foreign exchanges and foreign depository/clearing organisations were approved by Order No. 12-91/pz-n of the Federal Financial Markets Service dated 25 October 2012 (the **Order**). The Irish Stock Exchange and the clearing systems Euroclear and Clearstream, Luxembourg were included in the above-mentioned lists.

- (2) there is a double tax treaty between Russia and the jurisdiction of tax residence of the recipient of interest of the loan (i.e., the Issuer) which can be confirmed by a tax residency certificate issued by the competent authorities of his/ her country of residence for tax purposes and effective as of the moment of income payment.

Importantly, the Russian Tax Code does not provide an exemption for the foreign interest income recipients from Russian withholding tax although there is no requirement and mechanism in the Russian tax legislation for foreign legal entities to self-assess and pay the tax to the Russian tax authorities, in case the tax was not withheld at source; such rules however are set out for non-Russian tax residents which are individuals. There can be no assurance, therefore, that requirements will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients, including the Issuer or the Noteholders.

If payments on any Loan become payable to the Trustee pursuant to the security arrangements described herein, there is some residual uncertainty as to whether the release of the Company from the withholding tax agent obligation under the exemption described above would be applicable to interest payable by the Company to the Trustee. There is a potential risk that such interest on the relevant Loan payable to the Trustee will become subject to Russian withholding tax at the rate of 20 percent (or such other tax rate as may be effective at the time of payment) or Russian personal income tax at the rate of 30 percent (or such other tax rate that may be effective at the time of payment). Further it is not expected that the Trustee will, or will be able to, claim the exemption from or the reduction in standard Russian withholding tax rate applicable to interest under any double tax treaty under such circumstances.

If interest payable on any Loan becomes subject to Russian withholding tax or Russian personal income tax, as may be applicable, (as a result of which the Issuer will reduce interest payable under the corresponding Series of the Notes by the amount of such withholding taxes), the Company will be obliged (subject to certain conditions) under the terms of the relevant Loan Agreement to increase the amounts payable by it under the relevant Loan (“gross up”) as may be necessary to ensure that the net payments received by the Issuer and/or the Noteholders will not be less than the amounts they would have received in the absence of such withholding. It is currently unclear, however, whether provisions of the relevant Loan Agreement obliging the Company to gross up interest payable on the Loans will be enforceable under the Russian law as currently in effect. If the Company fails to increase interest payable on the relevant Loan, such failure will constitute an Event of Default pursuant to the relevant Loan Agreement.

If the Company is obliged to increase any payments on any Loan (as described above), it may (without premium or penalty), subject to certain conditions, prepay the relevant Loan in full. In such case, all outstanding Notes of the corresponding Series will each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of the redemption. See “*Terms and Conditions of the Notes*”.

No VAT should be payable in Russia in respect of interest and principal payments under any Loan.

LUXEMBOURG

The following general summary is based upon the tax laws of Luxembourg as in effect on the date of this Base Prospectus and is subject to any change that may come into effect after that date.

The following is a general description of certain tax laws relating to the Notes and the tax position of the Noteholders. As such it does not purport to be a comprehensive description of all the Luxembourg tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes. Each prospective holder or beneficial owner of the Notes should consult its tax advisor as to the tax consequences of the purchase, ownership and disposition of the Notes in the light of their particular circumstances.

Luxembourg tax residence of the Noteholders

Noteholders will not be deemed to be resident, domiciled or carrying on business in Luxembourg solely by reason of holding, execution, performance, delivery, exchange and/or enforcement of the Notes.

Withholding Tax and Self-Applied Tax

Under current Luxembourg tax law, payments of interest by the Issuer under the Notes will, with the possible exception of interest payments made to individual Noteholders and certain residual entities, be made free of withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein to the extent that such interest has been negotiated at arm's length and is not profit participating. There is also no Luxembourg withholding tax, with the possible exception of payments made to certain individual Noteholders or certain entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

Luxembourg non-resident individuals

Noteholders who are non-residents of Luxembourg and who do not have a permanent establishment, a permanent representative or a fixed base of business in Luxembourg with which the holding of the Notes is connected, will not be subject to taxes (income taxes and net wealth tax) or duties in Luxembourg with respect to payments of principal or interest (including accrued but unpaid interest), payments received upon redemption, repurchase or exchange of the Notes or capital gains realised upon disposal or repayment of the Notes.

Luxembourg resident individuals

In accordance with the law of 23 December 2005, as amended by the law of 17 July 2008, on the introduction of a withholding tax on certain interest payments on savings income (the **Law**), interest payments made by Luxembourg paying agents to Luxembourg individual residents or to certain residual entities that secure interest payments on behalf of such individuals (unless such entities have opted either to be treated as UCITS recognised in accordance with the European Council Directive 85/611/EEC as replaced by the European Council Directive 2009/65/EC or for the exchange of information regime) are subject to a 20 percent withholding tax.

Pursuant to the Law, Luxembourg resident individuals, acting in the course of their private wealth, can opt to self-declare and pay a current 20 percent tax on interest payments by paying agents located in an EU Member State other than Luxembourg, a Member State of the European Economic Area other than an EU Member State or in a State or territory which has concluded an international agreement directly related to the Savings Directive.

Taxation of the Noteholders

A Noteholder who derives income from a Note or who realises a gain on the disposal or redemption of a Note will not be subject to Luxembourg taxation on income or capital gains (except for the potential application of the Savings Directive to interest payments) unless:

- the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- such income or gain is attributable to an enterprise or part thereof which is carried on by a non-resident through a permanent establishment or a permanent representative in Luxembourg.

Luxembourg resident individual Noteholders are however not subject to taxation on capital gains upon the disposal of a Note, unless such a disposal precedes the acquisition of the Note or the Note is disposed of within six months of its date of acquisition. The Luxembourg tax treatment of the accrued and unpaid interest upon the sale, redemption or exchange of the Notes should be addressed by the Noteholders' advisors depending on their particular circumstances.

Luxembourg resident corporate Noteholders which benefit from a special tax regime (such as family wealth management companies subject to the law of 11 May 2007, undertakings for collective investment subject to the law of 17 December 2010 or specialised investment funds subject to the law of 13 February 2007) are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (i.e., corporate income tax, municipal business tax and net wealth tax) other than the annual subscription tax calculated on their (paid up) share capital (and share premium) or net asset value.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a Noteholder unless:

- the Noteholder is, or is deemed to be, a fully taxable company resident in Luxembourg; or
- such Noteholder is a non-resident company carrying out business activities through a permanent establishment or a permanent representative in Luxembourg and the Note is attributable to such permanent establishment.

Other Taxes

Luxembourg gift or inheritance taxes will not be levied on the transfer of a Note by way of gift by, or on the death of, a Noteholder unless:

- the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- the transfer is construed as an inheritance or as a gift made by or on behalf of a person who, at the time of death or gift, is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- such Note is attributable to an enterprise or part thereof which is carried on by a non-resident through a permanent establishment or a permanent representative in Luxembourg; or
- the gift is registered in Luxembourg, which is not mandatory.

There is no Luxembourg registration tax, capital tax, stamp duty or any other similar tax or duty (other than nominal court fees and contributions for the registration with the Chamber of Commerce) payable in Luxembourg in respect of or

in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes or the performance of the Issuer's obligations under the Notes.

There is no Luxembourg VAT payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of a Note. Luxembourg VAT may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg VAT purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from VAT does not apply with respect to such services.

The above statements on taxation are based on the laws and practices in force at the date of this Base Prospectus. As is the case with any investment, there can be no guarantee that the tax position or proposed tax position at the time of an investment will endure indefinitely.

CERTAIN US FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a summary of certain US federal income tax considerations relevant to the purchase, ownership and disposition of the Notes. This discussion addresses only US Holders (as defined below) who purchase Notes in the original offering at the original offering price, hold the Notes as capital assets and use the US dollar as their functional currency. This discussion is not a complete description of all US tax considerations relating to the purchase, ownership and disposition of Notes that may be relevant to particular purchasers. It does not address the tax treatment of prospective purchasers subject to special rules, such as banks, dealers in currencies and securities, traders that elect to mark-to-market, insurance companies, investors liable for the alternative minimum tax, US expatriates, tax-exempt entities or persons holding Notes as part of a hedge, straddle, conversion or other integrated financial transaction. It also does not address the tax treatment of prospective purchasers that will hold the Notes in connection with a permanent establishment outside of the United States. This discussion does not consider US federal estate and gift tax, US state or local tax matters, Medicare contribution tax, or non-US tax considerations. Finally, this discussion does not address prospective purchasers of further Notes, which may be issued at a discount or premium.

This summary is based on the US Internal Revenue Code of 1986, as amended (the **US Tax Code**), existing and proposed US Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations, which could affect the tax consequences described herein.

For purposes of this discussion, a **US Holder** is a beneficial owner of a Note that is, for purposes of US federal income taxation, (i) an individual citizen or resident of the United States, (ii) a corporation or other business entity treated as a corporation for US federal income tax purposes created or organised under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of a US person and the primary supervision of a US court, or (iv) an estate the income of which is subject to US federal income taxation regardless of its source.

If an entity or arrangement treated as a partnership for US federal income tax purposes acquires or holds the Notes, the tax treatment of the partnership and a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. A prospective investor that is a partnership for US federal income tax purposes should consult its own tax advisors about the tax consequences for its partners of the partnership purchasing, holding and disposing of Notes.

Characterisation of the Notes

No authority directly addresses the US federal income tax characterisation of securities like the Notes and the Issuer has not and will not seek a ruling from the US Internal Revenue Service (**IRS**) as to their characterisation for such purposes. Although the matter is not free from doubt, to the extent relevant for US tax purposes, the Issuer intends to take the position that a beneficial owner of a Note will be treated as the beneficial owner of a debt instrument that is not a contingent payment debt instrument. The discussion below assumes that the Notes are properly treated as debt instruments that are not contingent payment debt instruments for US federal income tax purposes. No assurance can be given that the IRS will not assert, or a court would not sustain, a position regarding the characterisation of the Notes that is contrary to this treatment. Alternative characterisations include treatment of the Notes as equity in the Issuer, as contingent payment debt instruments subject to special rules relating to accrual of original issue discount (**OID**) and contingent interest, or as other types of financial instruments. If the Notes were treated as equity interests of the Issuer, US Holders may be treated as owning interests in a passive foreign investment company, which could have materially adverse tax consequences for a US Holder. If the Notes were to be treated as contingent payment debt instruments or as equity in the Issuer, US Holders may be required, among other things, to recognise income for US federal income tax purposes at different times and in different amounts, or subject to higher rates of tax, than described below and may suffer additional adverse US federal income tax consequences. Prospective investors should seek advice from their own

tax advisors as to the consequences to them of alternative characterisations of the Notes for US federal income tax purposes.

Interest

Stated interest paid on the Notes, including any additional payments, will be includible in the gross income of a US Holder in accordance with the holder's regular method of tax accounting. The interest, including any amounts withheld therefrom in respect of non-US taxes and additional amounts paid on account of such withheld tax, and OID, if any, accrued on the Notes will generally be ordinary income from sources outside the United States.

A US Holder of a Note issued with OID must accrue the OID into income on a constant yield to maturity basis whether or not it receives cash payments. Generally, a Note will have OID to the extent that its stated redemption price at maturity exceeds its issue price. However, a Note will not be treated as issued with OID if the stated redemption exceeds its issue price by less than $\frac{1}{4}$ of 1 percent of the Note's stated redemption price at maturity multiplied by the number of complete years to maturity (*de minimis* **OID**). The issue price of a Note is the initial offering price at which a substantial amount of the Notes are sold (excluding sales to brokers or similar persons). The stated redemption price at maturity of a Note is the total of all payments due on the Note other than payments of qualified stated interest. In general, qualified stated interest is interest that is unconditionally payable at least annually at a single fixed rate. Interest would be treated as unconditionally payable if reasonable legal remedies exist to compel timely payment or the terms of which make non-payment remote. In the event that the Notes are issued with OID, the amount of OID with respect to a Note includible in income by a US Holder is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion thereof in which such US Holder holds such Note. A daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID that accrued in such period. The accrual period of a Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or last day of an accrual period. The amount of OID that accrues with respect to any accrual period is the excess of (i) the product of the Note's "adjusted issue price" at the beginning of such accrual period and its "yield to maturity", determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of such period, over (ii) the amount of stated interest allocable to such accrual period. The adjusted issue price of a Note at the start of any accrual period is equal to its issue price, increased by the accrued OID for each prior accrual period and decreased by the amount of any payments previously made on the Notes that were not stated interest payments. The yield to maturity of a Note is the discount rate that, when used in computing the present value of all principal and interest payments to be made under the Note, produces an amount equal to the issue price of the Note. For purposes of determining OID accruals and adjusted issue price with respect to Floating Rate Notes only, the amounts of stated interest and OID are determined by assuming that the interest rate on Floating Rate Notes is a fixed rate based on the value of the floating rate applicable to such Notes as of the issue date.

A US Holder may elect to recognise all yield on a Note (including *de minimis* **OID**) using a constant yield method. The constant yield election generally will apply only to the Note with respect to which it is made, and it may not be revoked without the consent of the IRS.

It is possible that interest on the Notes will not be treated as qualified stated interest. In such circumstances, all interest (and any discount) on the Notes would be treated as **OID** and a US Holder would be required to include the **OID** in income on a constant yield to maturity basis whether or not it receives a cash payment on any payment date. Assuming the Notes are issued at par and stated interest is paid on time, US Holders generally would recognise income for each interest accrual period equal to the amount paid during that period.

In the case of Notes denominated in a currency other than US dollars (*foreign currency*), a cash basis US Holder receiving stated interest in foreign currency must include in income a US dollar amount based on the spot exchange rate on the date of receipt whether or not the payment is converted into US dollars on such date. An accrual basis US Holder (and a cash basis US Holder in the case of **OID**, if any) accruing interest or **OID** in foreign currency generally must include in income a US dollar amount based on the average exchange rate during the accrual period (or, for an accrual period that spans two taxable years, the partial accrual period within each taxable year). Upon receipt of an interest payment (or other payment treated as a payment of accrued **OID**, if any) in foreign currency (including, amounts received upon sale of a Note that are attributable to accrued and unpaid interest previously included in income), US Holders that have accrued interest (or **OID**, if any) will recognise exchange gain or loss equal to the difference, if any, between the US dollar amount previously accrued and the US dollar value of the payment received at the spot exchange rate on the date of receipt. Foreign exchange gain or loss will be US source ordinary income or loss and generally will not be considered additional interest income or expense.

An accrual basis US Holder (and a cash basis US Holder with respect to **OID**, if any) may elect to translate accrued interest into US dollars at the spot exchange rate on the last day of the accrual period (or, for an accrual period that spans two taxable years, in the case of the first partial period, the last day of the taxable year). If accrued interest actually is

received within five business days of the last day of the accrual period (or the taxable year, in the case of a partial accrual period), an electing accrual basis US Holder instead may translate the accrued interest at the spot exchange rate on the date of actual receipt for purposes of translating accrued interest income into US dollars (in which case no exchange gain or loss will be taken into account upon receipt). Currency translation elections will apply to all debt instruments that the electing US Holder holds or acquires as of the beginning of that taxable year or thereafter acquires and cannot be revoked without the consent of the IRS. For purposes of determining exchange gain or loss, all payments on a Note (other than payments of stated interest) will be viewed as payments, first, of stated interest, then of previously accrued OID (with payments considered made for the earliest accrual periods first) and, finally, payments of principal.

For purposes of this discussion, the “spot exchange rate” generally means a rate that reflects a fair market rate of exchange available to the public for currency under a “spot contract” in a free market and involving representative amounts. The “average exchange rate” for an accrual period (or partial period) is the average of the spot exchange rates for each business day of such period or other average exchange rate for the period reasonably derived and consistently applied by a US Holder.

Stated interest income and OID, if any, on the Notes will be treated as foreign source income and generally will be considered “passive category income” or, in the case of certain US Holders, “general category income” in computing the foreign tax credit allowable to US Holders for US federal income tax purposes. To the extent payments under the Loan are subject to Russian withholding tax, it is unclear whether a US Holder that is eligible for benefits under the income tax treaty between the Russian Federation and the United States may claim an exemption from or reduction in Russian withholding tax, if any, imposed on the Notes. See discussions under “Taxation—Russian Federation—Tax Treaty Relief” and “Taxation—Russian Federation—Taxation of Interest on the Loans”. It is also unclear whether a US Holder could claim a deduction or foreign tax credit for any Russian tax withheld from payments on the Loan. Each US Holder should consult its own tax advisor about its eligibility for exemption from, and its ability to credit or deduct any Russian withholding tax which reduces payments on the Notes.

Disposition

A US Holder will recognise gain or loss on the sale, exchange, retirement or other disposition of a Note in an amount equal to the difference between the US dollar value of the amount realised (less any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the US Holder’s adjusted tax basis in the Note. A US Holder’s adjusted tax basis in a Note generally will equal the US Holder’s US dollar cost of the Note determined at the spot exchange rate on the date of purchase increased by previously accrued OID, if any, and reduced by payments on the Notes other than payments of qualified stated interest. Subject to the foreign currency gain or loss discussed below, any such gain or loss will generally be considered US source and will be long-term capital gain or loss if the Note has been held for more than one year. The long term capital gains of non-corporate US Holders may be taxed at lower rates. Deductions for capital losses are subject to limitations.

A US Holder that receives foreign currency upon the sale, exchange, retirement or other disposition of a Note will realise an amount equal to the US dollar value of the foreign currency on the date of sale, exchange, retirement or other disposition. If the Notes are traded on an established securities market at the time of acquisition or disposition, a cash basis US Holder or electing accrual basis US Holder will determine its US dollar cost of the Note and the US dollar amount realised, as applicable, on the settlement date. An accrual basis US Holder that does not make such an election when eligible to do so will recognise foreign exchange gain or loss to the extent of any currency fluctuations between the date of disposition and the settlement date.

In the case of Notes denominated in a foreign currency, gain or loss recognised on the sale, exchange, retirement or other disposition of a Note that is attributable to changes in the spot exchange rate for foreign currency between the dates of acquisition (or accrual, in the case of accrued interest or OID, if any) and disposition of the Note, generally will be treated as US source ordinary income or loss and will not be considered additional interest income or expense. Gain or loss attributable to fluctuations in currency exchange rates generally will equal the difference, if any, between the US dollar value of the US Holder’s foreign currency purchase price for the Note, determined at the spot rate of exchange on the date the US Holder disposes of the Note and the US dollar value of the US Holder’s purchase price for the Note, determined at the spot rate of exchange on the date the US Holder purchased such Note. In addition, a US Holder may recognise exchange gain or loss attributable to amounts received with respect to stated interest and accrued OID, if any, which will be treated as discussed above under “—Interest”. However, exchange gain or loss is taken into account only to the extent of total gain or loss recognised on the sale, exchange, retirement or other disposition of a Note. Exchange loss recognised on a sale, exchange, retirement or other disposition of a Note or foreign currency received in respect of a Note may be required to be reported to the IRS. US Holders should consult their own tax advisors to determine the tax return obligations, if any, with respect to an investment in the Notes.

To the extent proceeds from the sale or other disposition of the Notes are subject to Russian tax, it is unclear whether a US Holder that is eligible for benefits under the income tax treaty between the Russian Federation and the United States

may claim an exemption from or reduction in Russian tax, if any, imposed on such proceeds. See discussions under “—*Russian Federation—Taxation of Non-Resident Noteholders-Individuals—Sale or other Disposal of the Notes*” and “—*Russian Federation—Tax Treaty Relief*”. It is also unclear whether a US Holder could claim a deduction or foreign tax credit for any Russian tax imposed on the proceeds from the sale or other disposition of the Notes. Moreover, because a US Holder’s gain from the sale or other disposition of the Notes would generally constitute US source income, the US Holder may not be eligible to claim a foreign tax credit for any Russian taxes imposed (even if such Russian taxes are otherwise creditable for US federal income tax purposes) with respect to such gain unless the US Holder has foreign source income or gain from other sources. Each US Holder should consult its own tax advisor about its eligibility for exemption from, and its ability to credit or deduct any Russian tax imposed on the proceeds from the sale or other disposition of the Notes.

Substitution of the Issuer

The terms of the Notes and the Trust Deed provide that, in certain circumstances and without the consent of the Noteholders, another entity may be substituted in place of the Issuer as creditor under the Loan Agreement and as issuer and principal obligor in respect of the Notes. In certain circumstances, it is possible that such an assumption might be treated as a deemed disposition of Notes by a US Holder in exchange for new notes issued by the new obligor for US federal income tax purposes. As a result of this deemed disposition, a US Holder could be required to recognise capital gain or loss equal to the difference, if any, between the issue price of the new notes (as determined for US federal income tax purposes, which may equal the fair market value of the Notes at the time of the deemed exchange), and the US Holder’s adjusted tax basis in the Notes, and may be treated as acquiring the new notes with OID. US Holders should consult their own tax advisors concerning the US federal income tax consequences to them of a change in obligor with respect to the Notes.

Further Notes

If the holders of the further notes of a Series of Notes are not fungible for US federal income tax purposes with the Notes issued in the original offering of that Series of Notes, US holders of those notes may be required to accrue OID (or a different amount of OID) on the further notes into income. In such case, because the further notes may not be distinguishable from the previously outstanding Notes, the market value of all of the Notes may be adversely affected.

Information Reporting and Backup Withholding

Information reporting requirements may apply to payments of stated interest (including the accrual of OID, if any) on the Notes and to the proceeds of the sale or other disposition (including a retirement or redemption) of a Note paid to a US Holder unless such US Holder is an exempt recipient, and, when required, provides evidence of such exemption. Backup withholding may apply to such payments if the US Holder fails to provide a taxpayer identification number or a certification that it is not subject to backup withholding.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a US Holder’s US federal income tax liability provided the required information is timely furnished to the IRS.

Certain US Holders are required to report to the IRS information with respect to certain non US financial accounts, including Notes not held through an account with certain financial institutions. Investors who fail to report required information could become subject to substantial penalties. Potential investors should consult their own tax advisors regarding the possible implications of this reporting obligation for their investment in the Notes.

Reportable Transactions

A US taxpayer that participates in a "reportable transaction" is required to disclose its participation to the IRS. Under the relevant rules, a US Holder may be required to treat a foreign currency exchange loss from the Notes denominated in a foreign currency as a reportable transaction if this loss exceeds the relevant threshold in the regulations, and to disclose its investment by filing Form 8886 with the IRS. A significant penalty may be imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective investors are urged to consult their tax advisers regarding the application of these rules.

THE ABOVE DISCUSSION IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS STRONGLY URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE NOTES.

FATCA

Pursuant to certain provisions of the US Internal Revenue Code of 1986, as amended commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (foreign passthru payments) to persons that fail to meet certain certification, reporting, or related requirements. The issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Luxembourg) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply to foreign passthru payments prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

CERTAIN ERISA CONSIDERATIONS

Notes are not permitted to be acquired or held by employee benefit plans as defined in Section 3(3) of ERISA and subject to Title I of ERISA, including collective investment funds, separate accounts or accounts whose underlying assets are treated as assets of such plans pursuant to the US Department of Labor (**DOL**) “plan assets” regulation, 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA (collectively, **ERISA Plans**), plans not subject to ERISA but subject to Section 4975 of the US Tax Code, including IRAs, Keogh Plans which cover only self-employed persons and their spouses and other employee benefit plans for purposes of ERISA or Section 4975 of the US Tax Code which cover only the owners of a business (collectively, **4975 Plans**), or by entities whose underlying assets include plan assets by reason of an investment in the entity by ERISA Plans or 4975 Plans or otherwise (collectively, **Plan Asset Entities**). ERISA Plans, 4975 Plans and Plan Asset Entities are collectively referred to as **Benefit Plan Investors**. Subject to certain restrictions described below, Notes are permitted to be acquired and held by governmental plans, non-electing church plans and other arrangements that are not subject to ERISA or Section 4975 of the US Tax Code and are not Benefit Plan Investors (collectively, **Non-ERISA Plans**).

ERISA imposes fiduciary standards and certain other requirements on ERISA Plans and on those persons who are fiduciaries with respect to ERISA Plans. 4975 Plans are subject to certain restrictions similar to ERISA’s prohibited transaction rules. Non-ERISA Plans are subject to applicable state, local or federal law, as well as the restrictions of duties of common law, and may also be subject to prohibited transaction provisions that operate similarly to those under ERISA.

Under the regulations issued by the DOL, as modified by Section 3(42) of ERISA (the **Plan Asset Regulations**), unless certain exceptions apply, if a Benefit Plan Investor invests in an “equity interest” of an entity, that is neither a “publicly offered security” nor a security issued by an investment company registered under the Investment Company Act, the Benefit Plan Investor’s assets include both the equity interest and an undivided interest in each of the entity’s underlying assets. This “look through” rule will only apply where Benefit Plan Investors own 25 percent or more of the value of any class of equity interest in the entity. For purposes of this 25 percent determination, the value of equity interests held by persons (other than Benefit Plan Investors) that have discretionary authority or control with respect to the assets of the entity or that provide investment advice for a fee (direct or indirect) with respect to such assets (or any affiliate of such person) is disregarded. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features.

If the underlying assets of an entity are deemed to be plan assets, those with discretionary authority or control over the entity would be fiduciaries with respect to the entity’s assets. The assets of the entity would also be subject to the prohibited transaction rules of ERISA and Section 4975 of the US Tax Code, as well as other rules applicable to plan assets.

The Issuer believes that the Notes should be treated as debt rather than equity for purposes of the Plan Assets Regulations. The DOL, however, may take a contrary view or may view the Notes as having substantial equity features. Further, neither the Issuer nor the Trustee will be able to monitor the Noteholders’ status as Benefit Plan Investors. Accordingly, the Notes are not permitted to be acquired or held by any Benefit Plan Investor.

Non-ERISA Plans are permitted to acquire and hold the Notes, subject to certain restrictions described below. Each Non-ERISA Plan acquiring and holding the Notes will be deemed to have represented and warranted that the acquisition, holding and disposition of the Notes do not and will not violate any statute, regulation, administrative decision, policy or other legal authority applicable to the Non-ERISA Plan and the purchase, holding and disposition of the Notes or any interest therein do not and will not result in the assets of the Issuer being considered plan assets of such Non-ERISA Plan. Non-ERISA Plans are generally not subject to ERISA nor do the prohibited transaction provisions of ERISA or Section 4975 of the US Tax Code apply to these types of plans. However, governmental plans (as described in Section 3(32) of ERISA), are subject to prohibitions on related-party transactions under Section 503 of the US Tax Code, which prohibitions operate similarly to the prohibited transaction rules under ERISA or Section 4975 of the US Tax Code, and other Non-ERISA Plans may be subject to similar prohibitions. Accordingly, the fiduciary of a Non-ERISA Plan must consider applicable state or local laws, if any, imposed upon such plan before purchasing and holding a Note or any interest therein.

BY ITS PURCHASE AND HOLDING OF A NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, THAT (1) IT IS NOT AND WILL NOT BE (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF ERISA THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE US TAX CODE OF 1986, AS AMENDED APPLIES OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS FOR PURPOSES OF ERISA OR SECTION 4975 OF THE US TAX CODE BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE, (2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN

SECTION 3(32) OF ERISA, OR OTHER PLAN OR ARRANGEMENT THAT IS NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE US TAX CODE, THE PURCHASE, HOLDING AND DISPOSITION OF THE NOTES OR ANY INTEREST THEREIN DO NOT AND WILL NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR ANY OTHER LEGAL AUTHORITY APPLICABLE TO SUCH GOVERNMENTAL PLAN OR OTHER PLAN OR ARRANGEMENT THAT IS NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE US TAX CODE, AND THE PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE OR ANY INTEREST HEREIN DO NOT AND WILL NOT RESULT IN THE ASSETS OF THE ISSUER OF THE NOTES BEING CONSIDERED PLAN ASSETS OF SUCH GOVERNMENTAL PLAN OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE US TAX CODE, AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

The foregoing is not intended to be exhaustive and the law governing investments by Benefit Plan Investors and Non-ERISA Plans is subject to extensive administrative and judicial interpretations. The foregoing discussion should not be construed as legal advice. Any potential purchaser or holder of Notes should consult counsel with respect to issues arising under ERISA, the US Tax Code and other applicable laws and make their own independent decisions.

SELLING AND TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby.

Rule 144A Notes

Each purchaser of a beneficial ownership interest in Rule 144A Notes, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(1) If it is a US Person within the meaning of Regulation S, it is (a) a QIB that is also a QP, (b) not a broker-dealer which owns and invests on a discretionary basis less than US\$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acquiring such Notes for its own account, or for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A and the Issuer is relying on an exemption from the Investment Company Act provided by Section 3(c)(7) thereof.

(2) It will, (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than US\$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book-entry depositories.

(3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP each of which is purchasing not less than US\$200,000 principal amount of Notes or (b) to a person that is not a US person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State or another jurisdiction of the United States.

(4) It understands that the Issuer has the power to compel any beneficial owner of Rule 144A Notes that is a US person and is not a QIB and also a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner or purchase such interest from such owner at a price equal to the least of (x) the purchase price therefor paid by the beneficial owner, (y) 100 percent of the principal amount thereof or (z) the fair market value thereof. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a US person who is not both a QIB and a QP.

(5) It understands and acknowledges that its purchase and holding of such Notes or any interest therein constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan described in Section 4975(e)(i) of the US Tax Code to which Section 4975 of the US Tax Code applies, or (iii) an entity whose underlying assets include plan assets for purposes of ERISA or Section 4975 of the US Tax Code by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a governmental plan, as defined in Section 3(32) of ERISA, or other plan or arrangement that is not subject to Title I of ERISA or Section 4975 of the US Tax Code, the purchase, holding and disposition of the Notes or any interest therein does not and will not violate any statute, regulation, administrative decision, policy or any other legal authority applicable to such governmental plan or other plan or arrangement that is not subject to Title I of ERISA or Section 4975 of the US Tax Code, and the purchase, holding and disposition of the Notes or any interest therein does not and will not result in the assets of the Issuer being considered plan assets of such governmental plan or other plan not subject to Title I of ERISA or Section 4975 of the US Tax Code, and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations and warranties from that person.

(6) It understands that the Rule 144A Global Certificate and any Definitive Certificates issued in respect thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL

BUYER WITHIN THE MEANING OF RULE 144A (A “**QIB**”) THAT IS A QUALIFIED PURCHASER (A “**QP**”) WITHIN THE MEANING OF SECTION 2(a)(51) OF THE US INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “**INVESTMENT COMPANY ACT**”) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs EACH OF WHICH IS A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN US\$200,000 PRINCIPAL AMOUNT OF NOTES AND THAT CAN REPRESENT, IN EACH CASE, THAT (A) IT IS A QIB THAT IS ALSO A QP; (B) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (C) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (D) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS A QP; (E) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (F) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES; (G) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS, WILL HOLD AND TRANSFER AT LEAST US \$200,000 IN PRINCIPAL AMOUNT OF NOTES AND (H) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES, OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A US PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT (“**REGULATION S**”) IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, AND, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

IF THE BENEFICIAL OWNER HEREOF IS A US PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS NOTES, WILL HOLD AND TRANSFER AT LEAST US \$100,000 IN PRINCIPAL AMOUNT OF NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A US PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT BOTH A QIB AND A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (I) A US PERSON WHO IS A QIB AND ALSO A QP AND THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) OUTSIDE THE UNITED STATES AND IS NOT A US PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO PAO SEVERSTAL, THE ISSUER OR AN AFFILIATE OF EITHER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER, IN ANY CASE, AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PERCENT OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A US PERSON WHO IS NOT BOTH A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF OR OF ANY INTEREST HEREIN REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”) THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED APPLIES OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS FOR PURPOSES OF ERISA OR SECTION 4975 OF THE US TAX CODE BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE,

(2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN SECTION 3(32) OF ERISA, OR OTHER PLAN OR ARRANGEMENT THAT IS NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE US TAX CODE, THE PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT AND WILL NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR ANY OTHER LEGAL AUTHORITY APPLICABLE TO SUCH GOVERNMENTAL PLAN OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE US TAX CODE, AND THE PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT AND WILL NOT RESULT IN THE ASSETS OF THE ISSUER OF THE NOTES BEING CONSIDERED PLAN ASSETS OF SUCH GOVERNMENTAL PLAN OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE US TAX CODE, AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THIS NOTE TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS BOTH A QIB AND A QP.

(7) It acknowledges that the Issuer, the Company, the Registrar, the Arranger and the Dealers and their respective affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Company, the Arranger and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(8) It understands that Rule 144A Notes of a Series will be evidenced by a Rule 144A Global Certificate. Before any interest in a Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of a beneficial ownership interest in Regulation S Notes outside the United States, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a US person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, the Company or a person acting on behalf of such an affiliate.

(2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(3) It understands that Regulation S Notes of a Series will be evidenced by a Regulation S Global Certificate. Before any interest in a Regulation S Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

(4) It understands and acknowledges that its purchase and holding of such Regulation S Notes and any interest therein constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan described in Section 4975(e)(i) of the US Tax Code to which Section 4975 of the US Tax Code applies, or (iii) an entity whose underlying assets include plan assets for purposes of ERISA or Section 4975 of the US Tax Code by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a governmental plan, as defined in Section 3(32) of ERISA, or other plan or arrangement that is not subject to Title I of ERISA or Section 4975 of the US Tax Code, the purchase, holding and disposition of the Notes or any interest therein does not and will not violate any statute, regulation,

administrative decision, policy or any other legal authority applicable to such governmental plan or other plan not subject to Title I of ERISA or Section 4975 of the US Tax Code, and the purchase, holding and disposition of the Notes or any interest therein does not and will not result in the assets of the Issuer being considered plan assets of such governmental plan or other plan or arrangement that is not subject to Title I of ERISA or Section 4975 of the US Tax Code, and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations and warranties from that person.

(5) It acknowledges that the Issuer, the Company, the Registrar, the Arranger and the Dealers and their respective affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Regulation S Notes is no longer accurate, it shall promptly notify the Issuer, the Company, the Arranger and the Dealers. If it is acquiring any Regulation S Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated dealer agreement dated 14 February 2017 (the **Dealer Agreement**) between the Company, the Issuer, the Arranger and the Permanent Dealers, the Notes will be offered from time to time by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be severally or jointly and severally underwritten by two or more Dealers.

Each of the Issuer and the Company has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes or possession or distribution of any offering material or publicity material in relation thereto, in any country or jurisdiction where action for that purpose is required.

United States

The Notes and the corresponding Loans have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Dealer has severally agreed that, except as permitted by the Dealer Agreement, it will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution compliance period within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Terms used in this section have the meanings given to them by Regulation S.

Notes offered and sold outside the United States to non-US persons may be sold in reliance on Regulation S. The Dealer Agreement provides that the Dealer(s) may directly or through their respective US broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to persons whom they reasonably believe are QIBs and also QPs who can represent that (a) they are QIBs within the meaning of Rule 144A who are also QPs, (b) they are not broker-dealers who own and invest on a discretionary basis less than US\$25 million in securities of unaffiliated issuers, (c) they are not a participant-directed employee plan, such as a 401(k) plan, (d) they are acting for their own account, or the account of one or more QIBs each of which is also a QP, (e) they are not formed for the purpose of investing in the Notes or the Issuer, (f) each account for which they are purchasing will hold and transfer at least US\$200,000 in principal amount of Notes at any time, (g) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories and (h) they will provide notice of the transfer restrictions set forth in this Base Prospectus to any subsequent transferees.

This Base Prospectus has been prepared by the Issuer and the Company for use in connection with the offer and sale of the Notes outside the United States and the resale of the Notes in the United States and for the listing of Notes on the Official List and trading on the Market, or other stock exchange specified in the Final Terms or Series Prospectus. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any US person other than any QIB

who is also a QP and to whom an offer has been made directly by one of the Dealers or its US broker-dealer affiliate. Distribution of this Base Prospectus by any non-US person outside the United States or by any QIB/QP within the United States to any US person or to any other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-US person or QIB/QP with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such US person or other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-US person or QIB/QP, is prohibited.

United Kingdom

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

- in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes which are the subject of this Base Prospectus and/or any future prospectus in relation to a Series of Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or to the Company; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

Russian Federation

Each Dealer has represented that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

General

These selling restrictions may be modified by the agreement of the Issuer, the Company and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in a supplement to this Base Prospectus.

The Arranger, the Dealers and their respective affiliates have engaged and are engaged in transactions with the Company and other members of the Group (including, in some cases, credit agreements and credit lines) in the ordinary course of their banking business and the Arranger and the Dealers performed various investment banking, financial advisory, and other services for the Company, for which they received customary fees, and the Arranger, the Dealers and their respective affiliates may provide such services in the future.

LEGAL MATTERS

Certain legal matters in connection with the update of the Programme and the issue of Notes thereunder will be passed upon for the Company with respect to the laws of the Russian Federation and the United States by Latham & Watkins LLP. Certain legal matters in connection with the update of the Programme and the issue of the Notes thereunder will be passed upon for the Arranger with respect to the laws of the United Kingdom, Luxembourg and the United States by Linklaters LLP and with respect to the laws of the Russian Federation by Linklaters CIS.

INDEPENDENT AUDITORS

The Annual Financial Statements included in this Base Prospectus, have been audited by JSC KPMG, independent auditors, 10 Presnenskaya Naberezhnaya Block C Moscow 123112 as stated in their report appearing herein.

The Issuer's Annual Financial Statements included in this Base Prospectus, have been audited by PricewaterhouseCoopers Société cooperative, Luxembourg, acting as statutory auditor to the Issuer. PricewaterhouseCoopers Société cooperative, Luxembourg has its registered office at 2, Rue Gerhard Mercator, L-2182 Luxembourg and is a member of the *Institut des Réviseurs d'Enterprises* of Luxembourg and supervised by the *Commission de Surveillance du Seteur Financier*.

GENERAL INFORMATION

- (1) Transactions in the Notes will normally be effected for delivery on the third working day after the day of the transaction. However, Notes may be issued pursuant to the Programme that will not be listed on any stock exchange. The listing agent is not seeking admission to listing of the Notes on the Irish Stock Exchange for the purposes of the Prospectus Directive on its own behalf, but as agent on behalf of the Company and the Issuer. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List or trading on its regulated market for the purposes of the Prospectus Directive.
- (2) As of the date of this Base Prospectus, the Company had approved loans from the Issuer in the principal amount of up to US\$4,500,000,000, with total outstanding amounts of up to US\$4,500,000,000. The update of the Programme was approved by a resolution of the Board of Directors of the Issuer on 1 February 2017. The Company and the Issuer will obtain all necessary consents, approvals and authorisations in Russia and Luxembourg in connection with any Loan and the issue and performance of the corresponding Series of Notes.
- (3) There has been no significant change in the financial or trading position of the Company or the Group since 31 December 2016 and no material adverse change in the prospects of the Company or the Group since 31 December 2016.
- (4) There has been no significant change in the financial or trading position of the Issuer and no material adverse change in its financial position or prospects since 31 December 2015.
- (5) Neither the Company nor any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Base Prospectus that may have or have had in the recent past significant effects on the financial position or profitability of the Company or the Group.
- (6) The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Base Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer.
- (7) JSC KPMG has rendered an unqualified audit report on the Annual Financial Statements of the Group prepared according to IFRS as at and for the years ended 31 December 2016, 2015 and 2014.
- (8) The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number (**ISIN**) and (where applicable) the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms or Series Prospectus, as the case may be.
- (9) The issue price and the amount of the relevant Notes will be determined before filing of the relevant Final Terms or Series Prospectus of each Series, based on then prevailing market conditions. The Company and the Issuer do not intend to provide any post-issuance information in relation to any issues of Notes and corresponding Loans.
- (10) For so long as the Programme remains in effect or any Notes remain outstanding, the following documents in physical form will be available from the date hereof, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Principal Paying Agent:
 - the articles of association of the Issuer and the Charter of the Company;
 - the Trust Deed (which includes the form of the Global Notes and the Definitive Notes);
 - the Dealer Agreement;
 - the Facility Agreement;
 - the audited consolidated financial statements of the Company as at and for the years ended 31 December 2016, 2015 and 2014, in each case together with the audit reports thereon;
 - the audited financial statements of the Issuer as at and for the years ended 31 December 2015 and 2014, in each case together with the audit reports thereon;

- each Final Terms or Series Prospectus, as the case may be, for Notes which are listed on the Irish Stock Exchange or any other stock exchange (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, the Company and the Principal Paying Agent as to its holding of Notes and identity); and
- a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus.

(11) Any website referred to in this document does not form part of this Base Prospectus.

GLOSSARY

Annealing	The heat treatment process by which steel products are reheated to a suitable temperature in order to remove stresses resulting from previous processing and to soften them and/or improve their machinability and cold-forming properties.
Bars	Long steel products that are rolled from billets. Merchant bar and reinforcing bar, or rebar, are two common categories of bars, where merchants include rounds, flats, angles, squares and channels that are used by fabricators to manufacture a wide variety of products such as furniture, stair railings and farm equipment. Rebar is used to strengthen concrete structures.
Basic oxygen furnace	A pear-shaped furnace, lined with refractory bricks, which refines molten pig iron from the blast furnace and scrap into steel. Scrap is charged into the furnace vessel, followed by the hot metal from the blast furnace. A lance is lowered from above, through which blows a high-pressure stream of oxygen to cause chemical reactions that separate impurities into fumes or slag.
Beneficiation	The treatment of mined material to make it more concentrated or richer. Uses the process of crushing, grinding, and often froth-flotation to remove waste rock from ore. The metal content is increased as the waste is removed.
Billet	A semi-finished steel product with a square cross section up to 150 millimetres by 150 millimetres. This product is either rolled or continuously cast and is further processed by rolling to produce finished long products. The range of semi-finished products above 150 millimetres by 150 millimetres are called blooms.
Blast furnace	A furnace used in the integrated metallurgical process in which iron ore in the form of sinter is melted down under a hot air flow (enriched with oxygen), using coal in the form of coke as a heating and reducing agent in the chemical process. As a result, a liquid hot metal is produced, also called pig iron.
Blooms	See “ <i>Billet</i> ”.
Coated steel	Steel sheet coated by immersion in a bath of molten material (known as hot-dip) to protect the base metal (substrate) against corrosion. The most commonly used protective material is zinc. An organic coating (paint, plastic) can also be deposited on the layer of zinc. The zinc-coated steel is often referred to as “galvanised steel”.
Cogging	An intermediate rolling process when a hot ingot is reduced to a bloom or slab in a cogging mill.
Coils	Steel that has been wound.
Coke	A fuel obtained by the pyrolysis of coal in coke-ovens and used as a reducing agent for iron ore in the blast furnace.
Coke breeze	A lightweight aggregate stone formed by a refractory process.
Coking coal	Coal used for making coke, used to make steel.
Cold-rolled sheet	Sheet steel that has been run through a cold-rolling mill.
Cold-rolling mill	Equipment that reduces the thickness, or gauge, of flat steel products by rolling steel between alloy steel cylinders without prior reheating. Several roll passes are generally necessary to gradually reduce the steel to the desired thickness.
Colour-coated steel products	A variety of products produced either by film coating or direct extrusion of a multi-layer colour coating.
Continuous casting	The process pursuant to which molten steel is cooled into semi-finished products such as billets, blooms and slabs. The molten steel is poured at a steady rate from a ladle into a bottomless mould. As the molten steel enters the water-cooled mould, it starts to cool into a pliable solid that can then be cut into required lengths.
Cooling-tower	A structure which cools heated refining process water by circulating the water through a series of louvers and baffles through which cool air is forced by large fans.
Cowper	A modern furnace to pre-heat the blast air to high temperatures in order to avoid cooling (and thus having to re-heat) the mix, and use fairly complex systems to extract the heat from the hot carbon dioxide when it escapes from the top of the furnace, further improving efficiency.
Debottlenecking	When the output of a multi-step process is limited by the capacity of one unit or activity, that unit or activity is a bottleneck. Debottlenecking a step in a process can increase the capacity of the other steps both upstream and downstream.

Direct Reduced Iron (DRI)	The product of iron oxide pellets, lump ores, and/or fines that have been reduced (i.e., oxygen removed) in a direct reduction process at temperatures in excess of 900° Celsius, thereby increasing the percentage (by weight) of total iron in the reduced product. All other oxides in the ore remain in their natural state.
Dolomite	A sedimentary rock composed largely of calcium magnesium carbonate.
Draglines	Large scale mining equipment for removing overburden and inter-zone rock intervals. The rock is removed along a long strip by dragging a bucket capable of holding up to 90 cubic metres until the top of the coal is exposed. Waste rock is deposited behind the active mining area on land under which the coal has already been removed. This waste rock is then smoothed and land surface reclamation to restore the surface to its pre-mining condition is undertaken.
Electric arc furnace (EAF)	A furnace that refines molten pig iron from the blast furnace and scrap into steel. In this process, the proportion of scrap used can be increased to 100 percent of the metal charge. Once the furnace is charged and covered, graphite electrodes are lowered through holes in the roof. The electric arc travelling between the electrodes and the metallic charge creates intense heat that melts the charge. Alloying elements can be added during the process.
Ferro alloy	A metal product commonly used as a raw materials feed in steelmaking, usually containing iron and other metals that improve the physical and chemical properties of the final steel product.
Ferrous	Metals that consist primarily of iron.
Flat products	A product that is produced by rolls with smooth surfaces and ranges of dimension, varying in thickness and width. The major flat steel product categories are (i) thin flat products (up to 4mm in thickness), (ii) thick flat products (between 4 millimetres and 50 millimetres in thickness); and (iii) plates (over 50 millimetres in thickness). Flat products are used in the automotive and white-goods industries, for production of large welded pipes, shipbuilding, construction, major works and boilers. They include hot- and cold-rolled sheet, plates and coils.
Galvanised steel	See “ <i>Coated Steel</i> ”.
Galvannealed	Steel that is zinc-iron alloy-coated by the hot-dip process followed by heating the steel to induce diffusion alloying between the molten zinc coating and the steel.
High Strength Low Alloy steel (HSLA)	A type of steel that provides many benefits over regular steel. It is much tougher and stronger than ordinary carbon-based steel. It is used in cars, trucks, cranes, bridges and other structures that must be able to handle a lot of strain.
Hot Briquetted Iron (HBI)	The form of DRI that has been compacted at a temperature greater than 650° Celsius at the time of compaction and has a density greater than 5.0 grams per cubic centimetre. Its higher density and pillow shape provide superior handling, shipping, storage and melting characteristics.
Hot-rolled steel	Steel rolled in a hot-rolling mill.
Hot-rolling	A process whereby solidified steel, preheated to a high temperature, is continuously rolled between rotating cylinders.
Ingot	An intermediate product made by pouring molten steel into moulds of given dimensions. In further processing steps carried out in a cogging mill, the ingots are transformed first to simple shape semi-finished products like blooms or slabs and then fed to hot-rolling mills. Ingot casting is now largely replaced by continuous casting.
Integrated metallurgical process	The process including all stages starting from raw coal and iron ore to rolling finished products at one site.
Ladle furnace	A furnace used for refining hot metal between the converter or electric arc furnaces and casting.
Lance (Oxygen)	A length of pipe used to convey oxygen onto a bath of molten metal. A steel tube, consumed during cutting, through which cutting oxygen passes, for the cutting or boring of holes.
Long products	Long products are used in all industrial sectors, particularly in the construction and engineering industries. They include all types of bars, wire rod and a wide range of cold-formed profiles like closed profile, S-shape profile, E-shape profile, trough-shape profile, angle profile and others. They also include pipes with circular, oblong and semi-oblong, square and rectangular cross sections of a wide range of sizes.

Long-wall mining	A mining technique in which large blocks of coal are removed in a single pass. This technique uses two tunnels which are about 1,500 metres long and 250 metres apart and are joined together at the end by a third tunnel. The third tunnel marks the spot where longwall mining starts.
Lost Time Injury Frequency Rate (LTIFR)	A number of lost time injuries occurring in a workplace per 1 million man-hours worked.
Metallurgical lime	Quick lime. Slag-former and lining protector used in metallurgical processes.
Metalware	Small industrial, household and similar articles made of metal.
Middlings	The mixture of water, clay, sand and bitumen that remains between the bitumen froth at the surface and the sand at the bottom of a primary separation vessel.
Open-hearth furnace	A broad, shallow hearth to refine pig iron and scrap into steel (also known as a <i>Martin furnace</i>). Heat is supplied from a large flame over the surface and the refining takes 7-9 hours.
Open-pit methods	Open-pit mining refers to a method of extracting rock or minerals from the earth by their removal from an open pit or borrow. The term is used to differentiate this form of mining from extractive methods that require tunnelling into the earth.
Pellets	Iron ore or limestone particles which are baked into little balls of a specified size in a balling drum and hardened by heat.
Pickling	The process in which the surface of the steel is cleaned with acid to remove scale, rust and dirt, such process being preparation for further processing, such as cold-rolling, galvanising or polishing.
Refining	A stage in the process of making crude steel, during which most residual impurities are removed from the crude steel and additions of other metals may be made before it is cast (see also “Ladle furnace”).
Reinforcing bar or Rebar	A commodity-grade steel used to strengthen concrete in highway and building construction.
Run of mine (ROM)	The raw material from mining as it is delivered by the mine trucks, skips or conveyors prior to any treatment such as magnetic separation in the case of iron ore, or washing/flotation in the case of coal.
Scrap	Iron containing material (mainly industrial or household waste) that generally is remelted and recast into new steel. The scrap could be used as part of a metal charge together with pig iron loaded into steel-melting furnaces.
Semi-finished products	Steel products such as billet, blooms and slabs. These products can be made by direct continuous casting of hot steel or by pouring the liquid steel into ingots, which are then hot-rolled into semi-finished products.
Sinter	Particles in roughly one-inch chunks produced by mixing and baking iron ore concentrate and limestone flux prior to loading it into the blast furnaces for reduction into pig iron.
Slab	A semi-finished steel product obtained by rolling ingots on a rolling mill or processed through a continuous caster and cut into various lengths. The slab has a rectangular cross section and is used as a starting material in the production process of flat products.
Slag	A by-product, containing inert materials, produced during the blast- furnace smelting process and other steelmaking operations.
Slitting	Cutting a sheet of steel into narrower strips.
Strip	Flat steel products used for production of pipes. Strips with widths of less than 600 millimetres are used for large pipes with a spiral welded seam and smaller pipes with a straight-line welded seam. Large-diameter pipes (of up to 1,420 millimetres diameter) with a straight-line welded seam require strips up to 4,600 millimetres wide and 30 millimetres thick.
Tandem mill	A cold-rolling mill that gives greater strength, a more uniform and smoother surface, and a reduced thickness to the steel sheet. This mill rolls steel through a series of rolls, to achieve a desired thickness and surface quality.
Tempering	A process of re-heating quench-hardened or normalised steel to a temperature below the transformation range and then cooling at any rate desired. The primary purpose of tempering is to impart a degree of plasticity or toughness to the steel to alleviate the brittleness of its martensite.
Vacuum degasser	An advanced steel refining facility that removes oxygen, hydrogen and nitrogen under low pressures (in a vacuum) to produce ultra-low-carbon steel for demanding electrical and automotive applications. Normally performed in the ladle, the removal of dissolved gases results in cleaner, higher-quality, more pure steel.

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PAO Severstal and subsidiaries

Consolidated financial statements
for the years ended 31 December 2016, 2015 and 2014

PAO Severstal and subsidiaries
Consolidated financial statements
Years ended 31 December 2016, 2015 and 2014

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Independent Auditors' Report

To the Shareholders and Board of Directors

PAO Severstal

Opinion

We have audited the consolidated financial statements of PAO Severstal (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2016, 2015 and 2014, and the consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Audited entity: PAO Severstal

Registration No. in the Unified State Register of Legal Entities 1023501236901

Cherepovets, Vologodskaya oblast, Russia.

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

Registration No. in the Unified State Register of Legal Entities 1027700125628

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organizations: No. 11603053203.

Impairment of non-current assets – Impact of the accident at Vorkutaugol's Severnaya mine

Please refer to the Note 8 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>In February 2016 an explosion took place at Vorkutaugol's Severnaya mine. The operations at the mine have been suspended since the accident. In September 2016 the Group took a decision to seal off the Severnaya mine as a result of the investigation carried out by Vorkutaugol representatives and the Russian authorities.</p> <p>As a result, a loss on disposal of property, plant and equipment of US\$41 million and an impairment loss of US\$12 million was recognised in the consolidated financial statements.</p> <p>Due to the existence of an indication that Vorkutaugol property, plant and equipment might be impaired, the Group developed a discounted cash flow model to assess Vorkutaugol's recoverability as a separate cash-generating unit (CGU). As a result, no impairment loss was recognized in 2016.</p> <p>Given the size of the carrying value of property, plant and equipment and significant judgment inherent in preparation of the discounted cash flow model of Vorkutaugol, the test for impairment was considered to be a key audit matter our audit focused on.</p>	<p>We assessed that the list of disposed and impaired assets of Severnaya mine was complete and distribution between disposed and impaired assets was appropriate based on our understanding of mining and further production processes and communication with the Group's technical specialists.</p> <p>Our procedures in relation to impairment model were the following:</p> <ul style="list-style-type: none"> - Obtaining an understanding of the CGU's budgeting procedures upon which the first-year and beyond projections were based, as well as adequacy of relevant internal controls; - Assessment of appropriateness of review and approval policies regarding assumptions and inputs used in the projections; - Assessment of analytical review and monitoring procedures carried out by the CGU on the actual outcome of the forecast made in the prior periods and adequacy of the response. <p>We involved our own valuation specialists to critically challenge estimates and assumptions used by the Group's management in their impairment model for Vorkutaugol. Namely, we analysed key assumptions to determine whether they were reasonable and supportable given the current macroeconomic environment, historical operations and future performance:</p> <ul style="list-style-type: none"> - compared projected coal prices to publicly available market benchmarks; - assessed the key components of the discount rate calculation and specific adjustments; - performed our own sensitivity analysis.

Recognition of previously unrecognized accumulated tax losses	
Please refer to the Note 10 in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>During 2016, the Group recognised deferred tax assets on previously unrecognized tax losses related to disposal of Severstal Dearborn LLC and Severstal Columbus LLC in 2014 as a result of a reassessment of their recoverability, due to a decrease in economic volatility compared with the 2014-2015 making the forecasts of future taxable profits more reliable. Also, during 2016 the Group was able to utilise a portion of previously unrecognized deferred tax assets.</p> <p>Due to the size of the recognised deferred tax asset and the inherent uncertainty involved in forecasting taxable profits, which are the basis of the assessment of deferred tax assets' recoverability, this was one of the key judgmental areas that our audit concentrated on.</p>	<p>We considered the source and nature of the tax losses of the disposed Severstal Dearborn LLC and Severstal Columbus LLC to assess the Group's tax position with the involvement of KPMG tax specialists. We used KPMG tax specialists to assist us in assessing the recoverability of the tax losses against the forecast of future taxable profits, taking into account the Group's tax position, the timing of tax loss utilisation and our knowledge and experience of the application of relevant tax legislation. We also considered existing taxable temporary differences.</p> <p>In this area our audit procedures were focused on:</p> <ul style="list-style-type: none"> - Obtaining an understanding of the Group's budgeting procedures upon which the forecasts are based, as well as the adequacy of relevant internal controls; - Appropriateness of review and approval policies regarding assumptions and inputs used in the forecast of future profits; - Analytical review and monitoring procedures carried out by the Group on the actual outcome of the forecast made in the prior periods and adequacy of response. <p>In assessing the appropriateness of the amount of deferred tax assets recognised in the Group's statement of financial position:</p> <ul style="list-style-type: none"> - We compared the assumptions used in respect of future taxable profits forecasts generated by the entities, included in Consolidated Group of Taxpayers, as defined by the Russian tax code for consistency amongst the entities: - Internal assumptions such as the level of production and related costs were agreed to the Group's business plan and our understanding of the economic environment; - External assumptions (selling prices and exchange rates) were corroborated to publicly available market benchmarks.



Other Information

Management is responsible for the other information. The other information comprises the Annual Report but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

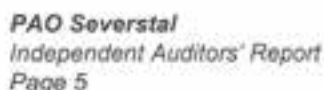
Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



- The engagement partner on the audit resulting in this independent auditors' report is:

Moscow, Russia



PAO Severstal and subsidiaries

Consolidated income statements

Years ended 31 December 2016, 2015 and 2014

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

	Note	Year ended 31 December		
		2016	2015*	2014*
Revenue				
Revenue - third parties		5,812	6,323	8,181
Revenue - related parties	11	104	73	115
	4	5,916	6,396	8,296
Cost of sales		(3,573)	(3,810)	(5,474)
Gross profit		2,343	2,586	2,822
General and administrative expenses		(279)	(290)	(419)
Distribution expenses		(462)	(518)	(683)
Other taxes and contributions		(54)	(68)	(96)
Share of associates' and joint ventures' gain/(loss)		14	(1)	(24)
Loss on disposal of property, plant and equipment and intangible assets	8	(52)	(13)	(11)
Net other operating income		7	7	13
Profit from operations		1,517	1,703	1,602
Impairment of non-current assets	8	(135)	(183)	(292)
Net other non-operating income/(expenses)	9	12	(51)	(102)
Profit before financing and taxation		1,394	1,469	1,208
Finance costs, net	6	(160)	(123)	(208)
Foreign exchange gain/(loss)	7	483	(624)	(1,806)
Profit/(loss) before income tax		1,717	722	(806)
Income tax (expense)/benefit	10	(97)	(160)	11
Profit/(loss) from continuing operations		1,620	562	(795)
Profit/(loss) from discontinued operation	27	-	41	(801)
Profit/(loss) for the period		1,620	603	(1,596)
Attributable to:				
shareholders of PAO Severstal		1,621	605	(1,595)
non-controlling interests		(1)	(2)	(1)
Basic and diluted weighted average number of shares outstanding during the period (millions of shares)	26	810.6	810.6	810.6
Basic and diluted earnings/(loss) per share (US dollars)		2.00	0.75	(1.97)
Basic and diluted earnings/(loss) per share - continuing operations (US dollars)		2.00	0.70	(0.98)
Basic and diluted earnings/(loss) per share - discontinued operation (US dollars)		-	0.05	(0.99)

*These amounts reflect adjustments made in connection with the change in classification of packaging expenses between cost of sales and distribution expenses (Note 2).

These consolidated financial statements were approved by the Board of Directors on 1 February 2017.

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

PAO Severstal and subsidiaries

Consolidated statements of comprehensive income

Years ended 31 December 2016, 2015 and 2014

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

	Year ended 31 December		
	2016	2015	2014
Profit/(loss) for the period	1,620	603	(1,596)
Other comprehensive income/(loss):			
Items that will not be reclassified to profit or loss			
Actuarial (losses)/gains	(7)	(20)	24
Translation to presentation currency	108	(146)	(1,172)
Total items that will not be reclassified to profit or loss	101	(166)	(1,148)
Items that may be reclassified subsequently to profit or loss			
Translation to presentation currency - foreign operations	14	(205)	(259)
Total items that may be reclassified subsequently to profit or loss	14	(205)	(259)
Items that were reclassified to profit or loss			
Reclassification of the reserves of disposed subsidiaries to profit or loss (Notes 27, 28)	(49)	7	(6)
Total items that were reclassified to profit or loss	(49)	7	(6)
Other comprehensive income/(loss) for the period, net of tax	66	(364)	(1,413)
Total comprehensive income/(loss) for the period	<u>1,686</u>	<u>239</u>	<u>(3,009)</u>
Attributable to:			
shareholders of PAO Severstal	1,686	241	(3,004)
non-controlling interests	<u>-</u>	<u>(2)</u>	<u>(5)</u>

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

PAO Severstal and subsidiaries

Consolidated statements of financial position

31 December 2016, 2015 and 2014

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

	Note	31 December 2016	31 December 2015	31 December 2014
Assets				
Current assets:				
Cash and cash equivalents	13	1,154	1,647	1,897
Short-term financial investments	14	19	11	21
Trade accounts receivable	15	485	432	649
Accounts receivable from related parties	12	22	10	15
Restricted financial assets		1	2	-
Inventories	16	867	650	815
VAT recoverable		78	58	64
Income tax recoverable		14	36	29
Other current assets	17	86	91	122
Assets held for sale	27	82	-	-
Total current assets		2,808	2,937	3,612
Non-current assets:				
Long-term financial investments	18	231	53	86
Investments in associates and joint ventures	19	55	26	81
Property, plant and equipment	20	3,135	2,611	3,336
Intangible assets	21	221	225	377
Deferred tax assets	10	27	7	44
Other non-current assets		6	8	17
Total non-current assets		3,675	2,930	3,941
Total assets		6,483	5,867	7,553
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		491	421	500
Accounts payable to related parties	12	15	9	16
Short-term debt finance	22	673	507	774
Income taxes payable		21	6	9
Other taxes and social security payable		95	77	100
Dividends payable		6	2	2
Other current liabilities	23	457	275	334
Liabilities related to assets held for sale	27	38	-	-
Total current liabilities		1,796	1,297	1,735
Non-current liabilities:				
Long-term debt finance	22	1,340	1,945	2,654
Deferred tax liabilities	10	115	141	120
Retirement benefit liabilities	24	67	53	48
Other non-current liabilities	25	124	163	169
Total non-current liabilities		1,646	2,302	2,991
Equity:				
Share capital	26	2,753	2,753	2,753
Treasury shares		(236)	(236)	(236)
Additional capital		296	296	313
Translation reserve		(2,246)	(2,318)	(1,974)
Retained earnings		2,450	1,758	1,954
Other reserves		9	-	-
Total equity attributable to shareholders of PAO Severstal		3,026	2,253	2,810
Non-controlling interests		15	15	17
Total equity		3,041	2,268	2,827
Total equity and liabilities		6,483	5,867	7,553

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

PAO Severstal and subsidiaries

Consolidated statements of cash flows

Years ended 31 December 2016, 2015 and 2014

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

	Year ended 31 December		
	2016	2015	2014
Operating activities:			
Profit before financing and taxation	1,394	1,469	1,208
Adjustments to reconcile profit to cash generated from operations:			
Depreciation and amortisation	343	367	561
Impairment of non-current assets (Note 8)	135	183	292
Movements in provision for inventories, receivables and other provisions	16	32	60
Loss on disposal of property, plant and equipment and intangible assets	52	13	11
(Gain)/loss on disposal of subsidiaries (Note 28)	(52)	3	27
Share of associates' and joint ventures' results less dividends from associates and joint ventures	(10)	5	31
Changes in operating assets and liabilities:			
Trade accounts receivable	(27)	98	20
Accounts receivable from related parties	(2)	4	(4)
VAT recoverable	(8)	(12)	6
Inventories	(123)	(42)	(147)
Trade accounts payable	32	(49)	46
Accounts payable to related parties	1	(7)	4
Other taxes and social security payable	25	-	43
Other non-current liabilities	(19)	(7)	(27)
Net other changes in operating assets and liabilities	(13)	38	100
Cash generated from operations	1,744	2,095	2,231
Interest paid	(152)	(177)	(247)
Income tax paid	(115)	(51)	(54)
Net cash from operating activities - continuing operations	1,477	1,867	1,930
Net cash (used in)/from operating activities - discontinued operation	-	(14)	108
Net cash from operating activities	1,477	1,853	2,038
Investing activities:			
Additions to property, plant and equipment	(494)	(412)	(700)
Additions to intangible assets	(31)	(27)	(79)
Additions to financial investments and joint ventures	(227)	(2)	(37)
Net cash inflow from disposal of subsidiaries (Notes 27, 28)	3	4	2,013
Proceeds from disposal of property, plant and equipment	7	25	23
Proceeds from disposal of financial investments	18	9	20
Interest received	61	99	56
Dividends received	-	-	1
Cash (used in)/from investing activities - continuing operations	(663)	(304)	1,297
Cash used in investing activities - discontinued operation	-	-	(95)
Cash (used in)/from investing activities	(663)	(304)	1,202
Financing activities:			
Proceeds from debt finance	656	243	1,949
Repayments of debt finance *	(1,070)	(1,222)	(2,572)
Net proceeds from other financing activities	6	-	-
Dividends paid	(921)	(723)	(1,061)
Cash used in financing activities - continuing operations	(1,329)	(1,702)	(1,684)
Cash used in financing activities - discontinued operation	-	-	(367)
Cash used in financing activities	(1,329)	(1,702)	(2,051)
Effect of exchange rates on cash and cash equivalents	23	(97)	(328)
Net (decrease)/increase in cash and cash equivalents	(492)	(250)	861
Less cash and cash equivalents of assets held for sale at end of the period	(1)	-	-
Cash and cash equivalents at beginning of the period	1,647	1,897	1,036
Cash and cash equivalents at end of the period	1,154	1,647	1,897

* These amounts include repurchase and redemption of bonds of US\$ 372 million for the year ended 31 December 2016, repurchase of bonds of US\$ 635 million for the year ended 31 December 2015 and repurchase and redemption of bonds of US\$ 1,406 million for the year ended 31 December 2014.

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

PAO Severstal and subsidiaries

Consolidated statements of changes in equity Years ended 31 December 2016, 2015 and 2014

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

	Attributable to the shareholders of PAO Severstal						Non-controlling interests	Total
	Share capital	Treasury shares	Additional capital	Translation reserve	Retained earnings	Other reserves	Total	
Balances as at 31 December 2013	2,753	(236)	316	(542)	4,676	1	6,968	16
Loss for the period	-	-	-	-	(1,595)	-	(1,595)	(1)
Translation to presentation currency	-	-	-	(1,427)	-	-	(1,427)	(4)
Other comprehensive (loss)/income	-	-	-	(5)	24	(1)	18	-
Total comprehensive loss for the period	-	-	-	(1,432)	(1,571)	(1)	(3,004)	(5)
Dividends	-	-	-	-	(1,152)	-	(1,152)	-
Repayment of convertible bonds	-	-	(3)	-	-	-	(3)	-
Other	-	-	-	-	1	-	1	6
Balances as at 31 December 2014	2,753	(236)	313	(1,974)	1,954	-	2,810	17
Profit/(loss) for the period	-	-	-	-	605	-	605	(2)
Translation to presentation currency	-	-	-	(351)	-	-	(351)	-
Other comprehensive income/(loss)	-	-	-	7	(20)	-	(13)	-
Total comprehensive (loss)/income for the period	-	-	-	(344)	585	-	241	(2)
Dividends	-	-	-	-	(752)	-	(752)	-
Repayment of convertible bonds (Note 22)	-	-	(17)	-	-	-	(17)	-
Other	-	-	-	-	(29)	-	(29)	-
Balances as at 31 December 2015	2,753	(236)	296	(2,318)	1,758	-	2,253	15
Profit/(loss) for the period	-	-	-	-	1,621	-	1,621	(1)
Translation to presentation currency	-	-	-	121	-	-	121	1
Other comprehensive loss	-	-	-	(49)	(7)	-	(56)	-
Total comprehensive income for the period	-	-	-	72	1,614	-	1,686	-
Dividends	-	-	-	-	(922)	-	(922)	-
Other	-	-	-	-	-	9	9	-
Balances as at 31 December 2016	2,753	(236)	296	(2,246)	2,450	9	3,026	15

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

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

1. Operations

These consolidated financial statements of PAO Severstal and subsidiaries comprise the parent company, PAO Severstal ('Severstal' or 'the Parent Company') and its subsidiaries (collectively 'the Group') as listed in Note 28.

Severstal began operations on 24 August 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On 24 September 1993, as a part of the Russian privatisation programme, Severstal was registered as an Open Joint Stock Company ('OAO') and privatised. Through participating in Severstal's privatisation auctions and other purchases, Alexey Mordashov (the 'Majority Shareholder') purchased shares in Severstal such that as at 31 December 2016 he controlled indirectly 79.18% (31 December 2015: 79.18%, 31 December 2014: 79.17%) of Severstal's share capital. In November 2014, Severstal changed its legal form from OAO to PAO (Public Joint Stock Company) following the requirements of the amended Russian Civil Code.

Severstal's global depositary receipts (GDRs) have been quoted on the London Stock Exchange since November 2006. Severstal's shares are quoted on the Moscow Exchange ('MICEX'). Severstal's registered office is located at Ul. Mira 30, Cherepovets, Russia.

The Group comprises the following segments:

- *Severstal Resources* – this segment comprises two iron ore complexes, Karelsky Okatysh and Olcon in northwest Russia, and a coal mining complex, Vorkutaugol in northwest Russia. The segment also included PBS Coals, a coal mining complex, which was located in the USA, and was disposed in August 2014 (Note 28).
- *Severstal Russian Steel* – this segment consists primarily of the Group's steel production and high-grade automotive galvanizing facilities in Cherepovets; rolling mill 5000 and large-diameter pipe mill in Kolpino, all in northwest Russia; metalware plants located in Russia, Ukraine and Italy; a ferrous scrap metal recycling business operating in northwest and central Russia, as well as various worldwide supporting functions for trading, maintenance and transportation.

A segmental analysis of the consolidated statements of financial position and consolidated income statements is given in Note 29.

Economic environment

The major part of the Group is based in the Russian Federation and is consequently exposed to the economic and political effects of the policies adopted by the Russian government. These conditions and future policy changes could affect the operations of the Group and the realisation and settlement of its assets and liabilities.

The conflict in Ukraine in 2014 and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. This development in the environment did not have a significant effect on the Group's operations, however, the longer-term effect of implemented sanctions, as well as the threat of additional future sanctions, is difficult to determine.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 *(Amounts expressed in millions of US dollars, except as otherwise stated)*

International sales of rolled steel from the Group's Russian operations have been the subject of several anti-dumping and countervailing investigations. The Group has taken steps to address the concerns of such investigations and participates actively in their resolution.

A brief description of protective measures effective in Severstal's key export markets is given below:

- Due to termination of the Agreement suspending the anti-dumping investigation on certain hot-rolled flat-rolled carbon-quality steel products from the Russian Federation by the US Department of Commerce in December 2014, exports of hot-rolled coils and thin sheets from Russia to the USA are currently subject to antidumping duties (73.59% for Severstal and 184.56% for all other producers). These duties were calculated in 1999 and based on non-market economy methodology. Severstal requested an administrative review of the recalculation of duty rate in December 2015. The US Department of Commerce published its preliminary results for the administrative review of hot-rolled steel from Russia and found that Severstal failed to cooperate with the review and assigned it a preliminary antidumping rate of 184.56% percent in January 2017. The Group will continue its participation in the review and plans on appealing the final results in US Court of International Trade.
- Exports of hot-rolled plates from Russia to the USA are subject to minimum prices established based on the producer's actual cost and profit in the domestic market. Severstal is the first and currently only Russian company, for which, since September 2005, the hot-rolled plates market is open.
- In 2016 the United States International Trade Commission completed the anti-dumping and countervailing investigations against Russian cold-rolled products with no anti-dumping or countervailing measures imposed as a result. US steel producers have appealed this decision in the United States Court of International Trade and the Group has, in order to protect its legitimate interests, joined these appellate proceedings. Substantive hearings are scheduled to start in March 2017.
- In 2016 the European Commission has introduced five-year anti-dumping duties against Russian cold-rolled steel products ranging from 18.7% to 36.1%, with a 34.0% duty imposed on the Group's products. The Group believes that the relevant anti-dumping investigations were conducted by the EU authorities with violations. As a result, the Group is considering the possibility to appeal this regulatory decision to impose such duties in the relevant legal institutions and settlement bodies of the EU and the WTO.
- There is currently an ongoing investigation by the European Commission against Russian hot-rolled steel products which could result in the introduction of anti-dumping duties on such products leading to the loss of their competitiveness in EU markets. On 7 January 2017, the European Commission announced a regulation making imports of certain hot-rolled flat steel products originating in Russia and Brazil subject to registration. The registration of imports will allow the anti-dumping duties to be introduced retroactively. The preliminary determination will be announced in April 2017. Severstal is actively participating in the investigation and hopes for fair treatment of the Company from the EU authorities.
- There are several on-going trade remedy proceedings initiated by other national authorities particularly in Brazil, India, Egypt and Thailand.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

2. Basis for preparation of the consolidated financial statements

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

The Group additionally prepared IFRS consolidated financial statements presented in Russian roubles and in the Russian language in accordance with the Federal Law No. 208 – FZ 'On consolidated financial reporting'.

Basis of measurement

The consolidated financial statements are prepared on the historic cost basis except for financial assets and liabilities at fair value through profit and loss and available-for-sale financial assets stated at fair value, and assets held for sale at fair value less costs to sell.

The Group's statutory financial records are maintained in accordance with the legislative requirements of the countries in which the individual entities are located, which differ in certain respects from IFRS. The accounting policies applied in the preparation of these consolidated financial statements are set out in Note 3.

Critical accounting judgments, estimates and assumptions

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful lives of property, plant and equipment;
- impairment of assets;
- allowances for doubtful debts, obsolete and slow-moving inventories;
- decommissioning liabilities;
- retirement benefit liabilities;
- litigation;
- deferred income tax assets; and
- functional currency determination.

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

Impairment of assets

The Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Allowance for doubtful debts

The Group makes allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Allowance for obsolete and slow-moving inventories

The Group makes allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

Decommissioning liabilities

The Group reviews its decommissioning liabilities, representing site restoration provisions, at each reporting date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 'Changes in Existing Decommissioning, Restoration and Similar Liabilities'. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

Retirement benefit liabilities

The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

Litigation

The Group exercises judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 *(Amounts expressed in millions of US dollars, except as otherwise stated)*

settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results.

Deferred tax assets

Deferred tax assets on deductible temporary differences and tax loss carry forwards are reviewed at each reporting date and recorded only to the extent that it is probable that the temporary differences will reverse in the future and there is sufficient future taxable profit available against which they can be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation of deferred tax assets must be reduced, this reduction will be recognised in the income statement.

Functional currency determination

The Group exercises judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions based on the specific facts and circumstances. This is a complex process and different factors are considered in determining an appropriate functional currency. The Group has a number of overseas holding companies, which retain various investments in foreign entities. Management regularly reviews facts and circumstances, which may indicate that the functional currency of the entities should be changed.

Functional and presentation currency

The presentation currency of these consolidated financial statements is the US dollar.

The functional currency is determined separately for each of the Group's entities. For the Russian entities the functional currency is the Russian rouble. The functional currency of the Group's entities which were located in North America was the US dollar. The functional currency of the majority of the Group's entities located in Western Europe is the Euro, except for otherwise determined.

The translation into the presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at the closing exchange rates at the dates of each statement of financial position presented;
- all income and expenses in each income statement are translated at the average exchange rates for the periods presented; and
- all resulting exchange differences are recognised as a separate component in other comprehensive income.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

The following exchange rates were used in the consolidated financial statements:

	2016		2015		2014	
	31 December	Average	31 December	Average	31 December	Average
USD/RUB	60.6569	67.0203	72.8827	60.9199	56.2584	38.3980
EUR/USD	1.0541	1.1062	1.0887	1.1095	1.2141	1.3264

Any conversion of amounts into US dollars should not be construed as a representation that such amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rates used, or at any other exchange rate.

Adoption of new and amended Standards

A number of new and amended Standards were adopted for the year ended 31 December 2016 and have been applied in these consolidated financial statements.

Standards	Effective for annual periods beginning on or after
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 financial statements.

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Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

New accounting pronouncements

A number of new and amended Standards were not yet effective for the year ended 31 December 2016 and have not been applied in these consolidated financial statements.

Standards	Effective for annual periods beginning on or after
IAS 7 (Amended) "Statement of Cash Flows"	1 January 2017
IAS 12 (Amended) "Income Taxes"	1 January 2017
IAS 28 (Amended) "Investments in Associates and Joint Ventures"	1 January 2018
IAS 40 (Amended) "Investment Property"	1 January 2018
IFRS 1 (Amended) "First-time Adoption of International Financial Reporting Standards"	1 January 2018
IFRS 2 (Amended) "Share-based Payment"	1 January 2018
IFRS 9 (Amended) "Financial Instruments"	1 January 2018
IFRS 12 (Amended) "Disclosure of Interests in Other Entities"	1 January 2017
IFRS 15 "Revenue from Contracts with Customers"	1 January 2018
IFRS 16 "Leases"	1 January 2019
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	1 January 2018

The adoption of the pronouncements listed above is not expected to have a significant impact on the Group's consolidated financial statements in future periods except for those discussed below.

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

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 periods:

	Year ended 31 December 2015	Year ended 31 December 2014
Increase in cost of sales	(23)	(34)
Decrease in distribution expenses	23	34

3. Summary of the principal accounting policies

The following significant accounting policies have been consistently applied in the preparation of these consolidated financial statements throughout the Group.

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a. Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled, directly or indirectly, by the Parent Company. Consolidation of an investee begins from the date the Group obtains control over the investee and ceases when the Group loses control over the investee. The non-controlling interests represent the non-controlling proportion of the net identifiable assets of the subsidiaries, including the non-controlling share of fair value adjustments on acquisitions. The Group presents non-controlling interests in its consolidated statement of financial position within equity, separately from the parent's shareholders' equity. Changes in the Group's interest in a subsidiary that do not result in losing control of the subsidiary are equity transactions.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing these consolidated financial statements; unrealised losses are also eliminated unless the transaction provides an evidence of impairment of the asset transferred.

Acquisition of Subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, the liabilities assumed and the consideration transferred. If the initial accounting for a business combination is incomplete by the end of the period in which the combination is effected, the Group accounts for the combination using the provisional values for the items for which the accounting is incomplete. The Group recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months from the acquisition date. As a result goodwill or gain from bargain purchase is adjusted accordingly.

Comparative information for the periods before the completion of the initial accounting for the acquisition is presented as if the initial accounting had been completed at the acquisition date.

Accounting for business combinations of entities under common control

IFRS provides no guidance on accounting for business combinations of entities under common control. Management adopted the accounting policy for such transactions based on the relevant guidance of accounting principles generally accepted in the United States ('US GAAP'). Management believes that this approach and the accounting policy disclosed below are in compliance with IFRS.

Acquisitions of controlling interests in companies that were previously under the control of the Majority Shareholder are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the Majority Shareholder. The assets and liabilities acquired are recognised at their book values. The components of equity of the acquired companies are added to the same components within Group equity, except that any share capital of the acquired companies is recorded as a part of additional capital. The cash consideration for such acquisitions is recognised as a liability to or a reduction of receivables from related parties, with a corresponding reduction in equity, from the date the acquired company is included in these consolidated financial statements until the cash consideration is paid. Parent Company shares issued in consideration for the acquired companies are recognised from the moment the acquired companies are included in these financial statements.

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Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 *(Amounts expressed in millions of US dollars, except as otherwise stated)*

No goodwill is recognised where the Group acquires additional interests in the acquired companies from the Majority shareholder. The difference between the share of the net assets acquired and consideration transferred is recognised directly in equity.

Business combination achieved in stages

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the associates or joint ventures at its acquisition date fair value and recognises the resulting gain or loss, if any, in profit or loss in the income statement.

Investments in associates

Associates are those enterprises in which the Group has significant influence, but does not have control or joint control over the financial and operating policies.

Investments in associates are accounted for under the equity method and are initially recognised at cost, from the date that significant influence commences until the date that significant influence ceases. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate and goodwill impairment charges, if any, after adjustments to align the accounting policies with those of the Group. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of the associate.

Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity. The investor's share of those changes is recognised in the investor's equity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.

The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint arrangement that is not structured through a separate vehicle is a joint operation. A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.

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The Group applies the following accounting to joint operations and joint ventures.

The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for joint ventures using the equity method.

Unrealised gains on transactions between the Group and its jointly controlled vehicle are eliminated to the extent of the Group's interest in a joint venture and a joint operation; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Goodwill

Goodwill is measured as the difference between:

- the aggregate of the acquisition-date fair value of the consideration transferred, the amount of any non-controlling interest, and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree; and
- the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill in respect of subsidiaries is disclosed as an intangible asset and goodwill relating to associates and joint ventures is included within the carrying value of the investments in these entities.

No goodwill is recognised where the Group acquires additional interests in the acquired companies (acquisitions of non-controlling interest). The difference between the share of the net assets acquired and the consideration transferred is recognised directly in equity.

Where goodwill forms a part of a cash-generating unit and the part of the operations within that unit is disposed of, the goodwill associated with that operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Gain from bargain purchase represents the excess of the Group's share in the fair value of acquired identifiable assets and the liabilities assumed over the consideration transferred, and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquire. It is recognised in the income statement at the date of the acquisition.

b. Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of each entity at the foreign exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency of each entity at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency of the entity at the foreign exchange rate ruling at

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the date of the transaction. Foreign exchange gains and losses arising on the translation are recognised in the income statement.

c. Exploration for and evaluation of mineral resources

Expenditures associated with search for specific mineral resources are recognised as exploration and evaluation assets. The following expenditure comprises cost of exploration and evaluation assets:

- obtaining of the rights to explore and evaluate mineral reserves and resources including costs directly related to this acquisition;
- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods;
- compiling prefeasibility and feasibility studies;
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Administration and other overhead costs are charged to the cost of exploration and evaluation assets only if directly related to an exploration and evaluation project.

If a project does not prove viable, all irrecoverable exploration and evaluation expenditure associated with the project net of any related impairment allowances is written off to the income statement.

The Group measures its exploration and evaluation assets at cost and classifies as tangible or intangible according to the nature of the assets acquired and applies the classification consistently. Exploration and evaluation assets considered to be tangible are recorded as a component of property, plant and equipment at cost less impairment charges. Otherwise, they are recorded as intangible assets, such as licenses. To the extent that tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is capitalised as a part of the cost of the intangible asset.

As the asset is not available for use, it is not depreciated. All exploration and evaluation assets are monitored for indications of impairment.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and the development of the deposit is sanctioned by management. The carrying amount of such exploration and evaluation asset is reclassified into a development asset.

d. Development expenditure

Development expenditure includes costs directly attributable to the construction of a mine and the related infrastructure and is accumulated separately for each area of interest. Development expenditure is capitalised and is recorded as a component of property, plant and equipment or intangible assets, as appropriate. No depreciation is charged on the development expenditure before the start of commercial production.

To the extent that revenue arises from test production during the development stage, an amount is charged from development expenditure to the cost of sales so as to reflect a zero net margin.

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e. Stripping costs

The Group separates two different types of stripping costs that are incurred in surface mining activity:

- Stripping activity asset; and
- Current stripping costs.

Stripping activity asset is created as part of usual surface activity in order to obtain improved access to further quantities of minerals that will be mined in future periods.

Current stripping costs are costs that are incurred in order to mine the mineral ore only in the current period.

The Group recognises a stripping activity asset if, and only if, all of the following are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the improved access to that component can be measured reliably.

After initial recognition, stripping activity assets are carried at cost less accumulated depreciation and impairment loss. Depreciation is calculated using the units of production method.

f. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and, for qualifying assets, borrowing costs capitalised. In the case of assets constructed by the Group, related works and direct project overheads are included in cost. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. Repair and maintenance expenses are charged to the income statement as incurred. Gains or losses on disposals of property, plant and equipment are recognised in the income statement.

Depreciation is provided so as to write off property, plant and equipment over its expected useful life. Depreciation is calculated using the straight-line basis, except for depreciation on vehicles and certain metal-rolling equipment, which is calculated on the basis of mileage and units of production, respectively. The estimated useful lives of assets are reviewed regularly and revised when necessary.

The principal periods over which assets are depreciated are as follows:

Buildings and constructions	20 – 50 years
Plant and machinery	10 – 20 years
Other productive assets	5 – 20 years
Infrastructure assets	5 – 50 years

g. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

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Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement as a part of interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

h. Intangible assets (excluding goodwill)

Intangible assets acquired by the Group are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised over their estimated useful lives using the straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The table below presents the useful lives of intangible assets:

Mineral rights	12 - 25 years
Software	3 - 10 years
Other intangible assets	3 - 50 years

The coal mining mineral rights of PBS Coals Limited constituted the major component of the mineral rights prior to the disposal of this entity in August 2014 (Note 28). The major component of the software is the SAP business system. The major component of the other intangible assets is land lease rights. Amortisation of intangible assets is included in the captions "Cost of sales" and "General and administrative expenses" in the consolidated income statement.

i. Impairment of assets

The carrying amount of goodwill is tested for impairment annually. At each reporting date the Group assesses whether there is any indication of impairment of the Group's other assets. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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Calculation of recoverable amount

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and its recoverable amount that is the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For other assets the recoverable amount is the greater of the fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a held-to-maturity investment, loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

j. Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads. Allowances are recorded against slow-moving and obsolete inventories.

k. Financial assets

Financial assets include cash and cash equivalents, investments, and loans and receivables.

Cash and cash equivalents comprise cash balances, bank deposits and highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the carrying value of a financial asset held at amortised cost and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

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Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial instruments, which are managed and performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in the income statement incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

AFS financial assets

Available for sale financial assets are those non-derivative financial assets that are not classified as financial assets at FVTPL, held-to-maturity or loans and receivables and are stated at fair value. Listed shares and other quoted instruments which are traded in an active market are stated at their market value. Investments in unlisted shares or other instruments those do not have a quoted market price in an active market are measured at management's estimate of fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses, which are recognised directly in the income statement. Where the investment is disposed of or

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is determined to be impaired, the cumulative gain or loss previously recognised in the equity is included in the income statement for the period.

Dividends on AFS equity instruments are recognised in the income statement when the Group's right to receive the dividends is established.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

I. Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms a part of a group of financial instruments, which are managed and where performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Borrowing costs on loans specifically for the purchase or construction of a qualifying asset are capitalised as a part of the cost of the asset they are financing.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised in the income statement.

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Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

m. Hedging instruments

The Group holds derivative financial instruments primarily to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

n. Dividends payable

Dividends are recognised as a liability in the period in which they are authorised by the shareholders.

o. Other taxes and contributions

Other taxes and contributions are taxes and mandatory contributions paid to the government, or government controlled agencies, that are calculated on a variety of bases, but exclude taxes calculated on profits, value added taxes calculated on revenues and purchases and social security costs calculated on wages and salaries. Social security costs are included in cost of sales, distribution expenses and general and administrative expenses in accordance with the nature of related wages and salaries expenses.

p. Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax expense is calculated by each entity on the pre-tax income determined in accordance with the tax law of the country, in which the entity is incorporated, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets on deductible temporary differences and tax loss carry forwards are reviewed at each reporting date and recorded only to the extent that it is probable that the temporary differences will reverse in the future and there is sufficient future taxable profit available against which they can be utilised.

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Deferred tax is not recognised in respect of the following:

- investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future;
- if it arises from the initial recognition of an asset or liability that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss;
- initial recognition of goodwill.

q. Provisions

Employee benefits

The Group pays retirement, healthcare and other long-term benefits to its employees.

The Group has two types of retirement benefits: defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts in respect of those benefits. The Group's only obligation is to pay contributions as they fall due, including contributions to the Russian Federation State pension fund. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans are post-employment benefits plans other than defined contribution plans. The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.). For Russia-based Group's entities, the discount rate used is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually using the projected unit credit method. In accordance with this method, the Group's net obligation is calculated separately for each defined benefit plan. Any actuarial gain or loss arising from the calculation of the retirement benefit liability is fully recognised in other comprehensive income.

Other long-term employee benefits include various compensations, non-monetary benefits and a long-term cash-settled share-based incentive program.

Decommissioning liabilities

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closure of certain of its production sites. Decommissioning liabilities are estimated case-by-case based on available information, taking into account applicable local legal requirements. The estimation is made using existing technology, at current prices, and discounted using a real discount rate. Future decommissioning costs, discounted to net present value, are capitalised and the corresponding decommissioning liability raised as soon as the constructive obligation to incur such costs arises. Future decommissioning costs are capitalised in property, plant and equipment and are depreciated over the life of the related asset. The effect of the time value of money on the decommissioning liability is recognised in the consolidated income statement as an interest expense. Ongoing rehabilitation costs are expensed when incurred.

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Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Other provisions

Other provisions are recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

r. Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of issued shares

When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

s. Operating income and expenses

The Group presents profit or loss from operations, which includes various types of income and expenses arising in the course of production and sale of the Group's products, disposal of property, plant and equipment, participation in joint ventures and associates and other Group's regular activities.

Certain items are presented separately from profit or loss from operations by virtue of their size, incidence or nature to enable a full understanding of the Group's financial performance. Such items, which are included in profit or loss before financing and taxation, primarily include impairment of non-current assets, negative goodwill and other non-operating income and expenses, as, for example, gain or loss on disposal of subsidiaries and associates and charitable donations.

t. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Sale of goods

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

u. Finance costs, net

Interest income

Interest income is recognised in the income statement on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Interest expense

Interest expense is recognised in the income statement as it accrues, taking into account the effective yield on the liability.

Gain/(loss) on remeasurement and disposal of financial investments

Gain/(loss) on remeasurement and disposal of financial investments comprises dividend income (except for dividends from equity associates and joint ventures), realised and unrealised gains on financial assets at fair value through profit or loss, realised gains and impairment losses on available-for-sale and held-to-maturity investments.

Other finance costs

Other finance costs include costs incurred for bank operating services and other related charges.

v. Earnings per share

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year, assuming that shares issued in consideration for the companies acquired from the Majority Shareholder were issued from the moment these companies are included in these consolidated financial statements.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 *(Amounts expressed in millions of US dollars, except as otherwise stated)*

Diluted earnings per share is calculated by dividing adjusted profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of shares outstanding, adjusted for the effect of all dilutive potential ordinary shares.

w. Discontinued operations

Discontinued operations are disclosed when a component of the Group either has been disposed of during the reporting period, or is classified as held for sale at the reporting date. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification.

The comparative income statement is presented as if the operation had been discontinued from the beginning of the comparative period.

Assets and liabilities of a disposal group are presented in the statement of financial position separately from other assets and liabilities. Comparative information related to discontinued operations is not amended in the statement of financial position.

x. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The reportable segments' amounts in the disclosure are stated before intersegment elimination and are measured on the same basis as those in the consolidated financial statements, except that:

- non-monetary long-term investments in subsidiaries are translated into the presentation currency at the historic exchange rate;
- no impairment is recognised on investments in subsidiaries;
- no discounting is applied for intersegment loans;
- in case of transfers of equity investments between segments, such investments are accounted at their historic cost.

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

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4. Revenue

Revenue by product was as follows:

	Year ended 31 December		
	2016	2015	2014
Hot-rolled strip and plate	1,784	1,799	2,366
Metalware products	488	496	664
Long products	477	433	601
Large diameter pipes	459	697	571
Cold-rolled sheet	451	595	805
Shipping and handling costs billed to customers	419	468	633
Other tubes and pipes, formed shapes	372	387	553
Galvanized and other metallic coated sheet	322	348	435
Pellets and iron ore	312	301	495
Colour-coated sheet	298	313	426
Semi-finished products	210	142	171
Coal and coking coal concentrate	105	175	222
Scrap	8	4	11
Others	211	238	343
	<u>5,916</u>	<u>6,396</u>	<u>8,296</u>

Revenue by delivery destination was as follows:

	Year ended 31 December		
	2016	2015	2014
Russian Federation	3,805	4,195	5,301
Europe	1,174	1,149	1,445
The Middle East	336	316	254
CIS	299	408	548
Africa	88	76	87
Central and South America	81	85	161
South-East Asia	58	10	67
China and Central Asia	56	104	68
North America	19	53	365
	<u>5,916</u>	<u>6,396</u>	<u>8,296</u>

5. Staff costs

Employment costs were as follows:

	Year ended 31 December		
	2016	2015	2014
Wages and salaries	(639)	(662)	(1,043)
Social security costs	(208)	(219)	(333)
Retirement benefit service costs	(1)	(1)	(5)
	<u>(848)</u>	<u>(882)</u>	<u>(1,381)</u>

Key management personnel include the following positions within the Group:

- Senior Vice Presidents;
- Board of Directors of the Company.

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Key management's remuneration for the year ended 31 December 2016, consisting of salaries and bonuses, totalled US\$ 10 million (2015: US\$ 10 million; 2014: US\$ 23 million).

Additionally, in 2016, a provision for their long-term cash-settled share-based incentive programmes of US\$ 3 million was accrued (2015: US\$ 2 million; 2014: US\$ 7 million). This provision is subject to further adjustments, depending on a range of the Group's financial indicators.

6. Finance costs, net

	Year ended 31 December		
	2016	2015	2014
Interest expense	(155)	(202)	(257)
Interest income	63	101	51
(Loss)/gain on remeasurement and disposal:	(66)	(14)	3
Derivative financial assets and liabilities			
Remeasurement to fair value	(43)	10	11
Held-to-maturity securities and loans			
Loss on disposal	-	(3)	(10)
(Impairment)/reversal of impairment	(3)	-	1
Available-for-sale financial assets			
Loss on disposal	(8)	-	-
Impairment	(12)	(21)	-
Dividend income	-	-	1
Other finance costs	(2)	(8)	(5)
	<u>(160)</u>	<u>(123)</u>	<u>(208)</u>

The impairment of available-for-sale financial assets in 2016 related to a greenfield iron ore deposit in Republic of Congo, Core Mining, and was due to the uncertain prospects for the development of the field.

The impairment of available-for-sale financial assets in 2015 related to a greenfield iron ore deposit in Brazil, SPG Mineracao SA, and was the result of iron ore prices decline.

7. Foreign exchange gain/(loss)

	Year ended 31 December		
	2016	2015	2014
Foreign exchange gain/(loss) on cash and cash equivalents and debt finance	524	(655)	(1,815)
Foreign exchange loss on derivative	(18)	-	(228)
Foreign exchange (loss)/gain on other assets and liabilities	(23)	31	237
	<u>483</u>	<u>(624)</u>	<u>(1,806)</u>

8. Impairment of non-current assets

	Year ended 31 December		
	2016	2015	2014
Impairment of property, plant and equipment	(82)	(79)	(169)
Impairment of intangible assets	(28)	(104)	(116)
Impairment of goodwill	(25)	-	(7)
	<u>(135)</u>	<u>(183)</u>	<u>(292)</u>

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Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

The recoverable amount of Redaelli Tecna S.p.A. in 2016, Severstal Liberia Iron Ore Ltd in 2015 and PBS Coals Limited and Severstal Liberia Iron Ore Ltd in 2014 has been determined based on its fair value less costs to sell.

For the purpose of impairment testing, the recoverable amount of each cash generating unit except above has been determined based on value in use calculations. The value in use calculation uses cash flow projections based on actual operating results and the business plan approved by management and a corresponding discount rate which reflects the time value of money and risks associated with each individual cash-generating unit.

Key assumptions management used in their value in use calculations are as follows:

- For all cash-generating units, apart from those included in the Severstal Resources segment, cash flow projections cover a period of five years. Cash flows beyond the five-year period have been extrapolated taking into account business cycles. Cash flow projections for cash-generating units of the Severstal Resources segment cover a period which corresponds to the contractual time of the respective mining licenses.
- Cash flow projections were prepared in nominal terms.
- Cash flow projections during the forecast period are based on long-term price trends for both sales prices and material costs specific for each segment and geographic region and operating cost inflation in line with consumer price inflation for each country. Consumer price inflation expectations (in local currency) during the forecast period are as follows in percentage terms:

	Year ended 31 December		
	2016	2015	2014
Russia	3.2 - 5.7	4.3 - 7.8	n/a
Italy	n/a	1.0 - 2.0	n/a

- Discount rates for each cash-generating unit were estimated in nominal terms based on the weighted average cost of capital. These rates, presented by segment, are as follows in percentage terms:

	Year ended 31 December		
	2016	2015	2014
Severstal Resources:			
Russia (US\$ rate)	14.4	14.5	n/a
Severstal Russian Steel:			
Italy (EUR rate)	n/a	10.0	n/a

Values assigned to key assumptions and estimates used to measure the unit's recoverable amount are consistent with external sources of information and historic data for each cash-generating unit. Management believes that the values assigned to the key assumptions and estimates represent the most realistic assessment of future trends.

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Severstal Resources segment

PBS Coals Limited (disposed in 2014)

2014

An impairment loss of US\$ 154 million was recognised in 2014 and was allocated to property, plant and equipment. Further disclosures are available in Note 28 of these consolidated financial statements.

Severstal Liberia Iron Ore Ltd

2014

During 2014, due to the decrease in iron ore prices the Group assessed the recoverable amount of Severstal Liberia Iron Ore Ltd. As a result, in 2014 the Group recognised an impairment loss of US\$ 123 million in relation to non-current assets of Severstal Liberia Iron Ore Ltd based on its fair value less costs to sell. US\$ 7 million of the loss was allocated to goodwill and US\$ 116 million to evaluation and exploration assets.

The carrying amount of goodwill allocated to the cash-generating unit before the impairment loss was US\$ 7 million as at 31 December 2014.

2015

During 2015, due to the uncertain prospects for the development of the field the Group again assessed the recoverable amount of Severstal Liberia Iron Ore Ltd. As a result, in 2015 the Group recognised an impairment loss of US\$ 100 million, which was fully allocated to intangible assets and reduced the carrying amount of the cash generating unit to US\$ nil.

AO Olcon

2015

During 2015, due to the decrease in iron ore concentrate prices the Group assessed the recoverable amount of AO Olcon. As a result, an impairment loss was recognised in 2015 of US\$ 80 million and US\$ 76 million was allocated to property, plant and equipment and US\$ 4 million to intangible assets. The carrying amount of the cash generating unit was US\$ 80 million as at 31 December 2015.

The following assumptions were used in the impairment test:

- the forecast extraction volumes decrease by 1% in 2016, increase by 3% in 2017, decrease by 1% in 2018, increase by 2% in 2019, decrease on average by 3% p.a. in 2020 to 2026;
- the forecast iron ore concentrate prices increase by 3% in 2016, increase by 5% in 2017, increase by 4% in 2018, increase by 9% in 2019, grow thereafter on average by 2% p.a.;
- operating costs are forecast to decrease by 5% in 2016, increase by 19% in 2017, increase on average by 4% p.a. in 2018 to 2020, further decrease on average by 5% p.a.;
- pre-tax discount rate of 14.5% (in US\$ terms).

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The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US\$ 6 million;
- a 10% decrease in future planned revenues increases the impairment loss by US\$ 79 million.

AO Vorkutaugol

2016

In February 2016, an explosion occurred at the Vorkutaugol's Severnaya mine which is included in the 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 and recognised a provision for restructuring of staff of US\$ 2 million. Loss on disposal of property, plant and equipment of US\$ 41 million and an impairment loss of US\$ 12 million was recognised in the reporting period, in relation to all relevant property, plant and equipment of the Severnaya mine.

In 2016, due to the existence of an internal indication of impairment as a result of an explosion occurred at the Vorkutaugol's Severnaya mine the Group assessed the recoverable amount of AO Vorkutaugol, the carrying amount of which was US\$ 279 million as at 31 December 2016.

As a result, based on a value in use calculation, no impairment loss was recognised in 2016.

Sensitivity analysis of the main assumptions of impairment test:

- a 1% increase in discount rate does not cause the impairment of the CGU;
- a 10% decrease in the coking coal concentrate prices does not cause the impairment of the CGU.

Additionally, an impairment loss of US\$ 56 million and US\$ 28 million was recognised in 2016 in relation to specific items of property, plant and equipment and intangible assets, respectively.

Other units

2015

An impairment loss of US\$ 1 million was recognised in 2015 in relation to specific items of property, plant and equipment.

Severstal Russian Steel segment

Redaelli Tecna S.p.A.

2015

As a result of a value in use calculation no impairment loss was recognised in 2015, and the recoverable amount of the CGU exceeded its carrying amount by US\$ 52 million.

The carrying amount of goodwill allocated to the cash-generating unit was US\$ 26 million as at 31 December 2015.

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The following assumptions were used in the impairment test:

- the forecast sales volumes increase by 3% in 2016, increase by 3% in 2017 and remain constant at the 2017 level thereafter;
- forecast sales prices decrease by 3% in 2016, increase by 2% in 2017, remain constant at the 2017 level in 2018, increase by 1% in 2019, increase by 3% in 2020 and grow thereafter on average by 2% p.a.;
- operating costs are forecast to decrease by 2% in 2016, increase by 4% in 2017, increase on average by 1% p.a. in 2018 and 2019, increase by 2% in 2020 and grow thereafter on average by 2% p.a.;
- pre-tax discount rate of 10.0% (in EUR terms).

The above estimates are particularly sensitive in the following areas:

- a 4% decrease in the steel prices would cause the CGU's recoverable amount to be equal to its carrying amount.

2016

In 2016 the Group recognised an impairment loss of US\$ 30 million in relation to non-current assets of Redaelli Tecna S.p.A. based on its fair value less costs to sell. US\$ 25 million of the loss was allocated to goodwill and US\$ 5 million to property, plant and equipment (Note 27).

The carrying amount of goodwill allocated to the cash-generating unit before the impairment loss was US\$ 25 million as at 31 December 2016.

Other units

2014

An impairment loss of US\$ 15 million was recognised in 2014 in relation to specific items of property, plant and equipment.

2015

An impairment loss of US\$ 2 million was recognised in 2015 in relation to specific items of property, plant and equipment.

2016

An impairment loss of US\$ 9 million was recognised in 2016 in relation to specific items of property, plant and equipment.

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9. Net other non-operating income/(expenses)

	Year ended 31 December		
	2016	2015	2014
Social expenditure	(14)	(13)	(20)
Charitable donations	(25)	(23)	(33)
Depreciation of infrastructure assets	(1)	(1)	(3)
Gain/(loss) on disposal of subsidiaries (Note 28)	52	(3)	(27)
Legal claim of disposed subsidiary	-	-	(13)
Other	-	(11)	(6)
	<u>12</u>	<u>(51)</u>	<u>(102)</u>

10. Taxation

The following is an analysis of the income tax expense:

	Year ended 31 December		
	2016	2015	2014
Current tax charge	(154)	(50)	(41)
Corrections to prior year's current tax charge	(3)	16	10
Deferred tax benefit/(expense)	60	(126)	42
Income tax (expense)/benefit	<u>(97)</u>	<u>(160)</u>	<u>11</u>

The following table is a reconciliation of the reported net income tax expense and the amount calculated by applying the Russian statutory tax rate of 20% to reported profit before income tax.

	Year ended 31 December		
	2016	2015	2014
Profit/(loss) before income tax	<u>1,717</u>	<u>722</u>	<u>(806)</u>
Tax charge at Russian statutory rate	(343)	(144)	161
Profits taxed at different rates	(6)	18	38
Corrections to prior years' current tax charge	(3)	16	10
Non-tax deductible expenses, net	(40)	(30)	(14)
Changes in non-recognised deferred tax assets	290	(4)	(123)
Reassessment of deferred tax assets and liabilities	5	(16)	(61)
Income tax (expense)/benefit	<u>(97)</u>	<u>(160)</u>	<u>11</u>

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The following table sets out the composition of the net deferred tax liability and movements based on the temporary differences arising between the fiscal and reporting balance sheets:

	31 December 2015	Recognised in income statements	Reclass to liabilities related to assets held for sale	Translation to presentation currency	31 December 2016
Deferred tax assets:					
Tax loss carry forwards	58	84	-	21	163
Property, plant and equipment	2	3	-	-	5
Inventory	10	8	-	2	20
Accounts receivable	14	(7)	-	2	9
Provisions	25	3	-	5	33
Financial investments	34	(27)	-	7	14
Other	15	-	-	3	18
Gross deferred tax assets	158	64	-	40	262
Less offsetting with deferred tax liabilities	(151)	(61)	-	(23)	(235)
Recognised deferred tax assets	7	3	-	17	27
Deferred tax liabilities:					
Property, plant and equipment	(236)	2	3	(49)	(280)
Provisions	(2)	-	-	-	(2)
Intangible assets	(40)	2	-	(6)	(44)
Inventory	(8)	2	-	(2)	(8)
Financial liabilities	(1)	(6)	-	-	(7)
Other	(5)	(4)	-	-	(9)
Gross deferred tax liabilities	(292)	(4)	3	(57)	(350)
Less offsetting with deferred tax assets	151	61	-	23	235
Recognised deferred tax liabilities	(141)	57	3	(34)	(115)
Net deferred tax liability	(134)	60	3	(17)	(88)

	31 December 2014	Recognised in income statements	Other movements	Translation to presentation currency	31 December 2015
Deferred tax assets:					
Tax loss carry forwards	172	(120)	-	6	58
Property, plant and equipment	2	-	-	-	2
Inventory	29	(3)	(14)	(2)	10
Accounts receivable	16	1	-	(3)	14
Provisions	27	6	-	(8)	25
Financial investments	12	25	-	(3)	34
Other	32	(12)	-	(5)	15
Gross deferred tax assets	290	(103)	(14)	(15)	158
Less offsetting with deferred tax liabilities	(246)	77	-	18	(151)
Recognised deferred tax assets	44	(26)	(14)	3	7
Deferred tax liabilities:					
Property, plant and equipment	(293)	(12)	-	69	(236)
Provisions	(2)	-	-	-	(2)
Intangible assets	(46)	(2)	-	8	(40)
Inventory	(19)	(6)	14	3	(8)
Investments in associates and joint ventures	(2)	-	-	2	-
Accounts receivable	(1)	-	-	1	-
Financial liabilities	(1)	-	-	-	(1)
Other	(2)	(3)	-	-	(5)
Gross deferred tax liabilities	(366)	(23)	14	83	(292)
Less offsetting with deferred tax assets	246	(77)	-	(18)	151
Recognised deferred tax liabilities	(120)	(100)	14	65	(141)
Net deferred tax liability	(76)	(126)	-	68	(134)

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	31 December 2013	Recognised in income statements	Change due to business de- combinations	Translation to presentation currency	31 December 2014
Deferred tax assets:					
Tax loss carry forwards	81	301	(195)	(15)	172
Property, plant and equipment	3	(1)	-	-	2
Inventory	38	(7)	-	(2)	29
Accounts receivable	63	(40)	-	(7)	16
Provisions	140	(90)	-	(23)	27
Financial investments	89	(58)	-	(19)	12
Other	72	(25)	-	(15)	32
Gross deferred tax assets	486	80	(195)	(81)	290
Less offsetting with deferred tax liabilities	(408)	(108)	195	75	(246)
Recognised deferred tax assets	78	(28)	-	(6)	44
Deferred tax liabilities:					
Property, plant and equipment	(575)	(72)	165	189	(293)
Provisions	(1)	(2)	-	1	(2)
Intangible assets	(90)	(6)	26	24	(46)
Inventory	(19)	(3)	-	3	(19)
Investments in associates and joint ventures	(23)	-	20	1	(2)
Accounts receivable	(2)	1	-	-	(1)
Financial liabilities	-	(1)	-	-	(1)
Other	(11)	(1)	10	-	(2)
Gross deferred tax liabilities	(721)	(84)	221	218	(366)
Less offsetting with deferred tax assets	408	108	(195)	(75)	246
Recognised deferred tax liabilities	(313)	24	26	143	(120)
Net deferred tax liability	(235)	(4)	26	137	(76)

The Group reassessed the recoverability of certain previously unrecognised deferred tax assets to the extent that it had become probable that future taxable profit would allow the deferred tax assets to be recovered. Amount of future taxable profit was based on the projections performed for the entities included in the consolidated group of taxpayers as defined by the Russian tax code. Main assumptions used related to the production level, costs, selling price and exchange rates.

The Group has not recognised cumulative tax loss carry forwards in the following amounts and with the following expiry dates:

	31 December		
	2016	2015	2014
Between one and five years	198	172	209
Between five and ten years	142	1,329	67
Between ten and twenty years	-	-	1,866
No expiry	90	63	47
	430	1,564	2,189

Taxable differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to US\$ 4,078 million as at 31 December 2016 (31 December 2015: US\$ 5,525 million; 31 December 2014: US\$ 5,307 million).

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Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

11. Related party transactions

	Year ended 31 December		
	2016	2015	2014
Revenue - related parties:			
Revenue - associates	27	27	42
Revenue - joint ventures	44	22	30
Revenue - other related parties	33	24	43
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	3	4	5
Interest income from other related parties	11	22	10
	<u>118</u>	<u>101</u>	<u>130</u>
Purchases from related parties:			
Purchases from associates:			
Non-capital expenditures	57	61	86
Purchases from joint ventures:			
Non-capital expenditures	3	1	5
Purchases from other related parties:			
Non-capital expenditures	25	23	35
Capital expenditures	4	3	1
	<u>89</u>	<u>88</u>	<u>127</u>

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Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

12. Related party balances

	31 December		
	2016	2015	2014
Joint ventures' balances			
Short-term trade accounts receivable	3	3	1
Short-term loans	2	2	-
Long-term loans	37	38	48
Associates' balances			
Short-term trade accounts receivable	3	2	3
Short-term loans	6	5	5
Short-term trade accounts payable	6	5	7
Other related party balances			
Cash and cash equivalents at related party bank*	-	168	309
Accounts receivable from other related parties:			
Short-term trade accounts receivable	15	4	9
Short-term other receivables	1	1	2
Short-term promissory notes	-	-	7
Long-term other receivables	1	1	1
Available-for-sale financial assets	-	-	1
	17	6	20
Accounts payable to other related parties:			
Short-term trade accounts payable	2	1	6
Advances received	1	1	-
Short-term other accounts payable	6	2	3
Long-term other accounts payable	8	5	9
	17	9	18

* With effect from October 2016 JSC Metcombank is no longer a related party to the Group.

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

Loans given to related parties were provided at interest rates ranging from nil to 13% per annum and were given to finance working capital and investments.

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Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

13. Cash and cash equivalents

	31 December		
	2016	2015	2014
Cash at bank	128	113	158
Bank deposits	1,025	1,524	1,739
Other cash equivalents	1	10	-
	<u>1,154</u>	<u>1,647</u>	<u>1,897</u>

14. Short-term financial investments

	31 December		
	2016	2015	2014
Available-for-sale financial assets	11	-	-
Loans	8	10	10
Held-to-maturity securities	-	1	11
	<u>19</u>	<u>11</u>	<u>21</u>

15. Trade accounts receivable

	31 December		
	2016	2015	2014
Customers	567	467	670
Allowance for doubtful debts	(82)	(35)	(21)
	<u>485</u>	<u>432</u>	<u>649</u>

16. Inventories

	31 December		
	2016	2015	2014
Raw materials and supplies	356	298	325
Finished goods	195	149	196
Work-in-progress	316	203	294
	<u>867</u>	<u>650</u>	<u>815</u>

Of the above amounts US\$ 6 million (31 December 2015: US\$ 10 million; 31 December 2014: US\$ 24 million) were stated at net realisable value.

During the year ended 31 December 2016, the Group recognised a US\$ 24 million release and a US\$ 34 million allowance to account for obsolete and slow-moving inventories and to reduce the carrying amount to net realisable value (2015: US\$ 24 million and US\$ 33 million, respectively; 2014: US\$ 40 million and US\$ 66 million, respectively).

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17. Other current assets

	31 December		
	2016	2015	2014
Advances paid and prepayments	37	34	40
Other taxes and social security prepaid	8	24	11
Financial receivable	-	1	15
Incentives receivable	-	-	17
Other assets	41	32	39
	<u>86</u>	<u>91</u>	<u>122</u>

18. Long-term financial investments

	31 December		
	2016	2015	2014
Available-for-sale financial assets	194	15	38
Loans	37	38	48
	<u>231</u>	<u>53</u>	<u>86</u>

19. Investments in associates and joint ventures

The Group's investments in associates and joint ventures companies are described in the table below. The Group structure and certain additional information on investments in associates and joint ventures, including ownership percentages, are presented in Note 28.

	31 December		
	2016	2015	2014
Associates			
AO Air Liquide Severstal	14	11	21
Iron Mineral Beneficiation Services (Proprietary) Ltd	-	-	12
Joint ventures			
Gestamp-Severstal-Kaluga LLC	15	7	25
Severstal-Gonvarri-Kaluga LLC	13	7	13
Rutgers Severtar LLC	12	-	-
Gestamp Severstal Vsevolozhsk LLC	1	1	10
	<u>55</u>	<u>26</u>	<u>81</u>

In 2014, the Group wrote off its other non-current liabilities related to the acquisition of Iron Mineral Beneficiation Services (Proprietary) Ltd and recognised the corresponding impairment loss of US\$ 24 million in respect of its investment in this company.

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The following is summarised financial information in respect of associates:

	31 December		
	2016	2015	2014
Current assets	17	13	26
Non-current assets	65	59	92
Short-term liabilities	6	9	18
Long-term liabilities	33	25	15
Equity	43	38	85

	Year ended 31 December		
	2016	2015	2014
Revenue	60	63	88
Net income	18	17	21
Other comprehensive income/(loss)	7	(18)	(35)
Total comprehensive income/(loss)	25	(1)	(14)

The following is summarised financial information in respect of joint ventures:

	31 December		
	2016	2015	2014
Current assets	104	61	89
Non-current assets	177	152	188
Short-term liabilities	36	28	84
Long-term liabilities	119	150	138
Equity	126	35	55

	Year ended 31 December		
	2016	2015	2014
Revenue	197	186	434
Net income/(loss)	42	(24)	(94)
Other comprehensive income/(loss)	15	(13)	(67)
Total comprehensive income/(loss)	57	(37)	(161)

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20. Property, plant and equipment

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction- in-progress	Total
Cost:						
31 December 2013	2,354	8,549	540	110	1,977	13,530
Reclassifications	1	1	(1)	(1)	-	-
Additions	-	-	-	-	744	744
Business combinations	5	53	-	-	2	60
Disposals	(8)	(116)	(20)	(6)	(17)	(167)
Business de-combinations	(620)	(2,884)	(275)	-	(131)	(3,910)
Transfers to other assets and liabilities	(8)	(7)	-	-	-	(15)
Transfers	288	853	90	7	(1,238)	-
Translation to presentation currency	(782)	(2,627)	(147)	(46)	(615)	(4,217)
31 December 2014	1,230	3,822	187	64	722	6,025
Reclassifications	7	3	(7)	(3)	-	-
Additions	-	-	-	-	453	453
Disposals	(8)	(125)	(18)	(6)	(13)	(170)
Discontinued operation	-	17	-	-	16	33
Transfers from other assets and liabilities	7	13	-	-	1	21
Transfers	132	313	25	9	(479)	-
Translation to presentation currency	(302)	(896)	(45)	(14)	(148)	(1,405)
31 December 2015	1,066	3,147	142	50	552	4,957
Reclassifications	(2)	2	1	(1)	-	-
Additions	-	-	-	-	519	519
Disposals	(43)	(153)	(3)	(1)	(10)	(210)
Reclassified to assets held for sale	(21)	(35)	-	-	(1)	(57)
Transfers to other assets and liabilities	(4)	(9)	-	-	-	(13)
Transfers	41	347	21	3	(412)	-
Translation to presentation currency	201	632	36	9	114	992
31 December 2016	1,238	3,931	197	60	762	6,188

Of the above amounts of additions to construction-in-progress, US\$ 6 million (2015: US\$ 16 million, 2014: US\$ 33 million) is capitalised interest.

The Group applied a weighted average capitalisation rate of 5% to determine the amount of borrowing costs eligible for capitalisation for the year ended 31 December 2016 (2015: 6%; 2014: 6%).

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	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction- in-progress	Total
Depreciation and impairment:						
31 December 2013	848	4,007	260	60	101	5,276
Reclassifications	-	(13)	13	-	-	-
Depreciation expense	70	533	46	3	-	652
Disposals	(2)	(98)	(18)	(2)	(12)	(132)
Business de-combinations	(315)	(1,691)	(228)	-	(49)	(2,283)
Impairment	227	708	60	1	21	1,017
Translation to presentation currency	(336)	(1,397)	(63)	(25)	(20)	(1,841)
31 December 2014	492	2,049	70	37	41	2,689
Reclassifications	(1)	4	(2)	(1)	-	-
Depreciation expense	44	289	16	1	-	350
Disposals	(5)	(109)	(14)	(5)	-	(133)
Discontinued operation	-	4	-	-	-	4
Impairment	5	29	18	2	25	79
Translation to presentation currency	(115)	(491)	(20)	(7)	(10)	(643)
31 December 2015	420	1,775	68	27	56	2,346
Depreciation expense	46	261	16	1	-	324
Disposals	(27)	(120)	(3)	-	(2)	(152)
Reclassified to assets held for sale	(4)	(22)	-	-	-	(26)
Transfers	1	8	8	-	(17)	-
Impairment	-	16	-	1	65	82
Translation to presentation currency	81	363	21	5	9	479
31 December 2016	517	2,281	110	34	111	3,053
Net book values:						
31 December 2014	738	1,773	117	27	681	3,336
31 December 2015	646	1,372	74	23	496	2,611
31 December 2016	721	1,650	87	26	651	3,135

Other productive assets include transportation equipment and tools.

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21. Intangible assets

	Goodwill	Mineral rights	Software	Evaluation and exploration assets	Other intangible assets	Total
Cost:						
31 December 2013	552	409	263	235	154	1,613
Additions	-	-	51	28	7	86
Business combinations	-	-	-	-	2	2
Transfers (to)/from other assets	-	-	(2)	-	9	7
Business de-combinations	(472)	(319)	(33)	-	(89)	(913)
Translation to presentation currency	(20)	(38)	(110)	(19)	(32)	(219)
31 December 2014	60	52	169	244	51	576
Additions	-	-	21	7	-	28
Transfers (to)/from other assets	-	-	(2)	4	(5)	(3)
Disposals	-	-	(1)	-	-	(1)
Translation to presentation currency	(6)	(12)	(41)	(7)	(11)	(77)
31 December 2015	54	40	146	248	35	523
Additions	-	-	25	6	-	31
Disposals	-	-	-	(1)	-	(1)
Translation to presentation currency	2	9	32	5	7	55
31 December 2016	56	49	203	258	42	608
Amortisation and impairment:						
31 December 2013	498	258	62	4	112	934
Amortisation expense	-	1	19	2	2	24
Impairment	7	-	-	116	3	126
Transfers from other assets	-	-	5	-	-	5
Business de-combinations	(472)	(254)	(26)	-	(87)	(839)
Translation to presentation currency	(10)	(2)	(23)	(3)	(13)	(51)
31 December 2014	23	3	37	119	17	199
Amortisation expense	-	1	13	2	1	17
Impairment	-	1	-	101	2	104
Transfers (to)/from other assets	-	-	(5)	-	2	(3)
Translation to presentation currency	(3)	(1)	(10)	(1)	(4)	(19)
31 December 2015	20	4	35	221	18	298
Amortisation expense	-	-	16	1	2	19
Impairment	25	28	-	-	-	53
Translation to presentation currency	2	3	9	1	2	17
31 December 2016	47	35	60	223	22	387
Net book values:						
31 December 2014	37	49	132	125	34	377
31 December 2015	34	36	111	27	17	225
31 December 2016	9	14	143	35	20	221

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22. Debt finance

	Currency	Maturity	Interest rate	31 December		
				2016	2015	2014
Eurobonds 2016	US dollars	July	6.25%	-	255	392
Eurobonds 2017	US dollars	October	6.7%	594	621	705
Eurobonds 2018	US dollars	March	4.45%	548	571	573
Eurobonds 2022	US dollars	October	5.9%	628	676	697
Convertible bonds 2017	US dollars	September	1.0%	43	62	452
Convertible bonds 2021	US dollars	April	0.5%	200	-	-
Bank financing	EUR, Roubles			12	234	598
Other financing	Roubles			6	5	13
Accrued interest				24	32	37
Discounting				(37)	(1)	(28)
Unamortised balance of transaction costs				(5)	(3)	(11)
				<u>2,013</u>	<u>2,452</u>	<u>3,428</u>

Total debt is denominated in the following currencies:

	31 December		
	2016	2015	2014
US Dollars	1,998	2,214	3,130
Euro	4	23	32
Roubles	11	215	266
	<u>2,013</u>	<u>2,452</u>	<u>3,428</u>

Total debt is contractually repayable after the balance sheet date as follows:

	31 December		
	2016	2015	2014
Less than one year	673	507	774
Between one and five years	709	1,262	1,949
After more than five years	631	683	705
	<u>2,013</u>	<u>2,452</u>	<u>3,428</u>

Convertible bonds issued

In September 2012, the Group issued US\$ 475 million senior unsecured convertible bonds maturing in 2017. The initial conversion price was set at US\$ 19.08 per share. The conversion rights may be exercised at any time on or after 5 November 2012. The bonds bear an interest rate of 1.0% per annum, which is payable semi-annually in March and September each year, beginning in March 2013, and a yield-to-maturity of 2.0% per annum. Holders of the bonds had an option to require an early redemption of their bonds in September 2015 at the accreted principal amount at such time plus accrued interest. The Group also has an option for early redemption, exercisable starting from October 2015, provided the market value of the Group's GDRs deliverable on conversion of the bonds exceeds 140.0% of the accreted principal amount of the bonds over a period specified in terms and conditions of the bonds. The proceeds from the bonds issuance were mainly used to refinance existing indebtedness and for other general corporate purposes. The equity component of the convertible bonds was US\$ 47 million as at 31 December 2016 (31 December 2015: US\$ 47 million, 31 December 2014: US\$ 64 million), determined based on the market rate of 5.3% per annum. In September 2015, the holders requested an early redemption of their bonds through the put option. As a result of this transaction US\$ 17 million was recognised as a reduction in equity.

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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 bonds into GDRs 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 the market interest rate of 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 at 31 December 2016 the value of conversion option of US\$ 88 million was determined with the reference to quoted market price (level 2 of the fair value hierarchy) and included in other current liabilities.

Bank financing security

Debt finance arising from banks and committed unused credit lines were secured by US\$ nil (31 December 2015: US\$ 16 million; 31 December 2014: US\$ 21 million) of the net book value of plant and equipment.

Compliance with covenants

A part of the Group's debt financing is subject to certain covenants. These covenants imply financial and operating limitations relating mostly to PAO Severstal and its material subsidiaries.

Among other things, these covenants with certain carve-outs and subject to material adverse effect where applicable, impose restrictions on encumbrances of the assets, mergers, acquisitions and reorganisation procedures, disposals of material assets, change of business, maintenance of property and insurance, payment of taxes and other claims as well as the incurrence of additional indebtedness. Financial covenants require compliance with certain financial ratios pursuant to the latest Group's consolidated financial statements. The Group complied with all debt covenants as at 31 December 2016, 2015 and 2014.

At the reporting date the Group had US\$ 675 million (31 December 2015: US\$ 683 million; 31 December 2014: US\$ nil) of committed unused short-term credit lines and US\$ nil (31 December 2015: US\$ nil; 31 December 2014: US\$ 388 million) of committed unused long-term credit lines available to it.

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23. Other current liabilities

	31 December		
	2016	2015	2014
Advances received	174	130	170
Amounts payable to employees	106	84	73
Derivative financial liabilities (Note 22)	106	5	-
Deferred income	31	31	31
Provisions (Note 25)	9	5	31
Retirement benefit liabilities (Note 24)	6	3	5
Accrued expenses	2	-	1
Other payables	23	17	23
	<u>457</u>	<u>275</u>	<u>334</u>

24. Retirement benefit liabilities

The Group provides for its employees the following retirement benefits, which are actuarially calculated as defined benefit obligations: lump sums payable to employees on retirement, monthly pensions, jubilee benefits, invalidity and death lump sums, burial expenses compensations, healthcare benefits, life insurance and other benefits.

The current portion of retirement benefit liabilities is included in caption 'Other current liabilities'. The total amount of the retirement benefit liabilities is presented in the table below:

	31 December		
	2016	2015	2014
Current portion	6	3	5
Non-current portion	67	53	48
	<u>73</u>	<u>56</u>	<u>53</u>

The following assumptions were used to calculate the retirement benefit liabilities:

	31 December		
	2016	2015	2014
Discount rates:			
Russia	8.5%	9.5%	11.9% to 13.4%
Future rates of benefit increase:			
Russia	4.5%	5.3%	5.7% to 5.9%

The Group's weighted average remaining life of the pensioners and employees, receiving the retirement benefits equaled to 17 years as at 31 December 2016.

The present value of the defined benefit obligation less the fair value of plan assets is recognised as a retirement benefit liabilities in the statement of financial position.

	31 December				
	2016	2015	2014	2013	2012
Present value of the defined benefit obligation	73	83	89	263	273
Fair value of the plan assets	-	(27)	(36)	(62)	(67)
Retirement benefit liabilities	<u>73</u>	<u>56</u>	<u>53</u>	<u>201</u>	<u>206</u>

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During 2016, the Group ceased its contract with pension fund Stalfond, which represented US\$ 40 million pension liability of the Group. The Group held US\$ 27 million of plan assets in Stalfond, which were transferred to personal accounts of current retirees to meet its pension obligation. Pension obligation to future retirees will be settled by the charity fund Blago.

The movements in the defined benefit obligation were as follows:

	Year ended 31 December		
	2016	2015	2014
Opening balance	83	89	263
Benefits paid	(9)	(12)	(19)
Interest cost	6	9	16
Service cost	1	1	5
Reclassified to liabilities related to assets held for sale	(2)	-	-
Settlement with Stalfond retirees	(28)	-	-
Actuarial losses/(gains)*	7	20	(24)
Business de-combinations	-	-	(70)
Translation to presentation currency	15	(24)	(82)
Closing balance	73	83	89

*Actuarial losses/(gains) arise primarily from changes in financial assumptions.

The movements in the plan assets were as follows:

	Year ended 31 December		
	2016	2015	2014
Opening balance	27	36	62
Contributions made during the year	-	5	9
Benefits paid	(2)	(9)	(12)
Return on assets	1	3	4
Settlement with Stalfond retirees	(28)	-	-
Translation to presentation currency	2	(8)	(27)
Closing balance	-	27	36

The defined benefit obligation analysis was as follows:

	31 December		
	2016	2015	2014
Wholly unfunded	73	43	41
Partly funded	-	40	48
	73	83	89

The plan assets analysis was as follows:

	31 December		
	2016	2015	2014
Corporate bonds	-	19	25
Shares in mutual funds	-	7	10
Equity instruments	-	1	-
Other investments	-	-	1
	-	27	36

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The Group's best estimate of contributions expected to be paid to the plan in 2017 is US\$ 6 million.

The Group's retirement benefit service costs are allocated and recognised in the income statement as part of 'Cost of sales' and 'General and administrative expenses' proportionally to related salary expenses, except service costs related to the Severstal International segment which were recognised in discontinued operation.

Interest cost and return on plan assets are recognised as part of 'Finance costs, net', except interest cost related to the Severstal International segment which was recognised in discontinued operation; actuarial (losses)/gains are recognised as a separate component in other comprehensive income.

25. Other non-current liabilities

	31 December		
	2016	2015	2014
Decommissioning liabilities	76	67	48
Deferred income	31	59	93
Amounts payable to employees	6	5	4
Provisions	-	4	7
Derivative financial liabilities	-	-	17
Other liabilities	11	28	-
	<u>124</u>	<u>163</u>	<u>169</u>

Decommissioning liabilities

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of its mines and production facilities. These costs are expected to be incurred between 2023 – 2048. The present value of expected cash outflows were estimated using existing technology, and discounted using a real discount rate. These rates are as follows:

	Discount rates, %		
	2016	2015	2014
Severstal Resources: Russia	3.3 - 4.7	3.5 - 5.0	6.8 - 7.5

The movements in the decommissioning liabilities were as follows:

	Year ended 31 December		
	2016	2015	2014
Opening balance	67	48	152
Additional accrual	-	5	-
Change in assumptions	(13)	20	(16)
Interest cost	7	10	13
Usage of decommissioning liabilities	-	-	(5)
Business de-combinations	-	-	(54)
Translation to presentation currency	15	(16)	(42)
Closing balance	<u>76</u>	<u>67</u>	<u>48</u>

The change in assumptions related to the re-scheduling of the decommissioning of Vorkutaugol in 2014 and 2016 and the change in the discount rate.

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	31 December		
	2016	2015	2014
Non-current portion	76	67	48
	76	67	48

Provisions

The current portion of provisions is included in the caption 'Other current liabilities'. The total amount of the provisions is presented in the table below:

	31 December		
	2016	2015	2014
Tax and social security claims	8	5	15
Legal claim of disposed subsidiary	-	-	13
Other	1	4	10
	9	9	38

	31 December		
	2016	2015	2014
Current portion	9	5	31
Non-current portion	-	4	7
	9	9	38

These provisions represent management's best estimate of the potential losses arising in these cases, calculated based on available information and appropriate assumptions used. The actual outcome of those cases is currently uncertain and might differ from the recorded provisions.

The movements in the provisions were as follows:

	Year ended 31 December		
	2016	2015	2014
Opening balance	9	38	25
Charge to the income statement	2	2	23
Business combinations	-	-	3
Usage of provisions	-	(29)	-
Business de-combinations	-	-	(9)
Reclassified to liabilities related to assets held for sale	(3)	-	-
Translation to presentation currency	1	(2)	(4)
Closing balance	9	9	38

26. Shareholders' equity

Share Capital

The Parent Company's share capital consists of ordinary shares with a nominal value of RUB 0.01 each. The authorised share capital of Severstal as at 31 December 2016, 2015 and 2014 comprised 837,718,660 issued and fully paid shares.

The nominal amount of initial share capital was converted into US dollars using exchange rates during the Soviet period, when the Government contributed the original capital funds to the enterprise. These

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capital funds were converted into ordinary shares on 24 September 1993 and sold by the Government at privatisation auctions.

The total value of issued share capital presented in these consolidated financial statements comprised:

	Number of shares, mln.	US\$ million
Share capital as at 31 December 2014	837.7	2,753
Share capital as at 31 December 2015	837.7	2,753
Share capital as at 31 December 2016	837.7	2,753

All shares carry equal voting and distribution rights.

Reconciliation between weighted average number of shares in issue and weighted average number of shares outstanding during the period (millions of shares):

	Year ended 31 December		
	2016	2015	2014
Weighted average number of shares in issue	837.7	837.7	837.7
Weighted average number of treasury shares	(27.1)	(27.1)	(27.1)
Weighted average number of shares outstanding during the period	810.6	810.6	810.6

Earnings/(loss) per share

In 2012 the Group issued US\$ 475 million convertible bonds and in 2016 issued US\$ 200 million convertible bonds (Note 22), which had an accretive effect on earnings/(loss) per share as demonstrated below:

	Year ended 31 December		
	2016	2015	2014
Profit/(loss) for the period attributable to shareholders of PAO Severstal	1,621	605	(1,595)
Finance costs related to convertible bonds, net of tax	53	25	21
Adjusted profit/(loss) for the period attributable to shareholders of PAO Severstal	1,674	630	(1,574)
Basic and diluted weighted average number of shares outstanding during the period (millions of shares)	810.6	810.6	810.6
Effect on conversion of convertible bonds (millions of shares)	14.5	18.2	24.6
Adjusted weighted average number of shares outstanding during the period (millions of shares)	825.1	828.8	835.2
Basic and diluted earnings/(loss) per share (US dollars)	2.00	0.75	(1.97)
Adjusted earnings/(loss) per share (US dollars)	2.03	0.76	(1.88)

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. This policy includes compliance with certain externally imposed minimum capital requirements. The Group's management constantly

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monitors profitability and leverage ratios and compliance with the minimum capital requirements. The Group also monitors closely the return on capital employed ratio which is defined as profit before financing and taxation for the last twelve months divided by capital employed and the leverage ratio calculated as net debt, comprising of long-term and short-term indebtedness less cash, cash equivalents and short-term bank deposits, divided by shareholder's equity. The level of dividends is also monitored by the Board of Directors of the Group.

There were no changes in the Group's approach to capital management during the year.

Dividends

The maximum dividend payable is restricted to the total accumulated retained earnings of the Parent Company determined according to Russian law.

On 11 June 2014 the Meeting of Shareholders approved an annual dividend of RUB 3.83 (US\$ 0.11 as at 11 June 2014 exchange rate) per share and per GDR for the year ended 31 December 2013 and an interim dividend of RUB 2.43 (US\$ 0.07 as at 11 June 2014 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2014.

On 10 September 2014 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 2.14 (US\$ 0.06 as at 10 September 2014 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2014.

On 14 November 2014 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 54.46 (US\$ 1.18 as at 14 November 2014 exchange rate) per share and per GDR for the nine months of the year ended 31 December 2014.

On 25 May 2015 the Meeting of Shareholders approved an annual dividend of RUB 14.65 (US\$ 0.29 as 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 as 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 as at 15 September 2015 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2015.

On 10 December 2015 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 13.17 (US\$ 0.19 as at 10 December 2015 exchange rate) per share and per GDR for the nine 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 as 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 as 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 as at 2 September 2016 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2016.

On 2 December 2016 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 24.96 (US\$ 0.39 as at 2 December 2016 exchange rate) per share and per GDR for the nine months of the year ended 31 December 2016.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

27. Discontinued operation and assets held for sale

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

The results of the discontinued operation were as follows:

	Year ended 31 December		
	2016	2015	2014
Revenue	-	-	3,014
Income/(expenses)*	-	41	(3,861)
Profit/(loss) before income tax	-	41	(847)
Income tax expense	-	-	(54)
Profit/(loss), net of tax	-	41	(901)
Net gain on disposal	-	-	100
Profit/(loss) for the period	-	41	(801)
Attributable to: shareholders of PAO Severstal	-	41	(801)

* This amount included US\$ 13 million accrual for taxes receivable and a US\$ 29 million adjustment in respect of the disposed SNA assets in the year ended 31 December 2015.

Severstal International segment

In September 2014, the Group sold its 100% stakes in Severstal Dearborn LLC and Severstal Columbus LLC comprising, together with their subsidiaries and investments in joint ventures and associates, the Severstal International reporting segment. The cash consideration received by the Group under the respective sale agreements amounted to US\$ 2,024 million, after settlement of US\$ 385 million of external debt. A cumulative net loss on the disposal of US\$ 811 million was recognised in these consolidated financial statements, of which the loss of US\$ 911 million was primarily recognised as impairment of property, plant and equipment in June 2014 and included into the expenses of discontinued operation, and net gain on the disposal of US\$ 100 million recognised in 2014.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

A summary of assets and liabilities disposed during the years ended 31 December 2016, 2015 and 2014 is presented below:

	Year ended 31 December		
	2016	2015	2014
Cash and cash equivalents	-	-	(62)
Trade accounts receivable	-	-	(329)
Inventories	-	-	(683)
Other current assets	-	-	(36)
Property, plant and equipment	-	-	(1,601)
Intangible assets	-	-	(8)
Long-term financial investments	-	-	(30)
Other non-current assets	-	-	(109)
Trade accounts payable	-	-	384
Accounts payable to related parties	-	-	27
Other taxes and social security payable	-	-	4
Other current liabilities	-	-	29
Long-term debt finance	-	-	385
Other non-current liabilities	-	-	101
Net identifiable assets	-	-	(1,928)
Translation to presentation currency - foreign operations and other reserves	-	-	4
Consideration:			
Consideration in cash	-	-	2,024
Net gain on disposal	-	-	100
Net change in cash and cash equivalents	-	-	1,962

Redaelli Tecna S.p.A.

The Group's assets held for sale represent Redaelli Tecna S.p.A., the Group's subsidiary, that is classified as held for sale as at 31 December 2016.

The major classes of assets and liabilities of Redaelli Tecna S.p.A. measured at the lower of carrying amount and fair value less costs to sell determined based on price offer available as at 31 December 2016.

The loss on remeasurement of Redaelli Tecna S.p.A. to fair value less costs to sell recognised in 2016 was allocated US\$ 5 million to property, plant and equipment and US\$ 25 million to goodwill.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

The major classes of assets and liabilities of Redaelli Tecna S.p.A. measured at the lower of carrying amount and fair value less costs to sell as at 31 December 2016, 2015 and 2014 were as follows:

	31 December		
	2016	2015	2014
Current assets:			
Cash and cash equivalents	1	-	-
Trade accounts receivable	23	-	-
Inventories	21	-	-
Income tax receivable	2	-	-
Other current assets	4	-	-
Total current assets	51	-	-
Non-current assets:			
Property, plant and equipment	31	-	-
Total non-current assets	31	-	-
Total assets	82	-	-
Current liabilities:			
Trade accounts payable	12	-	-
Short-term debt finance	2	-	-
Other taxes and social security payable	2	-	-
Other current liabilities	6	-	-
Total current liabilities	22	-	-
Non-current liabilities:			
Long-term debt finance	8	-	-
Deferred tax liabilities	3	-	-
Retirement benefit liabilities	2	-	-
Other non-current liabilities	3	-	-
Total non-current liabilities	16	-	-
Total liabilities	38	-	-

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

28. Subsidiaries, associates and joint ventures

The following is a list of the Group's significant subsidiaries, associates and joint ventures and the effective ownership holdings therein:

	31 December				
Company	2016	2015	2014	Location	Activity
Severstal Russian Steel segment:					
<u>Subsidiaries:</u>					
Severstal TPZ-Sheksna LLC	100.0%	100.0%	100.0%	Russia	Steel constructions
CJSC Severstal Steel Solutions	100.0%	100.0%	100.0%	Russia	Steel constructions
AO Severstal LPM Balakovo**	100.0%	100.0%	100.0%	Russia	Iron & steel mill
SSM-Tyazhmash LLC	100.0%	100.0%	100.0%	Russia	Repairs&construction
JSC Domnaremont	100.0%	100.0%	77.3%	Russia	Repairs&construction
Severstal-Promservice LLC	100.0%	100.0%	100.0%	Russia	Repairs&construction
Aircompany Severstal Ltd	100.0%	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	100.0%	100.0%	100.0%	Switzerland*	Steel sales
SIA Severstal Distribution	100.0%	100.0%	100.0%	Latvia*	Steel sales
AS Latvijas Metals	100.0%	100.0%	100.0%	Latvia*	Steel sales
Severstal Distribution Sp.z o.o	100.0%	100.0%	100.0%	Poland*	Steel sales
ZAO Severstal Distribution	100.0%	100.0%	100.0%	Belarus*	Steel sales
Severstal Distribution LLC	100.0%	100.0%	100.0%	Ukraine*	Steel sales
CJSC Neva-Metall	100.0%	100.0%	100.0%	Russia	Shipping operations
Upcroft Limited	100.0%	100.0%	100.0%	Cyprus	Holding company
Baracom Limited	100.0%	100.0%	100.0%	Cyprus	Holding company
CJSC Vtorchermet	85.6%	85.6%	85.6%	Russia	Processing scrap
JSC Arhangelski Vtormet	75.0%	75.0%	75.0%	Russia	Processing scrap
AO Severstal Distribution	100.0%	100.0%	100.0%	Russia	Metal sales
AO Rostovmetall	n/a	n/a	100.0%	Russia	Leasing
PPTK-1 LLC	n/a	100.0%	100.0%	Russia	Leasing
CJSC Izhora Pipe Mill	100.0%	100.0%	100.0%	Russia	Wide pipes
JSC Severstal-Metiz	100.0%	100.0%	100.0%	Russia	Steel machining
JSC Dneprometiz	98.7%	98.7%	98.7%	Ukraine	Steel machining
Redaelli Tecna S.p.A.	100.0%	100.0%	100.0%	Italy	Steel machining
UniFence LLC	100.0%	100.0%	100.0%	Russia	Steel machining
Lybica Holding B.V. ***	100.0%	100.0%	n/a	The Netherlands	Holding company
Lybica Capital B.V.	100.0%	n/a	n/a	The Netherlands	Holding company
7029740 Canada Limited ***	n/a	100.0%	n/a	Canada	Holding company
Abigrove Limited	100.0%	n/a	n/a	Cyprus	Holding company
<u>Associates:</u>					
AO Air Liquide Severstal**	25.0%	25.0%	25.0%	Russia	Production liquid oxy gen
Iron Mineral Beneficiation Services (Proprietary) Ltd ***	33.2%	33.2%	n/a	Republic of South Africa	Research & investing
<u>Joint ventures:</u>					
Rutgers Severtar LLC	34.7%	34.7%	34.7%	Russia	Production vacuum pitch
Todlem S.L.	25.0%	25.0%	25.0%	Spain	Holding company
Severstal-Gonvarri-Kaluga LLC	50.0%	50.0%	50.0%	Russia	Iron & steel mill
Gestamp-Severstal-Kaluga LLC	25.0%	25.0%	25.0%	Russia	Production car body components
Gestamp Severstal Vsevolozhsk LLC	25.0%	25.0%	25.0%	Russia	Production car body components

(*) – Severstal Russian Steel segment contains foreign trading companies, which sell products primarily produced in Russia.

(**) – Legal form was changed following the requirements of the amended Russian Civil Code.

(***) – The entities were transferred from the Severstal Resources segment to the Severstal Russian Steel segment following a change in the Group's management structure in 2015.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

	31 December				
Company	2016	2015	2014	Location	Activity
Severstal Resources segment:					
<u>Subsidiaries:</u>					
AO Karelsky Okatysh	100.0%	100.0%	100.0%	Russia	Iron ore pellets
AO Olcon	100.0%	100.0%	100.0%	Russia	Iron ore concentrate
Severstal Liberia Iron Ore Ltd	100.0%	100.0%	100.0%	Liberia	Iron ore
AO Vorkutaugol	100.0%	100.0%	100.0%	Russia	Coking coal concentrate
SPB-Giproshakht Limited	100.0%	100.0%	100.0%	Russia	Engineering
Mining Holding Company LLC	100.0%	100.0%	100.0%	Russia	Holding company
Lybica Holding B.V.*	n/a	n/a	100.0%	The Netherlands	Holding company
7029740 Canada Limited*	n/a	n/a	100.0%	Canada	Holding company
<u>Associates:</u>					
Iron Mineral Beneficiation Services (Proprietary) Ltd*	n/a	n/a	33.2%	Republic of South Africa	Research & investing

(*) – The entities were transferred from the Severstal Resources segment to the Severstal Russian Steel segment following a change in the Group's management structure in 2015.

In addition, at the reporting date, a further 30 (31 December 2015: 31; 31 December 2014: 35) subsidiaries and joint ventures, which are not material to the Group, either individually or in aggregate, have been included in these consolidated financial statements.

Information on carrying amounts of associates and joint ventures is disclosed in Note 19 of these consolidated financial statements.

Disposal of subsidiary (other than discontinued operation)

In August 2014, the Group sold its 100% stake in PBS Coals Ltd for a consideration of US\$ 60 million. A cumulative net loss on the disposal of US\$ 174 million was recognised in these consolidated financial statements, 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 sale of PBS Coals Ltd of US\$ 4 million.

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

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

A summary of assets and liabilities disposed during 2016, 2015 and 2014 is presented below:

	Year ended 31 December		
	2016	2015	2014
Cash and cash equivalents	-	-	(2)
Trade accounts receivable	-	-	(12)
Inventories	-	-	(21)
Other current assets	-	-	(2)
Property, plant and equipment	-	-	(26)
Intangible assets	-	-	(65)
Other non-current assets	-	-	(52)
Trade accounts payable	-	-	12
Other current liabilities	-	-	4
Deferred tax liabilities	-	-	26
Other non-current liabilities	-	-	56
Net identifiable assets	-	-	(82)
Translation to presentation currency - foreign operations*	49	(7)	2
Consideration in cash	3	4	53
Net gain/(loss) on disposal	52	(3)	(27)
Net change in cash and cash equivalents	3	4	51

*These amounts included foreign exchange translation reserves of disposed foreign subsidiaries reclassified to profit or loss from other comprehensive income/(loss).

Transaction within discontinued operation

In July 2014, the Group acquired an additional 50% stake in Mountain State Carbon LLC from a third party for a total consideration of US\$ 30 million, increasing its ownership interest up to 100%. The consideration paid by the Group also included cancellation of the promissory note receivable from the same third party with a face value of US\$ 100 million and a carrying value of nil.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

29. Segment information

Segmental statements of financial position as at 31 December 2016:

	Severstal Resources	Severstal Russian Steel	Inter segment balances	Conso- lidated
Assets				
Current assets:				
Cash and cash equivalents	44	1,110	-	1,154
Short-term financial investments	313	517	(811)	19
Trade accounts receivable	62	423	-	485
Accounts receivable from related parties	32	30	(40)	22
Restricted financial assets	-	1	-	1
Inventories	72	839	(44)	867
VAT recoverable	9	69	-	78
Income tax recoverable	5	9	-	14
Other current assets	21	65	-	86
Assets held for sale	-	82	-	82
Total current assets	558	3,145	(895)	2,808
Non-current assets:				
Long-term financial investments	2,390	1,967	(4,126)	231
Investments in associates and joint ventures	-	55	-	55
Property, plant and equipment	887	2,246	2	3,135
Intangible assets	46	175	-	221
Deferred tax assets	10	26	(9)	27
Other non-current assets	-	6	-	6
Total non-current assets	3,333	4,475	(4,133)	3,675
Total assets	3,891	7,620	(5,028)	6,483
Liabilities				
Current liabilities:				
Trade accounts payable	56	435	-	491
Accounts payable to related parties	10	43	(38)	15
Short-term debt finance	501	983	(811)	673
Income taxes payable	-	21	-	21
Other taxes and social security payable	33	62	-	95
Dividends payable	-	8	(2)	6
Other current liabilities	34	423	-	457
Liabilities related to assets held for sale	-	38	-	38
Total current liabilities	634	2,013	(851)	1,796
Non-current liabilities:				
Long-term debt finance	405	1,599	(664)	1,340
Deferred tax liabilities	79	50	(14)	115
Retirement benefit liabilities	8	59	-	67
Other non-current liabilities	76	48	-	124
Total non-current liabilities	568	1,756	(678)	1,646
Equity	2,689	3,851	(3,499)	3,041
Total equity and liabilities	3,891	7,620	(5,028)	6,483

* This amount included US\$ 47 million effect of convertible bonds issue (Note 22).

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

Segmental statements of financial position as at 31 December 2015:

	Severstal Resources	Severstal Russian Steel	Inter segment balances	Conso- lidated
Assets				
Current assets:				
Cash and cash equivalents	26	1,621	-	1,647
Short-term financial investments	165	396	(550)	11
Trade accounts receivable	67	365	-	432
Accounts receivable from related parties	42	223	(255)	10
Restricted financial assets	-	2	-	2
Inventories	69	596	(15)	650
VAT recoverable	5	53	-	58
Income tax recoverable	1	35	-	36
Other current assets	16	75	-	91
Total current assets	391	3,366	(820)	2,937
Non-current assets:				
Long-term financial investments	2,127	1,395	(3,469)	53
Investments in associates and joint ventures	-	26	-	26
Property, plant and equipment	756	1,853	2	2,611
Intangible assets	60	165	-	225
Deferred tax assets	1	21	(15)	7
Other non-current assets	-	8	-	8
Total non-current assets	2,944	3,468	(3,482)	2,930
Total assets	3,335	6,834	(4,302)	5,867
Liabilities				
Current liabilities:				
Trade accounts payable	60	361	-	421
Accounts payable to related parties	7	51	(49)	9
Short-term debt finance	387	670	(550)	507
Income taxes payable	-	6	-	6
Other taxes and social security payable	23	54	-	77
Dividends payable	206	2	(206)	2
Other current liabilities	27	248	-	275
Total current liabilities	710	1,392	(805)	1,297
Non-current liabilities:				
Long-term debt finance	6	1,945	(6)	1,945
Deferred tax liabilities	70	85	(14)	141
Retirement benefit liabilities	7	46	-	53
Other non-current liabilities	67	96	-	163
Total non-current liabilities	150	2,172	(20)	2,302
Equity	2,475	3,270	(3,477)	2,268
Total equity and liabilities	3,335	6,834	(4,302)	5,867

* This amount included US\$ 47 million effect of convertible bonds issue (Note 22).

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

Segmental statements of financial position as at 31 December 2014:

	Severstal Resources	Severstal Russian Steel	Inter segment balances	Conso- lidated
Assets				
Current assets:				
Cash and cash equivalents	74	1,823	-	1,897
Short-term financial investments	130	281	(390)	21
Trade accounts receivable	67	582	-	649
Accounts receivable from related parties	89	298	(372)	15
Inventories	70	762	(17)	815
VAT recoverable	9	55	-	64
Income tax recoverable	4	25	-	29
Other current assets	24	98	-	122
Total current assets	467	3,924	(779)	3,612
Non-current assets:				
Long-term financial investments	2,325	1,532	(3,771)	86
Investments in associates and joint ventures	-	81	-	81
Property, plant and equipment	954	2,410	(28)	3,336
Intangible assets	177	200	-	377
Deferred tax assets	2	42	-	44
Other non-current assets	1	16	-	17
Total non-current assets	3,459	4,281	(3,799)	3,941
Total assets	3,926	8,205	(4,578)	7,553
Liabilities				
Current liabilities:				
Trade accounts payable	62	438	-	500
Accounts payable to related parties	8	104	(96)	16
Short-term debt finance	262	905	(393)	774
Income taxes payable	-	9	-	9
Other taxes and social security payable	25	75	-	100
Dividends payable	276	2	(276)	2
Other current liabilities	58	276	-	334
Total current liabilities	691	1,809	(765)	1,735
Non-current liabilities:				
Long-term debt finance	87	2,882	(315)	2,654
Deferred tax liabilities	97	23	-	120
Retirement benefit liabilities	10	38	-	48
Other non-current liabilities	48	121	-	169
Total non-current liabilities	242	3,064	(315)	2,991
Equity	2,993	3,332	(3,498)	2,827
Total equity and liabilities	3,926	8,205	(4,578)	7,553

* This amount included US\$ 64 million effect of convertible bonds issue (Note 22).

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

Segmental income statements for the year ended 31 December 2016:

	Severstal Resources	Severstal Russian Steel	Inter segment transactions	Conso- lidated
Revenue				
Revenue - third parties	543	5,269	-	5,812
Revenue - related parties	611	157	(664)	104
	1,154	5,426	(664)	5,916
Cost of sales	(689)	(3,487)	603	(3,573)
Gross profit	465	1,939	(61)	2,343
General and administrative expenses	(47)	(265)	33	(279)
Distribution expenses	(114)	(348)	-	(462)
Other taxes and contributions	(23)	(31)	-	(54)
Share of associates' and joint ventures' gain	-	14	-	14
Loss on disposal of property, plant and equipment and intangible assets	(47)	(5)	-	(52)
Net other operating income	1	7	(1)	7
Profit from operations	235	1,311	(29)	1,517
Impairment of non-current assets	(96)	(39)	-	(135)
Net other non-operating (expenses)/income	(13)	25	-	12
Profit before financing and taxation	126	1,297	(29)	1,394
Interest income	31	118	(86)	63
Interest expense	(65)	(176)	86	(155)
Gain/(loss) on remeasurement and disposal	21	(66)	(21)	(66)
Other finance costs	-	(2)	-	(2)
Foreign exchange gain	32	451	-	483
Profit before income tax	145	1,622	(50)	1,717
Income tax expense	(8)	(94)	5	(97)
Profit for the period	137	1,528	(45)	1,620
Additional information:				
depreciation and amortisation expense	115	228	-	343
capital expenditures	229	321	-	550
intersegment revenue (incl. in revenue from related parties)	609	55	(664)	-

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

Segmental income statements for the year ended 31 December 2015:

	Severstal Resources	Severstal Russian Steel	Inter segment transactions	Conso- lidated
Revenue				
Revenue - third parties	622	5,701	-	6,323
Revenue - related parties	618	135	(680)	73
	1,240	5,836	(680)	6,396
Cost of sales	(758)	(3,703)	651	(3,810)
Gross profit	482	2,133	(29)	2,586
General and administrative expenses	(59)	(267)	36	(290)
Distribution expenses	(128)	(390)	-	(518)
Other taxes and contributions	(27)	(41)	-	(68)
Share of associates' and joint ventures' loss	-	(1)	-	(1)
Loss on disposal of property, plant and equipment and intangible assets	(3)	(10)	-	(13)
Net other operating income	4	8	(5)	7
Profit from operations	269	1,432	2	1,703
Impairment of non-current assets	(181)	(2)	-	(183)
Net other non-operating (expenses)/income	(60)	9	-	(51)
Profit before financing and taxation	28	1,439	2	1,469
Interest income	30	155	(84)	101
Interest expense	(62)	(224)	84	(202)
Gain/(loss) on remeasurement and disposal	21	352	(387)	(14)
Other finance costs	-	(8)	-	(8)
Foreign exchange loss	(16)	(608)	-	(624)
Profit before income tax	1	1,106	(385)	722
Income tax benefit/(expense)	12	(172)	-	(160)
Profit from continuing operations	13	934	(385)	562
Profit from discontinued operation*	-	12	29	41
Profit for the period	13	946	(356)	603
Additional information:				
depreciation and amortisation expense	140	227	-	367
capital expenditures	228	253	-	481
intersegment revenue (incl. in revenue from related parties)	618	62	(680)	-

* These amounts are related to the discontinued operation represented the Severstal International segment (Note 27).

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

Segmental income statements for the year ended 31 December 2014:

	Severstal Resources	Severstal Russian Steel	Severstal International	Inter segment transactions	Conso- lidated
Revenue					
Revenue - third parties	917	7,264	-	-	8,181
Revenue - related parties	933	285	-	(1,103)	115
	1,850	7,549	-	(1,103)	8,296
Cost of sales	(1,201)	(5,338)	-	1,065	(5,474)
Gross profit	649	2,211	-	(38)	2,822
General and administrative expenses	(109)	(380)	-	70	(419)
Distribution expenses	(177)	(506)	-	-	(683)
Other taxes and contributions	(45)	(51)	-	-	(96)
Share of associates' and joint ventures' loss	-	(24)	-	-	(24)
Loss on disposal of property, plant and equipment and intangible assets	(3)	(8)	-	-	(11)
Net other operating income	3	21	-	(11)	13
Profit from operations	318	1,263	-	21	1,602
Impairment of non-current assets	(277)	(15)	-	-	(292)
Net other non-operating expenses	(42)	(101)	-	41	(102)
(Loss)/profit before financing and taxation	(1)	1,147	-	62	1,208
Interest income	35	82	-	(66)	51
Interest expense	(29)	(282)	-	54	(257)
Gain on remeasurement and disposal	12	793	-	(802)	3
Other finance costs	-	(6)	-	1	(5)
Foreign exchange loss	(12)	(1,794)	-	-	(1,806)
Profit/(loss) before income tax	5	(60)	-	(751)	(806)
Income tax (expense)/benefit	(29)	44	-	(4)	11
Loss from continuing operations	(24)	(16)	-	(755)	(795)
Loss from discontinued operation	-	-	(802)	1	(801)
Loss for the period	(24)	(16)	(802)	(754)	(1,596)
Additional information:					
depreciation and amortisation expense	219	344	115	(2)	676
capital expenditures	378	401	52	(1)	830
intersegment revenue (incl. in revenue from related parties)	928	175	-	(1,103)	-

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

The following is a summary of non-current assets other than financial instruments, investments in associates and joint ventures and deferred tax assets by location:

	31 December		
	2016	2015	2014
Russian Federation	3,334	2,747	3,521
Europe and CIS	22	89	100
Africa	-	-	97
	<u>3,356</u>	<u>2,836</u>	<u>3,718</u>

The locations are primarily represented by the following countries:

- In Europe and CIS: Latvia and Ukraine in 2014, 2015 and 2016; Italy in 2014 and 2015; Poland in 2016.
- In Africa: Liberia in 2014.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

30. Financial instruments

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures. The Group's Audit Committee reviews the adequacy of the risk management framework in relation to the risks faced by the Group on a quarterly basis.

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The Severstal Resources segment of the Group has not used derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. The Severstal Russian Steel segment uses derivatives to hedge their interest rates and foreign exchange rate exposures.

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for the following borrowings:

	31 December 2016		
	Market value	Book value	Difference
Eurobonds 2017	615	594	21
Eurobonds 2018	558	548	10
Eurobonds 2022	676	628	48
Convertible bonds 2017	48	43	5
Convertible bonds 2021	254	254	-
	<u>2,151</u>	<u>2,067</u>	<u>84</u>
	31 December 2015		
	Market value	Book value	Difference
Eurobonds 2016	261	255	6
Eurobonds 2017	657	621	36
Eurobonds 2018	571	571	-
Eurobonds 2022	647	676	(29)
Convertible bonds 2017	61	62	(1)
	<u>2,197</u>	<u>2,185</u>	<u>12</u>
	31 December 2014		
	Market value	Book value	Difference
Eurobonds 2016	374	392	(18)
Eurobonds 2017	642	705	(63)
Eurobonds 2018	493	573	(80)
Eurobonds 2022	558	697	(139)
Convertible bonds 2017	427	452	(25)
Bank financing	542	598	(56)
	<u>3,036</u>	<u>3,417</u>	<u>(381)</u>

The above amounts exclude accrued interest. The market value of the Group's bonds was determined based on London Stock Exchange quotations.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position and guarantees (Note 31e).

Part of the Group's sales are made on terms of letters of credit. In addition, the Group requires prepayments from certain customers. The Group also holds bank and other guarantees provided as a collateral for certain financial assets. The amount of collateral held does not fully cover the Group's exposure to credit risk.

The Group has developed policies and procedures for the management of credit exposure, including the establishment of a credit committee that actively monitors credit risk. Additionally, in order to minimise credit risk of the counterparty banks, the Group has a centralised Treasury function which carries out analysis of banks in respect of their financial stability, defines and reviews the risks limits for banks on a quarterly basis and executes the Group's operations within those established limits.

The maximum exposure to credit risk for financial instruments, including accounts receivable from related parties, was:

	31 December		
	2016	2015	2014
Cash and cash equivalents	1,154	1,647	1,897
Loans and receivables	571	507	777
Available-for-sale financial assets	205	15	38
Restricted financial assets	1	2	-
Held-to-maturity securities	-	1	11
	<u>1,931</u>	<u>2,172</u>	<u>2,723</u>

The maximum exposure to credit risk for trade receivables, including trade receivables from related parties by geographic region, was:

	31 December		
	2016	2015	2014
Russian Federation	340	300	413
Europe	86	75	148
The Middle East	40	46	21
Africa	21	1	5
CIS	12	11	17
Central and South America	4	1	6
North America	3	6	39
China and Central Asia	-	1	2
South-East Asia	-	-	11
	<u>506</u>	<u>441</u>	<u>662</u>

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

The maximum exposure to credit risk for trade receivables, including trade receivables from related parties by type of customer, was:

	31 December		
	2016	2015	2014
Industrial consumers	361	355	477
Wholesale customers	120	67	133
Retail customers	1	1	28
Other customers	24	18	24
	<u>506</u>	<u>441</u>	<u>662</u>

Impairment losses

The ageing of trade receivables, including trade receivables from related parties, was:

	31 December					
	2016		2015		2014	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
Not past due	516	(38)	405	(37)	603	(38)
Past due less than 30 days	19	-	56	-	77	-
Past due 31-90 days	10	(1)	18	(5)	21	(6)
Past due 91-180 days	2	(2)	4	(3)	4	(3)
Past due 181-365 days	4	(4)	16	(14)	4	(2)
More than one year	37	(37)	14	(13)	13	(11)
	<u>588</u>	<u>(82)</u>	<u>513</u>	<u>(72)</u>	<u>722</u>	<u>(60)</u>

The movement in allowance for impairment in respect of trade receivables, including trade receivables from related parties, during the years was as follows:

	Year ended 31 December		
	2016	2015	2014
Opening balance	(72)	(60)	(90)
Impairment loss recognised	(19)	(32)	(28)
Impairment loss reversed	16	9	40
Reclassified to assets held for sale	2	-	-
Translation to presentation currency	(9)	11	18
Closing balance	<u>(82)</u>	<u>(72)</u>	<u>(60)</u>

The allowance account in respect of trade receivables, including trade receivables from related parties, is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

The allowance for doubtful debts contains primarily individually impaired trade receivables from debtors placed under liquidation or companies which are in breach of contract terms.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 *(Amounts expressed in millions of US dollars, except as otherwise stated)*

Concentration of credit risk

2016

The Group has a concentration of cash and short-term bank deposits with Sberbank of Russia, PJSC Bank VTB that as at 31 December 2016 represented US\$ 714 million and US\$ 316 million, respectively.

2015

The Group has a concentration of cash and short-term bank deposits with Sberbank of Russia, PJSC Bank VTB and JSC Metcombank that as at 31 December 2015 represented US\$ 1,107 million, US\$ 199 million and US\$ 163 million, respectively.

2014

The Group has a concentration of cash and short-term bank deposits with Sberbank of Russia and JSC Metcombank that as at 31 December 2014 represented US\$ 1,448 million and US\$ 309 million, respectively.

Liquidity risk

Liquidity risk arises when the Group encounters difficulties to meet commitments associated with liabilities and other settlements.

The Group manages liquidity risk with the objective of ensuring that funds will be available at all times to honour all cash obligations as they become due by preparing annual budgets, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group also maintains committed credit lines and overdraft facilities that can be drawn down to meet short-term financing needs. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing costs and to achieve an optimal debt profile.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2016

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	2,013	(2,334)	(754)	(599)	(315)	(666)
Trade and other payables	524	(524)	(524)	-	-	-
Derivative financial liabilities	106	(106)	(106)	-	-	-
	<u>2,643</u>	<u>(2,964)</u>	<u>(1,384)</u>	<u>(599)</u>	<u>(315)</u>	<u>(666)</u>

31 December 2015

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	2,452	(2,867)	(599)	(796)	(709)	(763)
Trade and other payables	448	(448)	(448)	-	-	-
Derivative financial liabilities	5	(5)	(5)	-	-	-
	<u>2,905</u>	<u>(3,320)</u>	<u>(1,052)</u>	<u>(796)</u>	<u>(709)</u>	<u>(763)</u>

31 December 2014

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	3,428	(3,988)	(910)	(748)	(1,503)	(827)
Trade and other payables	539	(539)	(539)	-	-	-
Derivative financial liabilities	17	(17)	-	(17)	-	-
	<u>3,984</u>	<u>(4,544)</u>	<u>(1,449)</u>	<u>(765)</u>	<u>(1,503)</u>	<u>(827)</u>

2016

As at 31 December 2016, the Group has no significant bank financing.

2015

As at 31 December 2015, the Group has a concentration of bank financing with Sberbank of Russia of US\$ 206 million.

2014

As at 31 December 2014, the Group has a concentration of bank financing with Sberbank of Russia, AO Citibank and JSC ING Bank (Eurasia) of US\$ 267 million, US\$ 100 million and US\$ 100 million, respectively.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

Covenant compliance risk

The Group actively monitors compliance with all debt covenants. In case of the risk of default, the Group uses its best effort to avoid or remedy (as the case may be) relevant default and seeks to approach the lenders as soon as possible in order to amend the respective facility agreement or waive a possible default, as the case may be.

Currency risk

Currency risk arises when a Group entity enters into transactions and balances denominated in a currency other than its functional currency. The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

In order to reduce sensitivity to currency risk the Group matches incoming and outgoing cash flows in the same currency such as sales proceeds and debt service, investment activity payments.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

31 December 2016		
	Euro	USD
Available-for-sale financial assets	-	191
Loans and receivables	1,396	287
Cash and cash equivalents	34	875
Debt finance	(1,969)	(2,324)
Trade and other payables	(96)	(166)
Derivative financial instruments	-	155
Net exposure	(635)	(982)

31 December 2015		
	Euro	USD
Loans and receivables	208	149
Cash and cash equivalents	42	1,278
Restricted financial assets	2	-
Debt finance	(1,900)	(2,484)
Trade and other payables	(79)	(60)
Net exposure	(1,727)	(1,117)

31 December 2014				
	Euro	USD	RUB	PLN
Loans and receivables	212	618	-	2
Cash and cash equivalents	62	1,007	1	-
Debt finance	(1,681)	(4,008)	(4)	-
Trade and other payables	(107)	(88)	-	-
Derivative financial liabilities	-	(17)	-	-
Net exposure	(1,514)	(2,488)	(3)	2

Sensitivity analysis

A 10 percent strengthening of the following currencies against the functional currency as at 31 December 2016 would have increased/(decreased) profit and equity by the amounts shown below.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

This analysis assumes that all other variables, in particular interest rates, remain constant and no translation difference into the presentation currency is included. The analysis is performed on the same basis for 2015 and 2014.

	Year ended 31 December		
	2016	2015	2014
Net profit			
Euro	(25)	(137)	(119)
USD	(79)	(89)	(198)

A 10 percent weakening of these currencies against the functional currency as at 31 December 2016 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Commodity price risk

Commodity price risk is a risk arising from possible changes in price of raw materials and metal products, and it has impact on the Group's operational results.

The Group has a high degree of vertical integration which allows it to control and effectively manage the entire production process: from mining of raw materials to production, processing and distribution of metal products. This reduces the Group's exposure to the commodity price risk.

Interest rate risk

The largest part of the Group's public debt has fixed rate. The variable rate instruments have a fixed spread over LIBOR, EURIBOR and MOSPRIME for the duration of each contract.

The Group's interest-bearing financial instruments at variable rates were:

	31 December		
	2016	2015	2014
Variable rate instruments			
Financial assets	6	7	25
Financial liabilities	(12)	(28)	(331)
	<u>(6)</u>	<u>(21)</u>	<u>(306)</u>

Other Group's interest-bearing financial instruments are at fixed rate.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased/(decreased) profit and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2015 and 2014.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

	Net profit	
	100 bp increase	100 bp decrease
31 December 2016		
Financial assets	-	-
Financial liabilities	-	-
Cash flow sensitivity (net)	-	-
31 December 2015		
Financial assets	-	-
Financial liabilities	-	-
Cash flow sensitivity (net)	-	-
31 December 2014		
Financial assets	-	-
Financial liabilities	(3)	3
Cash flow sensitivity (net)	(3)	3

Fair value hierarchy

The table below analyses financial instruments carried at fair value, except financial instruments measured at amortised cost, by valuation method. The levels in the fair value hierarchy into which the fair value measurements are categorised were disclosed in accordance with IFRS.

	Level 1	Level 2	Level 3	Total
Balance as at 31 December 2016	202	(106)	3	99
Available-for-sale financial assets	202	-	3	205
Derivative financial liabilities (Note 22)	-	(106)	-	(106)
Balance as at 31 December 2015	-	(5)	15	10
Available-for-sale financial assets	-	-	15	15
Derivative financial liabilities	-	(5)	-	(5)
Balance as at 31 December 2014	-	(17)	38	21
Available-for-sale financial assets	-	-	38	38
Derivative financial liabilities	-	(17)	-	(17)

Available-for-sale financial assets presented in Level 1 included mainly bonds quoted on an active market.

The description of the levels is presented below:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 – inputs for the asset or liability that are not based on observable market data.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 (Amounts expressed in millions of US dollars, except as otherwise stated)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy:

	Available-for- sale financial assets
Balance as at 31 December 2016	3
Impairment (Note 6)	(12)
Balance as at 31 December 2015	15
Purchases of financial instruments	2
Impairment (Note 6)	(21)
Other reclassifications	(4)
Balance as at 31 December 2014	38
Other reclassifications	(7)
Balance as at 31 December 2013	45

31. Commitments and contingencies

a. 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\$ 400 million (31 December 2015: US\$ 44 million, 31 December 2014: US\$ 2 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 at 31 December 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

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 *(Amounts expressed in millions of US dollars, except as otherwise stated)*

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.

As at 31 December 2016 and 2015, claims related to utilities' supply agreements and factoring agreements made by the counterparties to certain Group's entities amounted to US\$ nil (31 December 2014: approximately US\$ 24 million and US\$ 16 million, respectively).

b. Long-term purchase and sales contracts

In the normal course of business group companies enter into long-term purchase contracts for raw materials, and long-term sales contracts. These contracts allow for periodic adjustments in prices dependent on prevailing market conditions.

c. Capital commitments

At the reporting date the Group had contractual capital commitments of US\$ 216 million (31 December 2015: 189 million; 31 December 2014: US\$ 244 million).

d. Insurance

The Group has insured the major part of its property and equipment to compensate for expenses arising from accidents. In addition, certain Group's entities have insurance for business interruption on various basis, from reimbursement of certain fixed costs to a gross profit reimbursement and/or insurance of a third party liability in respect of property or environmental damage. The Group believes that, with respect to each of its production facilities, it maintains insurance at levels generally in line with the relevant local market standards. However, the Group does not have full insurance coverage.

e. Guarantees

At the reporting date the Group had US\$ 2 million (31 December 2015: US\$ 3 million; 31 December 2014: US\$ 15 million) of guarantees issued, including guarantees issued for related parties, of US\$ 1 million (31 December 2015: US\$ 1 million; 31 December 2014: US\$ 4 million).

32. Subsequent event

In January 2017, the Group entered into a definitive agreement to sell to a third party 100% of the shares in Redaelli Tecna S.p.A., an Italian steel company, included in the Severstal Russian Steel reporting segment. The preliminary cash consideration receivable by the Group under this sale agreement amounts to Euro 50 million (US\$ 53 million at the transaction exchange rate date), subject to certain adjustments upon the deal closure. The expected loss on the disposal has been preliminary estimated at the amount of US\$ 30 million and recognised in these consolidated financial statements as impairment of goodwill and property, plant and equipment in the amount of US\$ 25 million and US\$ 5 million, respectively.

The transaction has not been completed at the date of the issue of these consolidated financial statements.

Steel Capital S.A.
société anonyme

Annual Accounts
for the year ended 31 December 2015

Registered office:
2, boulevard Konrad Adenauer
L-1115 Luxembourg
R.C.S. Luxembourg B 116.975

Steel Capital S.A.
société anonyme
Registered office: 2, boulevard Konrad Adenauer
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(the "Company")

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Directors and Other Information

Directors

Kailash Ramassur (as from 28 May 2015)
Graeme Jenkins (as from 28 May 2015)
David Moscato (as from 17 June 2015)
Daniel Bley (until 17 June 2015)
Marion Fritz (until 28 May 2015)
Anja Wunsch (until 28 May 2015)

Corporate Administrator and Principal Banker

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2, boulevard Konrad Adenauer
L-1115 Luxembourg
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Lead Manager

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Joint Lead Managers

Citigroup Global Markets Limited
Citigroup Centre
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Principal Paying Agent and Trustee

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Steel Capital S.A.
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 (the "Company")

Director's Report for the year ended 31 December 2015

The Directors present their Report and the Annual Accounts for the year ended 31 December 2015.

1. ACTIVITIES AND REVIEW OF THE DEVELOPMENT OF THE BUSINESS

Steel Capital S.A. is a Luxembourg Company incorporated on 11 May 2006, for an unlimited duration, as a «société anonyme» and is subject to the Luxembourg law of August 10, 1915 on commercial companies, as subsequently amended.

The Company's principal activity is to issue loan participation notes for the purpose of financing loans to Open Joint Stock Company Severstal and to its affiliated companies (together referred to as Severstal).

On 9 February 2015, Severstal partially cancelled Loans due 2016 and 2017 in the amount of USD 136,720,000 and USD 84,672,000 respectively, the proceeds of which were used to redeemed corresponding amount of the Notes due 2016 and 2017.

As at the year end, the Company had 4 active Series.

The Company has been performing in line with the agreements and all loans servicing for the interest payments were done on a timely basis, the corresponding payments to Notesholders were also made.

2. BUSINESS REVIEW

During the year:

- The Company made no profit or loss (2014: EUR NIL);
- There were no credit events that affected the Company

As at 31 December 2015

- The Company's net equity was EUR 31,000 (2014: EUR 31,000);
- The Company's total indebtedness was EUR 1,994,276,296 (2014: EUR 1,975,290,268);
- The Company had the following Notes in issue:
 - (i) USD 255,118,000 6.25% Loan Participation Notes due on 2016 (EUR 233,731,562)
 - (ii) USD 620,814,000 6.70% Loan Participation Notes due on 2017 (EUR 568,771,415)
 - (iii) USD 572,500,000 4.45% Loan Participation Notes due on 2018 (EUR 524,507,558)
 - (iv) USD 697,289,000 5.90% Loan Participation Notes due on 2022 (EUR 638,835,547)

3. FUTURE DEVELOPMENTS

The Directors expect the present level of activity to be sustained for the foreseeable future.

Steel Capital S.A.
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Directors' Report
for the year ended 31 December 2015
(continued)

4. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Company relate to loans and claims held as fixed assets and other assets held for risk management purposes.

The Company has exposure to the following risks from its use of financial instruments and does not have any externally imposed capital requirements.

(i) Credit risk

Credit risk is the risk of the financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's credit linked assets. The Company's principal financial fixed assets are loans and claims held as fixed assets, cash at bank, cash in postal cheque accounts, cheques and cash in hand, and other receivables which represent the Company's maximum exposure to credit risk in relation to the Notes issued.

The Loans provided involve a degree of risk arising from fluctuations in the amount and timing of receipt of the principal and interest on the Loans and the amounts payable to the Noteholders. The risk of default on the assets is borne by the Noteholders as the Notes are issued on a limited recourse basis. Therefore, the Company is not obliged to pay any additional amount to the Noteholders other than the amount receivable on the loans.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations arising from its financial liabilities as they fall due.

The Company's obligation to the Noteholders is limited to the net proceeds upon realisation of the Loan towards PAO Severstal. Should the net proceeds be insufficient to make all payments due in respect of the Notes, the other assets of the Company will not be available for payment and the deficit is instead borne by the Noteholders.

The Company does not face major liquidity risk since it is obliged to make payments to the Noteholders in an amount and currency equal to the amount and currency actually received from the Company. Liquidity risk is also limited since in consideration of the Company agreeing to make Loans to Severstal, the latter shall pay on demand to the Lender as and when such amounts are due an amount equal to all ongoing fees and costs in accordance with the Loan arrangement fee of the Facility Agreement 15 March 2013.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or its value of its holdings of financial instruments. Market risk embodies the potential for both gains and losses and includes interest rate risk, currency risk and price risk.

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 (the "Company")

Directors' Report
for the year ended 31 December 2015
(continued)

4. PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

(a) Currency risk

Currency risk is the risk which arises due to the assets and liabilities of the Company held in foreign currencies, which will be affected by fluctuations in foreign exchange rates. The Company limits its exposure to currency risk by operating bank accounts in other currencies than its presentation currency for receipts and payments in other currencies than its presentation currencies. The Company is exposed to movement in exchange rates between Euro (EUR), its presentation currency, and certain foreign currencies namely US Dollar ("USD") and British Pound ("GBP").

The Company does not face any major currency risk since all its significant transactions are transacted in USD.

(b) Interest rate risk

Interest rate risk is the risk that the Company does not receive adequate interest from the Loan to secure interest payments on the Notes. The Company is not exposed to any interest risk since both the Loans and Note bears the same terms and conditions.

Any default towards the interest receivable on the Loans will be borne by the Noteholders as the Notes are issued on a limited recourse basis.

(c) Price risk

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Company does not consider price risk to be a significant risk to the Company as any fluctuation in the value of loans held by the Company will be borne by the Noteholders.

5. RESULTS AND DIVIDENDS FOR THE YEAR ENDED 31 DECEMBER 2015

The results for the year are set out on pages 11 and 12. No dividends are recommended by the Directors for the year under review (2014: EUR NIL).

6. DIRECTORS, SECRETARY AND THEIR INTERESTS

The Directors and secretary who held office on 31 December 2015 did not hold any shares in the Company or in any group company at that date, or during the year. There were no contracts of any significance in relation to the business of the Company in which the Directors had any interest at any time during the year.

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Directors' Report
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(continued)

7. CORPORATE GOVERNANCE STATEMENT

The Company is subject to and complies with the amended law of 10 August 1915 on commercial companies and the Listing Rules of the Irish Stock exchange. The Company does not apply additional requirements in addition to those required by the above. Each of the service providers engaged by the Company is subject to their own corporate governance requirements.

Financial Reporting Process

The Board of Directors ("the Board") is responsible for establishing and maintaining adequate internal control and risk management systems of the Company in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Company's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. These include appointing the Administrator, Deutsche Bank Luxembourg S.A. to maintain the accounting records of the Company independently of the Arranger and the Custodian. The Administrator is contractually obliged to maintain proper books and records as required by the Corporate Administration agreement. To that end the Administrator performs reconciliations of its records to those of the Arranger and the Custodian. The Administrator is also contractually obliged to prepare for review and approval by the Board the Annual Accounts intended to give a true and fair view.

The Board evaluates and discusses significant accounting and reporting issues as the need arises. From time to time the Board also examines and evaluates the external auditors' performance, qualifications and independence. The Administrator has operating responsibility for internal control in relation to the financial reporting process and the Administrator's report to the Board.

Risk Assessment

The Board is responsible for assessing the risk of irregularities whether caused by fraud or error in financial reporting and ensuring the processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting. The Board has also put in place processes to identify changes in accounting rules and recommendations and to ensure that these changes are accurately reflected in the Company's Annual Accounts.

Control Activities

The Administrator is contractually obliged to design and maintain control structures to manage the risks which are significant for internal control over financial reporting. These control structures include appropriate division of responsibilities and specific control activities aimed at detecting or preventing the risk of significant deficiencies in financial reporting for every significant account in the Annual Accounts and the related notes in the Company's accounts.

Monitoring

The Board has an annual process to ensure that appropriate measures are taken to consider and address the shortcomings identified and measures recommended by the independent auditors.

Given the contractual obligations on the Administrator, the Board has concluded that there is currently no need for the Company to have a separate internal audit function in order for the board to perform effective monitoring and oversight of the internal control and risk management systems of the Company in relation to the financial reporting process.

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Directors' Report
for the year ended 31 December 2015
(continued)

7. CORPORATE GOVERNANCE STATEMENT (Continued)

Capital Structure

No person has a significant direct or indirect holding of securities in the Company. No person has any special rights of control over the company's share capital.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the amended law of 10 August 1915 on commercial companies and the Listing Rules of the Irish Stock Exchange. The Articles of Association themselves may be amended by special resolution of the shareholders.

Powers of Directors

The Board is responsible for managing the business affairs of the Company in accordance with the Articles of Association. The Directors may delegate certain functions to other parties, subject to the supervision and direction by the Directors.

8. SUBSEQUENT EVENTS

There were no significant subsequent events up to the date of signing this report.

9. AUDIT COMMITTEE

The Company has not established an audit committee. The role of the audit committee is undertaken by the full Board of the Company, which is deemed appropriate given the defined business activities of the Company.

The Board of Directors,

Luxembourg

Annual Accounts Helpdesk :

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RCSL Nr. : B 116 975

Matricule : 2006 2214 261

BALANCE SHEET

Financial year from 01 1 January 2015 to 02 31 December 2015 (in 03 EUR ..)

Steel Capital S.A.
2, boulevard Konrad Adenauer
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ASSETS

	Reference(s)	Current year	Previous year
A. Subscribed capital unpaid	101		102
I Subscribed capital not called	103		104
II Subscribed capital called but unpaid	105		106
B. Formation expenses	107		108
C. Fixed assets	109	1,965,846,082	110 1,946,158,842
I Intangible fixed assets	111		112
1 Research and development costs	113		114
2 Concessions, patents, licences, trade marks and similar rights and assets, if they were	115		116
a) acquired for valuable consideration and need not be shown under C I 3	117		118
b) created by the undertaking itself	119		120
3 Goodwill, to the extent that it was acquired for valuable consideration	121		122
4 Payments on account and intangible fixed assets under development	123		124
II Tangible fixed assets	125		126
1 Land and buildings	127		128
2 Plant and machinery	129		130
3 Other fixtures and fittings, tools and equipment	131		132
4 Payments on account and tangible fixed assets under development	133		134
III Financial fixed assets	135	1,965,846,082	136 1,946,158,842
1 Shares in affiliated undertakings	137		138
2 Amounts owed by affiliated undertakings	139		140
3 Shares in undertakings with which the undertaking is linked by virtue of participating interests	141		142
4 Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests	143		144
5 Securities and other financial instruments held as fixed assets	145		146
6 Loans and claims held as fixed assets	(3) 147	1,965,846,082	148 1,946,158,842
7 Own shares or own corporate units	149		150

The notes to the accounts form an integral part of the annual accounts

RCSL Nr. : B 116 975

Matricule : 2006 2214 261

	Reference(s)	Current year	Previous year
D. Current assets			
	151	28,461,214	152 29,159,160
I. Inventories	153		154
1. Raw materials and consumables	155		156
2. Work and contracts in progress	157		158
3. Finished goods and merchandise	159		160
4. Payments on account	161		162
II Debtors	163	28,461,160	164 29,041,143
1 Trade receivables	165		166
a) becoming due and payable within one year	167		168
b) becoming due and payable after more than one year	169		170
2. Amounts owed by affiliated undertakings	171		172
a) becoming due and payable within one year	173		174
b) becoming due and payable after more than one year	175		176
3 Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests	177		178
a) becoming due and payable within one year	179		180
b) becoming due and payable after more than one year	181		182
4. Other receivables	183	28,461,160	184 29,041,143
a) becoming due and payable within one year	(4) 185	28,461,160	186 29,041,143
b) becoming due and payable after more than one year	187		188
III. Transferable securities and other financial instruments	189		190
1 Shares in affiliated undertakings and in undertakings with which the undertaking is linked by virtue of participating interests	191		192
2. Own shares or own corporate units	193		194
3 Other transferable securities and other financial instruments	195		196
IV Cash at bank, cash in postal cheque accounts, cheques and cash in hand	(5) 197	54	198 118,017
E. Prepayments	199	-	200 3,266
TOTAL (ASSETS)	201	1,994,307,296	202 1,975,321,268

The notes to the accounts form an integral part of the annual accounts

RCSL Nr. : B 116 975

Matricule : 2006 2214 261

LIABILITIES

	Reference(s)	Current year	Previous year
A. Capital and reserves			
	301	31,000	302 31,000
I. Subscribed capital	(6) 303	31,000	304 31,000
II. Share premium and similar premiums	305		306
III. Revaluation reserves	307		308
IV. Reserves	309		310
1. Legal reserve	311		312
2. Reserve for own shares or own corporate units	313		314
3. Reserves provided for by the articles of association	315		316
4. Other reserves	317		318
V. Profit or loss brought forward	319		320
VI. Profit or loss for the financial year	321		322
VII. Interim dividends	323		324
VIII. Capital investment subsidies	325		326
IX. Temporarily not taxable capital gains	327		328
B. Subordinated debts			
1. Convertible loans	329		330
a) becoming due and payable within one year	413		414
b) becoming due and payable after more than one year	415		416
2. Non convertible loans	417		418
a) becoming due and payable within one year	418		420
b) becoming due and payable after more than one year	421		422
	423		424
C. Provisions			
1. Provisions for pensions and similar obligations	331	759,254	332 409,831
2. Provisions for taxation	333		334
3. Other provisions	(7) 335	728,804	336 388,154
	(8) 337	30,450	338 21,677
D. Non subordinated debts			
1. Debenture loans	339	1,993,517,042	340 1,974,880,437
a) Convertible loans	341		342
i) becoming due and payable within one year	343		344
ii) becoming due and payable after more than one year	345		346
b) Non convertible loans	347		348
i) becoming due and payable within one year	(9) 349	1,993,482,964	350 1,974,839,932
ii) becoming due and payable after more than one year	351	261,368,444	352 28,681,090
2. Amounts owed to credit institutions	353	1,732,114,520	354 1,946,158,842
a) becoming due and payable within one year	355		356
b) becoming due and payable after more than one year	357		358
	359		360

The notes to the accounts form an integral part of the annual accounts

RCSL Nr. : B 116 975	Matricule : 2006 2214 261
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	Reference(s)	Current year	Previous year
3. Payments received on account of orders as far as they are not deducted distinctly from inventories	361		362
a) becoming due and payable within one year	363		364
b) becoming due and payable after more than one year	365		366
4 Trade creditors	367		368
a) becoming due and payable within one year	369		370
b) becoming due and payable after more than one year	371		372
5 Bills of exchange payable	373		374
a) becoming due and payable within one year	375		376
b) becoming due and payable after more than one year	377		378
6 Amounts owed to affiliated undertakings	379		380
a) becoming due and payable within one year	381		382
b) becoming due and payable after more than one year	383		384
7. Amounts owed to undertakings with which the undertaking is linked by virtue of participating interests	385		386
a) becoming due and payable within one year	387		388
b) becoming due and payable after more than one year	389		390
8 Tax and social security debts	391		392
a) Tax debts	393		394
b) Social security debts	395		396
9 Other creditors	(10) 397	34,078	40,505
a) becoming due and payable within one year	399	34,078	40,505
b) becoming due and payable after more than one year	401		402
E. Deferred income	403		404
TOTAL (LIABILITIES)	405	1,994,307,296	1,975,321,268

The notes to the accounts form an integral part of the annual accounts

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RCSL Nr B 116 975

Matricule : 2006 2214 261

PROFIT AND LOSS ACCOUNTFinancial year from 01 1 January 2015 to 02 31 December 2015 (in 03 EUR)

Steel Capital S A
2, boulevard Konrad Adenauer
L-1115 Luxembourg

A. CHARGES

	Reference(s)	Current year	Previous year
1. Use of merchandise, raw materials and consumable materials	601		602
2. Other external charges	(11) 603	95,628	604 132,116
3. Staff costs	605		606
a) Salaries and wages	607		608
b) Social security on salaries and wages	609		610
c) Supplementary pension costs	611		612
d) Other social costs	613		614
4. Value adjustments	615		616
a) on formation expenses and on tangible and intangible fixed assets	617		618
b) on current assets	619		620
5. Other operating charges	(12) 621	-	622 327,369
6. Value adjustments and fair value adjustments on financial fixed assets	623		624
7. Value adjustments and fair value adjustments on financial current assets. Loss on disposal of transferable securities	625		626
8. Interest and other financial charges	627	115,800,766	628 157,496,563
a) concerning affiliated undertakings	629		630
b) other interest and similar financial charges	(13) 631	115,800,766	632 157,496,563
9. Share of losses of undertakings accounted for under the equity method	649		650
10. Extraordinary charges	633		634
11. Income tax	(17) 635	549,208	636 79,453
12. Other taxes not included in the previous caption	637	155	638 155
13. Profit for the financial year	639		640
TOTAL CHARGES	641	116,445,757	642 158,035,656

The notes to the accounts form an integral part of the annual accounts

RCSL Nr : B 116 975

Matricule : 2006 2214 261

B. INCOME

	Reference(s)	Current year	Previous year
1. Net turnover	701	702	
2. Change in inventories of finished goods and of work and contracts in progress	703	704	
3. Fixed assets under development	705	706	
4. Reversal of value adjustments	707	708	
a) on formation expenses and on tangible and intangible fixed assets	709	710	
b) on current assets	711	712	
5. Other operating income	(14) 713	644,683	714 539,093
6. Income from financial fixed assets	715	716	
a) derived from affiliated undertakings	717	718	
b) other income from participating interests	719	720	
7. Income from financial current assets	721	722	
a) derived from affiliated undertakings	723	724	
b) other income from financial current assets	725	726	
8. Other interest and other financial income	(15) 727	115,801,074	728 157,496,563
a) derived from affiliated undertakings	729	730	
b) other interest and similar financial income	731	115,801,074	732 157,496,563
9. Share of profits of undertakings accounted for under the equity method	745	746	
10. Extraordinary income	733	734	
11. Loss for the financial year	735	736	
TOTAL INCOME	737	116,445,757	738 158,035,656

The notes to the accounts form an integral part of the annual accounts

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**Notes to the Annual Accounts
 for the year ended 31 December 2015**

Note 1 - General information

Steel Capital S.A. is a Luxembourg Company incorporated on 11 May 2006, for an unlimited duration, as a «société anonyme» and is subject to the Luxembourg law of 10 August 1915 on commercial companies, as subsequently amended.

The registered office of the Company is established at 2, boulevard Konrad Adenauer, L-1115 Luxembourg.

The Company's financial year starts on 1 January and ends on 31 December of each year.

The Company shall have as its business purpose the issue of loan participation notes for the purpose of financing loans to Open Joint Stock Company Severstal and to its affiliated companies, the granting of security interests over its assets in relation to the issuance of the loan participation notes and the making of deposits at banks or with other depositaries.

The Company may carry out any transaction, whether commercial or financial, which are directly or indirectly connected with its corporate object at the exclusion of any banking activity. In general, the Company may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Note 2 - Summary of significant accounting policies

Note 2.1 - Basis of preparation

The Annual Accounts have been prepared in accordance with Luxembourg legal and regulatory requirements under the historical cost convention.

The preparation of Annual Accounts requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise their judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the Annual Accounts in the year in which the assumptions changed. The Directors believe that the underlying assumptions are appropriate and that the Annual Accounts therefore present the financial position and results fairly.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities in the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Note 2.2 - Significant accounting policies

The main valuation rules applied by the Company are the following:

Note 2.2.1 - Financial fixed assets

Historical cost model

Valuation at purchase price

The Loans and claims held as financial assets are valued at nominal value including the expenses incidental thereto.

In the case of durable depreciation in value according to the opinion of the Board of Directors, value adjustments are made in respect of fixed assets, so that they are valued at the lower figure to be attributed to them at the Balance Sheet date. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

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**Notes to the Annual Accounts
for the year ended 31 December 2015**
(continued)

Note 2 - Summary of significant accounting policies (continued)

Note 2.2.2 - Debtors

Debtors are valued at their nominal value. They are subject to value adjustments where their recoverability is compromised. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

Note 2.2.3 - Foreign currency translation

Transactions expressed in currencies other than the presentation currency of the Company are translated into Euro ("EUR") at the exchange rate effective at the time of the transaction.

Cash at bank, cash in postal cheque accounts, cheques and cash in hand are translated at the exchange rate effective at the Balance Sheet date. Exchange losses and gains are recorded in the Profit and Loss Account of the year.

Assets and liabilities items are converted at the exchange rates effective at the Balance Sheet date. Foreign exchange differences on these items are recognised in the Profit and Loss Account.

Where there is an economic link between an asset and liability, these are valued in total according to the method described above and the net unrealised losses are recorded in the Profit and Loss Account whereas the net unrealised exchange gains are not recognised.

Note 2.2.4 - Provisions

Provisions are intended to cover losses or debts, the nature of which is clearly defined and which, at the date of the Balance Sheet, are either likely to be incurred or certain to be incurred but uncertain as to their amount on the date on which they will arise

Provisions may also be created to cover charges which originate in the financial year under review or have in a previous financial year, the nature of which is clearly defined and which at the date of the Balance Sheet are either likely to be incurred or certain to be incurred but uncertain as to their amount or the date on which they will arise.

Note 2.2.5 - Prepayments

This asset item includes expenditures incurred during the financial year but relating to a subsequent financial year.

Note 2.2.6 - Debts

Debts are recorded at their reimbursement value.

Note 2.2.7 - Tax debt

Tax debt corresponding to the difference between the tax liability estimated by the Company and the advance payments for the financial years for which the tax return has not yet been filed are recorded under the caption "Tax debts".

Note 2.2.8 - Interest income and expenses

Interest income and expenses are recorded on an accrual basis in the Profit and Loss Account.

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Notes to the Annual Accounts
for the year ended 31 December 2015
(continued)

Note 3 - Loans and claims held as fixed assets

Loans and claims held as fixed assets, in the amount of **EUR 1,965,846,082**, are comprised as follows:

Loans to PAO Severstal.

Loan	CCY	Outstanding amount	Interest rate	Maturity date	Balance as at 1-Jan-2015 EUR	(Disposals) / Additions during the year EUR	Foreign currency revaluation EUR	Balance as at 31-Dec-2015 EUR
Loan 3	USD	620,814,000	6.70%	25-Oct-2017	580,026,309	(74,702,898)	63,448,004	568,771,415
Loan 4	USD	255,118,000	6.25%	26-Jul-2016	322,155,718	(120,622,877)	32,198,721	233,731,562
Loan 5	USD	697,289,000	5.90%	17-Oct-2022	573,287,018	-	65,548,529	638,835,547
Loan 6	USD	572,500,000	4.45%	19-Mar-2018	470,689,797	-	53,817,761	524,507,558
					1,946,158,842	(195,325,775)	215,013,015	1,965,846,082

On 9 February 2015, Severstal partially cancelled Loans due 2016 and 2017 in the amount of USD 136,720,000 and USD 84,672,000 respectively, the proceeds of which were used to redeemed corresponding amount of the Notes due 2016 and 2017.

Note 4 - Other receivables

Other receivables, in the amount of **EUR 28,461,160**, are comprised as follows:

	31-Dec-2015 EUR	31-Dec-2014 EUR
Interest receivable on loans	27,636,882	28,681,090
Arrangement fees receivable	492,370	145,530
Tax advance 2014	121,560	121,560
Tax advance 2015	103,750	-
Tax advance 2013	71,395	71,390
VAT receivable 2015	12,680	-
VAT receivable 2013	9,495	9,495
VAT receivable 2014	9,110	2,985
VAT receivable 2012	3,918	3,918
Tax advance 2010	-	1,725
Tax advance 2011	-	1,725
Tax advance 2012	-	1,725
	28,461,160	29,041,143

*In consideration of the Company agreeing to make Loans to Severstal, the latter shall pay on demand to the Lender as and when such amounts are due an amount equal to all ongoing fees and costs in accordance with the Loan arrangement fee of the Facility Agreement 15 March 2013

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**Notes to the Annual Accounts
for the year ended 31 December 2015**
(continued)

<u>Note 5 - Cash at bank, cash in postal cheque accounts, cheques and cash in hand</u>	<u>31-Dec-2015</u>	<u>31-Dec-2014</u>
	EUR	EUR
Cash at bank, cash in postal cheque accounts, cheques and cash in hand, in the amount of EUR 54 , is comprised as follows:		
Cash account with Deutsche Bank Luxembourg S.A. - EUR	-	117,055
Cash account with Deutsche Bank Luxembourg S.A. - USD	54	962
	<u>54</u>	<u>118,017</u>

Note 6 - Capital and reserves

The subscribed capital of the Company consists of 310 shares with a par value of EUR 100 each (EUR 31,000). As at 31 December 2015, 310 shares were issued and fully paid.

The carrying value of the capital and reserves is comprised as follows:

	<u>Subscribed capital</u>
Balance as at 1 January 2015 and 31 December 2015	<u>31,000</u>

Legal Reserve

In accordance with Luxembourg Company law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders.

<u>Note 7 - Provisions for taxation</u>	<u>31-Dec-2015</u>	<u>31-Dec-2014</u>
	EUR	EUR
Provisions for taxation, in the amount of EUR 728,804 , are comprised as follows:		
Corporate tax - 2010	-	53,490
Corporate tax - 2011	-	69,588
Corporate tax - 2012	-	81,134
Corporate tax - 2013	225,130	104,334
Corporate tax - 2014	225,594	79,608
Corporate tax - 2015	278,080	-
	<u>728,804</u>	<u>388,154</u>

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Notes to the Annual Accounts
for the year ended 31 December 2015
(continued)

Note 8 - Other provisions

	<u>31-Dec-2015</u>	<u>31-Dec-2014</u>
	EUR	EUR
Other provisions, in the amount of EUR 30,450 , is comprised as follows:		
Audit fees	11,700	2,926
Management fees	7,313	7,313
VAT filing fees	4,212	4,212
Accountancy fees	4,095	4,095
Administration fees	2,925	2,925
Other costs	205	206
	<u>30,450</u>	<u>21,677</u>

Note 9 - Non-convertible loans

Non-convertible loans issued, in the amount of **EUR 1,993,482,964**, are comprised of Loan Participation Notes (the "Notes") as follows:

Notes	CCY	Outstanding amount	Interest rate	Maturity date	Balance as at 1-Jan-2015 EUR	(Disposals) / additions during the year EUR	Foreign currency revaluation EUR	Balance as at 31-Dec-2015 EUR
Notes 3	USD	620,814,000	6.70% _a	25-Oct-2017	580,026,309	(74,702,898)	63,448,004	568,771,415
Notes 4	USD	255,118,000	6.25% _a	26-Jul-2016	322,155,718	(120,622,877)	32,198,721	233,731,562
Notes 5	USD	697,289,000	5.90% _a	17-Oct-2022	573,287,018	-	65,548,529	638,835,547
Notes 6	USD	572,500,000	4.45% _a	19-Mar-2018	470,689,797	-	53,817,761	524,507,558
					<u>1,946,158,842</u>	<u>(195,325,775)</u>	<u>215,013,015</u>	<u>1,965,846,082</u>

	<u>31-Dec-2015</u>	<u>31-Dec-2014</u>
	EUR	EUR
<i>becoming due and payable within one year</i>		
Principal amount	233,731,562	-
Interest payable on Notes	27,636,882	28,681,090
	<u>261,368,444</u>	<u>28,681,090</u>

becoming due and payable after more than one year

Principal amount	1,732,114,520	1,946,158,842
Total Non-Convertible loans	<u>1,993,482,964</u>	<u>1,974,839,932</u>

On 9 February 2015, Severstal partially cancelled Loans due 2016 and 2017 in the amount of USD 136,720,000 and USD 84,672,000 respectively, the proceeds of which were used to redeemed corresponding amount of the Notes due 2016 and 2017.

Steel Capital S.A.
société anonyme
Registered office: 2, boulevard Konrad Adenauer
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**Notes to the Annual Accounts
for the year ended 31 December 2015**
(continued)

Note 10 - Other creditors

	<u>31-Dec-2015</u>	<u>31-Dec-2014</u>
	EUR	EUR
Other creditors, in the amount of EUR 34,078 , are comprised as follows:		
Legal fees	9,922	-
Professional fees	9,016	
Tax advisor fees	6,445	-
Trustee fees	5,497	4,933
Listing fees	3,198	211
Administration fees	-	6,575
VAF filing fees	-	4,140
Accountancy fees	-	4,025
Other costs	-	201
Audit fees	-	8,775
Management fees	-	7,188
Professional fees	-	4,457
	<u>34,078</u>	<u>40,505</u>

Note 11 - Other external charges

	<u>Year ended 31-Dec-2015</u>	<u>Year ended 31-Dec-2014</u>
	EUR	EUR
Other external charges, in the amount of EUR 95,628 , are comprised as follows:		
Professional fees	21,231	-
Administration fees	16,696	29,319
Trustee fees	14,448	7,934
Audit fees	10,839	26,599
Legal fees	8,480	3,678
VAF filing fees	6,048	4,140
Accountancy fees	5,880	8,120
Tax advisor fees	5,817	8,130
Listing fees	4,218	2,841
Tax refund	784	7,679
Annual filing fees	743	458
Other costs	444	737
Agent fees	-	32,433
Interest on late payment of tax	-	48
	<u>95,628</u>	<u>132,116</u>

Note 12 - Other operating charges

	<u>Year ended 31-Dec-2015</u>	<u>Year ended 31-Dec-2014</u>
	EUR	EUR
Other operating charges, in the amount of EUR NIL , is comprised as follows:		
Joint lead managers fees	-	326,272
Currency result	-	1,097
	<u>-</u>	<u>327,369</u>

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**Notes to the Annual Accounts
for the year ended 31 December 2015**
(continued)

Note 13 - Interest and other financial charges

	Year ended 31-Dec-2015	Year ended 31-Dec-2014
	EUR	EUR

Other interest and similar financial charges, in the amount of **EUR 115,800,766** is comprised as follows:

Interest payable on Notes	115,800,766	157,496,563
---------------------------	--------------------	--------------------

Note 14 - Other operating income

	Year ended 31-Dec-2015	Year ended 31-Dec-2014
	EUR	EUR

Other operating income, in the amount of **EUR 644,683**, are comprised as follows:

Recharge of ongoing fees and expenses*	644,683	539,093
--	----------------	----------------

*In consideration of the Company agreeing to make Loans to Severstal, the latter shall pay on demand to the Lender as and when such amounts are due an amount equal to all ongoing fees and costs in accordance with the Loan arrangement fee of the Facility Agreement 15 March 2013.

Note 15 - Other interest and other financial income

	Year ended 31-Dec-2015	Year ended 31-Dec-2014
	EUR	EUR

Other interest and similar financial income, in the amount of **EUR 115,801,074**, is comprised as follows:

Interest receivable on loans	115,800,766	157,496,563
Currency result	308	-
	115,801,074	157,496,563

Note 16 - Personnel

During the year under review, the Company did not employ any personnel and, consequently, no payments for wages, salaries or social securities were made.

Note 17 - Taxation

The Company is subject to the general tax regulations to all commercial companies in Luxembourg.

Note 18 - Subsequent events

There were no significant subsequent events up to the date of signing this report.

Note 19 - Advances, emoluments and loans granted to members of the administrative, managerial and supervisory bodies

No advances, emoluments and loans, were granted to the Board of Directors and any other bodies during the year ended 31 December 2015.



Audit report

To the Shareholders of
Steel Capital S.A.

Report on the annual accounts

We have audited the accompanying annual accounts of Steel Capital S.A., which comprise the balance sheet as at 31 December 2015, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, Société coopérative, 2 rue Gerhard Mercator, B.P. 1443, L-1014 Luxembourg
T : +352 494848 1, F : +352 494848 2900, www.pwc.lu

Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)
R.C.S. Luxembourg B 65 477 - TVA LU25482518



Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of Steel Capital S.A. as of 31 December 2015, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Report on other legal and regulatory requirements

The directors' report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 29 June 2016

A handwritten signature in black ink, appearing to read 'H. von Keutz'.

Holger von Keutz

STEEL CAPITAL S.A.
Société Anonyme
Annual Accounts
for the year ended 31 December 2014

Registered office:
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Directors and Other Information

Directors	David Moscato (as from 17 June 2015) Kailash Ramassur (as from 28 May 2015) Graeme Jenkins (as from 28 May 2015) Daniel Bley (until 17 June 2015) Marion Fritz (until 28 May 2015) Anja Wunsch (as from 23 January 2014 and until 28 May 2015) Heike Kubica (until 23 January 2014)
Corporate Administrator and Principal Banker	Deutsche Bank Luxembourg S.A. 2, boulevard Konrad Adenauer L-1115 Luxembourg Grand Duchy of Luxembourg
Lead Manager	Citibank Global Markets Limited Citigroup Centre 33 Canada Square Canary Wharf London E14 5LB, United Kingdom
Joint Lead Managers	Citigroup Global Markets Limited Citigroup Centre 33 Canada Square Canary Wharf London E14 5LB, United Kingdom J.P. Morgan Securities PLC 25 Bank Street Canary Wharf London E14 5Jp United Kingdom
Principal Paying Agent	Citibank, N.A., London Branch Citigroup Centre 33 Canada Square Canary Wharf London E14 5LB, United Kingdom
Trustee	Citibank, N.A., London Branch Citigroup Centre 33 Canada Square Canary Wharf London E14 5LB, United Kingdom
Réviser d'Entreprises Agréé	PricewaterhouseCoopers, Société coopérative 2 rue, Gerhard L-1014 Luxembourg Grand Duchy of Luxembourg

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**Director's Report
 for the year ended 31 December 2014**

The Directors present their Report and the Annual Accounts for the year ended 31 December 2014.

1. ACTIVITIES AND REVIEW OF THE DEVELOPMENT OF THE BUSINESS

The Company is a Luxembourg Company incorporated on 11 May 2006, for an unlimited duration, as a «société anonyme» and is subject to the Luxembourg law of August 10, 1915 on commercial companies, as subsequently amended.

The Company's principal activity is to issue loan participation notes for the purpose of financing loans to Open Joint Stock Company Severstal and to its affiliated companies (together referred to as Severstal).

On 19 April 2014, the Loan Participation Notes due 2014 of USD 375,000,000 9.25% matured and were fully repaid.

On 16 May 2014, Severstal partially cancelled Loans due 2016 and 2017 in the amount of USD 72,242,000 and USD 216,127,000 respectively, the proceeds of which were used to redeem corresponding amount of the Notes due 2014 and 2017.

On 29 September 2014, Severstal partially cancelled Loans due 2016, 2017, 2018 and 2022 in the amount of USD 25,420,000, USD 77,650,000, USD 23,700,000 and USD 52,711,000 respectively, the proceeds of which were used to redeem corresponding amount of the Notes due 2016, 2017, 2018 and 2022 respectively.

On 17 December 2014, Severstal partially cancelled Loans due 2016, 2017 and 2018 in the amount of USD 10,500,000, USD 737,000, and USD 3,800,000 respectively, the proceeds of which were used to redeem corresponding amount of the Notes due 2016, 2017 and 2018 respectively.

As at the year end, the Company had 4 active Series.

The Company has been performing in line with the agreements and all loans servicing for the interest payments were done on a timely basis, the corresponding payments to Notesholders were also made.

2. BUSINESS REVIEW

During the year:

- The Company made no profit or loss (2013: EUR NIL);
- There were no credit events that affected the Company.

As at 31 December 2014:

- The Company's net equity was EUR 31,000 (2013: EUR 31,000);
- The Company's total indebtedness was EUR 1,975,290,268 (2013: EUR 2,370,515,168);

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Directors' Report
for the year ended 31 December 2014
(continued)

2. BUSINESS REVIEW (Continued)

- The Company had the following Notes in issue:

- (i) USD 391,838,000 6.25% Loan Participation Notes due on 2016
- (ii) USD 705,486,000 6.70% Loan Participation Notes due on 2017
- (iii) USD 572,500,000 4.45% Loan Participation Notes due on 2018
- (iv) USD 697,289,000 5.90% Loan Participation Notes due on 2022

3. FUTURE DEVELOPMENTS

The Directors expect the present level of activity to be sustained for the foreseeable future.

4. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Company relate to the amounts owed to the Company and other assets held for risk management purposes.

The Company has exposure to the following risks from its use of financial instruments and does not have any externally imposed capital requirements.

(i) Credit risk

Credit risk is the risk of the financial loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's credit linked assets. The Company's principal financial assets are Loan receivables, cash and cash equivalents, and other receivables and which represent the Company's maximum exposure to credit risk in relation to the Notes issued.

The Loans provided involve a degree of risk arising from fluctuations in the amount and timing of receipt of the principal and interest on the Loans and the amounts payable to the Noteholders. The risk of default on the assets is borne by the Noteholders as the Notes are issued on a limited recourse basis. Therefore the Company is not obliged to pay any additional amount to the Noteholders other than the amount receivable on the loans.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations arising from its financial liabilities as they fall due.

The Company's obligation to the Noteholders is limited to the net proceeds upon realisation of the Loan towards PAO Severstal. Should the net proceeds be insufficient to make all payments due in respect of the Notes, the other assets of the Company will not be available for payment and the deficit is instead borne by the Noteholders.

The Company does not face major liquidity risk since it is obliged to make payments to the Noteholders in an amount and currency equal to the amount and currency actually received from the Company. Liquidity risk is also limited since the Company receives reimbursement from Severstal for expenses incurred in accordance with the "Fees and Expense Side Agreements" dated 25 July 2008 signed with Severstal.

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Directors' Report
for the year ended 31 December 2014
(continued)

4. PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

(iii) *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or its value of its holdings of financial instruments. Market risk embodies the potential for both gains and losses and includes interest rate risk, currency risk and price risk.

(a) *Currency risk*

Currency risk is the risk which arises due to the assets and liabilities of the Company held in foreign currencies, which will be affected by fluctuations in foreign exchange rates. The Company limits its exposure to currency risk by operating bank accounts in other currencies than its functional currency for receipts and payments in other currencies than its functional currencies. The Company is exposed to movement in exchange rates between Euro (EUR), its functional currency, and certain foreign currencies namely US Dollar (USD) and British Pound (GBP).

The Company does not face any major currency risk since all its significant transactions are transacted in USD.

(b) *Interest rate risk*

Interest rate risk is the risk that the Company does not receive adequate interest from the Loan to secure interest payments on the Notes. The Company is not exposed to any interest risk since both the Loans and Notes bears the same terms and conditions.

Any default towards the interest receivable on the Loans will be borne by the Noteholders as the Notes are issued on a limited recourse basis.

(c) *Price risk*

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Company does not consider price risk to be a significant risk to the Company as any fluctuation in the value of loans held by the Company will be borne by the Noteholders.

5. RESULTS AND DIVIDENDS FOR THE YEAR ENDED 31 DECEMBER 2014

The results for the year are set out on pages 10 and 11. No dividends are recommended by the Directors for the year under review (2013: EUR NIL).

6. DIRECTORS, SECRETARY AND THEIR INTERESTS

The Directors and secretary who held office on 31 December 2014 did not hold any shares in the Company or in any group company at that date, or during the year. There were no contracts of any significance in relation to the business of the Company in which the Directors had any interest at any time during the year.

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Directors' Report
for the year ended 31 December 2014
(continued)

7. CORPORATE GOVERNANCE STATEMENT

The Company is subject to and complies with the amended Law of 10 August 1915 on commercial companies and the Listing Rules of the Irish Stock exchange. The Company does not apply additional requirements in addition to those required by the above. Each of the service providers engaged by the Company is subject to their own corporate governance requirements.

Financial Reporting Process

The Board of Directors ("the Board") is responsible for establishing and maintaining adequate internal control and risk management systems of the Company in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Company's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. These include appointing the Administrator, Deutsche Bank Luxembourg S.A, to maintain the accounting records of the Company independently of the Arranger and the Custodian. The Administrator is contractually obliged to maintain proper books and records as required by the Corporate Administration agreement. To that end the Administrator performs reconciliations of its records to those of the Arranger and the Custodian. The Administrator is also contractually obliged to prepare for review and approval by the Board the annual accounts intended to give a true and fair view.

The Board evaluates and discusses significant accounting and reporting issues as the need arises. From time to time the Board also examines and evaluates the external auditors' performance, qualifications and independence. The Administrator has operating responsibility for internal control in relation to the financial reporting process and the Administrator's report to the Board.

Risk Assessment

The Board is responsible for assessing the risk of irregularities whether caused by fraud or error in financial reporting and ensuring the processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting. The Board has also put in place processes to identify changes in accounting rules and recommendations and to ensure that these changes are accurately reflected in the Company's Annual Accounts.

Control Activities

The Administrator is contractually obliged to design and maintain control structures to manage the risks which are significant for internal control over financial reporting. These control structures include appropriate division of responsibilities and specific control activities aimed at detecting or preventing the risk of significant deficiencies in financial reporting for every significant account in the Annual Accounts and the related notes in the Company's accounts.

Monitoring

The Board has an annual process to ensure that appropriate measures are taken to consider and address the shortcomings identified and measures recommended by the independent auditors.

Given the contractual obligations on the Administrator, the Board has concluded that there is currently no need for the Company to have a separate internal audit function in order for the board to perform effective monitoring and oversight of the internal control and risk management systems of the Company in relation to the financial reporting process.

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Directors' Report
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(continued)

7. CORPORATE GOVERNANCE STATEMENT (Continued)

Capital Structure

No person has a significant direct or indirect holding of securities in the Company. No person has any special rights of control over the company's share capital.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the amended law of 10 August 1915 on commercial companies and the Listing Rules of the Irish Stock Exchange. The Articles of Association themselves may be amended by special resolution of the shareholders.

Powers of Directors

The Board is responsible for managing the business affairs of the Company in accordance with the Articles of Association. The Directors may delegate certain functions to other parties, subject to the supervision and direction by the Directors.

8. SUBSEQUENT EVENTS

During March 2015, Severstal partially cancelled Loans due 2016 and 2017 in the amount of USD 136,720,000 and USD 84,672,000 respectively. Upon cancellation of the Loans, same proportion of the corresponding Notes have been extinguished.

9. AUDIT COMMITTEE

The Company has not established an audit committee. The role of the audit committee is undertaken by the full Board of the Company, which is deemed appropriate given the defined business activities of the Company.

The Board of Directors,

Luxembourg

Annual Accounts Helpdesk :

Tel. : (+352) 247 88 494

Email : centralebilans@statec.etat.lu

RCSL Nr. : B 116 975

Matricule : 2006 2214 261

BALANCE SHEETFinancial year from 01 1 January 2014 to 02 31 December 2014 (in 03 EUR)

STEEL CAPITAL S.A.

2, boulevard Konrad Adenauer

L-1115 Luxembourg

ASSETS

	Reference(s)	Current year	Previous year
A. Subscribed capital unpaid			
I. Subscribed capital not called	101		102
	103		104
II. Subscribed capital called but unpaid	105		106
B. Formation expenses	107		108
C. Fixed assets			
I. Intangible fixed assets	109	1,946,158,842	110 2,334,334,625
	111		112
1. Research and development costs	113		114
2. Concessions, patents, licences, trade marks and similar rights and assets, if they were	115		116
a) acquired for valuable consideration and need not be shown under C.I.3	117		118
b) created by the undertaking itself	119		120
3. Goodwill, to the extent that it was acquired for valuable consideration	121		122
4. Payments on account and intangible fixed assets under development	123		124
II. Tangible fixed assets	125		126
1. Land and buildings	127		128
2. Plant and machinery	129		130
3. Other fixtures and fittings, tools and equipment	131		132
4. Payments on account and tangible fixed assets under development	133		134
III. Financial fixed assets	(3)		
1. Shares in affiliated undertakings	135	1,946,158,842	136 2,334,334,625
	137		138
2. Amounts owed by affiliated undertakings	139	-	140 2,334,334,625
3. Shares in undertakings with which the undertaking is linked by virtue of participating interests	141		142
4. Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests	143		144
5. Securities and other financial instruments held as fixed assets	145		146
6. Loans and claims held as fixed assets	147	1,946,158,842	148 -
7. Own shares or own corporate units	149		150

The notes in the annex form an integral part of the annual accounts

RCSL Nr. : B 116 975

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	Reference(s)	Current year	Previous year
D. Current assets			
	151	29,159,160	152 36,208,669
I. Inventories	153		154
1. Raw materials and consumables	155		156
2. Work and contracts in progress	157		158
3. Finished goods and merchandise	159		160
4. Payments on account	161		162
II. Debtors	(4) 163	29,041,143	164 36,206,906
1. Trade receivables	165		166
a) becoming due and payable within one year	167		168
b) becoming due and payable after more than one year	169		170
2. Amounts owed by affiliated undertakings	171		172 36,120,408
a) becoming due and payable within one year	173	-	174 36,120,408
b) becoming due and payable after more than one year	175		176
3. Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests	177		178
a) becoming due and payable within one year	179		180
b) becoming due and payable after more than one year	181		182
4. Other receivables	183	29,041,143	184 86,498
a) becoming due and payable within one year	185	29,041,143	186 86,498
b) becoming due and payable after more than one year	187		188
III. Transferable securities and other financial instruments	189		190
1. Shares in affiliated undertakings and in undertakings with which the undertaking is linked by virtue of participating interests	191		192
2. Own shares or own corporate units	193		194
3. Other transferable securities and other financial instruments	195		196
IV. Cash at bank, cash in postal cheque accounts, cheques and cash in hand	(5) 197	118,017	198 1,763
E. Prepayments	199	3,266	200 2,875
TOTAL (ASSETS)	201	1,975,321,268	202 2,370,546,169

The notes in the annex form an integral part of the annual accounts

RCSL Nr. : B 116 975

Matricule : 2006 2214 261

LIABILITIES

	Reference(s)	Current year	Previous year
A. Capital and reserves			
I. Subscribed capital	301	31,000	302 31,000
II. Share premium and similar premiums	(6) 303	31,000	304 31,000
III. Revaluation reserves	305		306
IV. Reserves	307		308
1. Legal reserve	309		310
2. Reserve for own shares or own corporate units	311		312
3. Reserves provided for by the articles of association	313		314
4. Other reserves	315		316
V. Profit or loss brought forward	317		318
VI. Profit or loss for the financial year	319		320
VII. Interim dividends	321		322
VIII. Capital investment subsidies	323		324
IX. Temporarily not taxable capital gains	325		326
	327		328
B. Subordinated debts			
1. Convertible loans	329		330
a) becoming due and payable within one year	413		414
b) becoming due and payable after more than one year	415		416
	417		418
2. Non convertible loans	418		420
a) becoming due and payable within one year	421		422
b) becoming due and payable after more than one year	423		424
C. Provisions			
1. Provisions for pensions and similar obligations	331	409,831	332 332,386
2. Provisions for taxation	333		334
3. Other provisions	(7) 335	388,154	336 308,546
	(8) 337	21,677	338 23,840
D. Non subordinated debts			
1. Debenture loans	339	1,974,880,437	340 2,370,182,782
a) Convertible loans	341		342
i) becoming due and payable within one year	343		344
ii) becoming due and payable after more than one year	345		346
	347		348
b) Non convertible loans	(9) 349	1,974,839,932	350 2,370,099,306
i) becoming due and payable within one year	351	28,681,090	352 35,764,681
ii) becoming due and payable after more than one year	353	1,946,158,842	354 2,334,334,625
2. Amounts owed to credit institutions	355		356
a) becoming due and payable within one year	357		358
b) becoming due and payable after more than one year	359		360

The notes in the annex form an integral part of the annual accounts

RCSL Nr. : B 116 975	Matricule : 2006 2214 261
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	Reference(s)	Current year	Previous year
3. Payments received on account of orders as far as they are not deducted distinctly from inventories	361		362
a) becoming due and payable within one year	363		364
b) becoming due and payable after more than one year	365		366
4. Trade creditors	367		368
a) becoming due and payable within one year	369		370
b) becoming due and payable after more than one year	371		372
5. Bills of exchange payable	373		374
a) becoming due and payable within one year	375		376
b) becoming due and payable after more than one year	377		378
6. Amounts owed to affiliated undertakings	379		380
a) becoming due and payable within one year	381		382
b) becoming due and payable after more than one year	383		384
7. Amounts owed to undertakings with which the undertaking is linked by virtue of participating interests	385		386
a) becoming due and payable within one year	387		388
b) becoming due and payable after more than one year	389		390
8. Tax and social security debts	391		392
a) Tax debts	393		394
b) Social security debts	395		396
9. Other creditors	(10) 397	40,505	398 83,476
a) becoming due and payable within one year	399	40,505	400 83,476
b) becoming due and payable after more than one year	401		402
E. Deferred income	403		404
TOTAL (LIABILITIES)	405	1,975,321,268	406 2,370,546,169

The notes in the annex form an integral part of the annual accounts

Annual Accounts Helpdesk :

Tel. : (+352) 247 88 494

Email : centralebilans@statec.etat.lu

RCSL Nr. : B 116 975

Matricule : 2006 2214 261

PROFIT AND LOSS ACCOUNT

Financial year from 01 1 January 2014 to 02 31 December 2014 (in 03 EUR)

STEEL CAPITAL S.A.

2, boulevard Konrad Adenauer

L-1115 Luxembourg

A. CHARGES

	Reference(s)	Current year	Previous year
1. Use of merchandise, raw materials and consumable materials	601		602
2. Other external charges	(11) 603	132,116	604 115,351
3. Staff costs	605		606
a) Salaries and wages	607		608
b) Social security on salaries and wages	609		610
c) Supplementary pension costs	611		612
d) Other social costs	613		614
4. Value adjustments	615		616
a) on formation expenses and on tangible and intangible fixed assets	617		618
b) on current assets	619		620
5. Other operating charges	(12) 621	327,369	622 2,285,492
6. Value adjustments and fair value adjustments on financial fixed assets	623		624
7. Value adjustments and fair value adjustments on financial current assets. Loss on disposal of transferable securities	625		626
8. Interest and other financial charges	627	157,496,563	628 169,643,828
a) concerning affiliated undertakings	629		630
b) other interest and similar financial charges	(13) 631	157,496,563	632 169,643,828
9. Share of losses of undertakings accounted for under the equity method	649		650
10. Extraordinary charges	633		634
11. Income tax	(17) 635	79,453	636 101,734
12. Other taxes not included in the previous caption	637	155	638 155
13. Profit for the financial year	639		640
TOTAL CHARGES	641	158,035,656	642 172,146,560

The notes in the annex form an integral part of the annual accounts

RCSL Nr. : B 116 975

Matricule : 2006 2214 261

B. INCOME

Reference(s) Current year Previous year

1. Net turnover	701		702	
2. Change in inventories of finished goods and of work and contracts in progress	703		704	
3. Fixed assets under development	705		706	
4. Reversal of value adjustments	707		708	
a) on formation expenses and on tangible and intangible fixed assets	709		710	
b) on current assets	711		712	
5. Other operating income	(14) 713	539,093	714	2,502,732
6. Income from financial fixed assets	715		716	
a) derived from affiliated undertakings	717		718	
b) other income from participating interests	719		720	
7. Income from financial current assets	721		722	
a) derived from affiliated undertakings	723		724	
b) other income from financial current assets	725		726	
8. Other interest and other financial income	(15) 727	157,496,563	728	169,643,828
a) derived from affiliated undertakings	729		730	
b) other interest and similar financial income	731	157,496,563	732	169,643,828
9. Share of profits of undertakings accounted for under the equity method	745		746	
10. Extraordinary income	733		734	
11. Loss for the financial year	735		736	
TOTAL INCOME	737	158,035,656	738	172,146,560

The notes in the annex form an integral part of the annual accounts

STEEL CAPITAL S.A.
Société Anonyme
Registered office: 2, boulevard Konrad Adenauer
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R.C.S. Luxembourg B 116.975
(the "Company")

**Notes to the Annual Accounts
for the year ended 31 December 2014**

Note 1 - General information

STEEL CAPITAL S.A. is a Luxembourg Company incorporated on 11 May 2006, for an unlimited duration, as a «société anonyme» and is subject to the Luxembourg law of 10 August 1915 on commercial companies, as subsequently amended.

The registered office of the Company is established at 2, boulevard Konrad Adenauer, L-1115 Luxembourg.

The Company's financial year starts on 1 January and ends on 31 December of each year.

The Company shall have as its business purpose the issue of loan participation notes for the purpose of financing loans to Open Joint Stock Company Severstal and to its affiliated companies, the granting of security interests over its assets in relation to the issuance of the loan participation notes and the making of deposits at banks or with other depositaries.

The Company may carry out any transaction, whether commercial or financial, which are directly or indirectly connected with its corporate object at the exclusion of any banking activity. In general, the Company may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Note 2 - Summary of significant accounting policies

Note 2.1 - Basis of preparation

The Annual Accounts have been prepared in accordance with Luxembourg legal and regulatory requirements under the historical cost convention.

The preparation of Annual Accounts requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise their judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the Annual Accounts in the year in which the assumptions changed. The Directors believe that the underlying assumptions are appropriate and that the Annual Accounts therefore present the financial position and results fairly.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities in the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Note 2.2 - Significant accounting policies

The main valuation rules applied by the Company are the following:

Note 2.2.1 - Financial fixed assets

Historical cost model

Valuation at purchase price

The Loans and claims held as financial assets are valued at nominal value including the expenses incidental thereto.

In the case of durable depreciation in value according to the opinion of the Board of Directors, value adjustments are made in respect of fixed assets, so that they are valued at the lower figure to be attributed to them at the Balance Sheet date. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

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**Notes to the Annual Accounts
for the year ended 31 December 2014**
(continued)

Note 2 - Summary of significant accounting policies (continued)

Note 2.2.2 - Debtors

Debtors are valued at their nominal value. They are subject to value adjustments where their recoverability is compromised. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

Note 2.2.3 - Foreign currency translation

Transactions expressed in currencies other than the currency of the Annual Accounts are translated into currency of the Annual Accounts at the exchange rate effective at the time of the transaction.

Cash at bank, cash in postal cheque accounts, cheques and cash in hand are translated at the exchange rate effective at the Balance Sheet date. Exchange losses and gains are recorded in the Profit and Loss Account of the year.

Assets and liabilities items are converted at the exchange rates effective at the balance sheet date. Foreign exchange differences on these items are recognised in the Profit and Loss Account.

Note 2.2.4 - Provisions

Provisions are intended to cover losses or debts, the nature of which is clearly defined and which, at the date of the Balance Sheet, are either likely to be incurred or certain to be incurred but uncertain as to their amount on the date on which they will arise.

Provisions may also be created to cover charges which originate in the financial year under review or have in a previous financial year, the nature of which is clearly defined and which at the date of the Balance Sheet are either likely to be incurred or certain to be incurred but uncertain as to their amount or the date on which they will arise.

Note 2.2.6 - Debts

Debts are recorded at their reimbursement value. Where the amount repayable on account is greater than the amount received, the difference is shown as an asset and is written off over the period of the debt based on a linear method.

Note 2.2.7 - Tax debt

Tax debt corresponding to the difference between the tax liability estimated by the Company and the advance payments for the financial years for which the tax return has not yet been filed are recorded under the caption "Tax debts".

Note 2.2.8 - Interest income and expenses

Interest income and expenses are recorded on an accrual basis in the Profit and Loss Account.

Note 2.2.5 - Prepayments

This asset item includes expenditures incurred during the financial year but relating to a subsequent financial year.

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Notes to the Annual Accounts
for the year ended 31 December 2014
(continued)

Note 3 - Loans and claims held as fixed assets

Loans and claims held as fixed assets, in the amount of **EUR 1,946,158,842**, are comprised as follows:

Loan to PAO Severstal:

Loan	CCY	Outstanding amount	Interest rate	Maturity date	Balance as at 1-Jan-2014	(Disposals) / Additions during the year	Foreign currency revaluation	Balance as at 31-Dec-2014
					EUR	EUR	EUR	EUR
Loan 2	USD	-	9.25%	19-Apr-2014	271,434,259	(271,611,198)	176,939	-
Loan 3	USD	705,486,000	6.70%	25-Oct-2017	723,824,690	(219,407,824)	75,609,443	580,026,309
Loan 4	USD	391,838,000	6.25%	26-Jul-2016	361,912,345	(81,188,919)	41,432,292	322,155,718
Loan 5	USD	697,289,000	5.90%	17-Oct-2022	542,868,517	(41,552,166)	71,970,667	573,287,018
Loan 6	USD	572,500,000	4.45%	19-Mar-2018	434,294,814	(21,748,377)	58,143,360	470,689,797
					2,334,334,625	(635,508,484)	247,332,701	1,946,158,842

Amounts owed by affiliated undertakings consisting of EUR 2,334,334,625 as at 31 December 2013 were reclassified to Loans and claims held as fixed assets.

On 19 April 2014, the Loans due 2014 of USD 375,000,000 9.25% matured and were fully repaid..

On 16 May 2014, Severstal partially cancelled Loan due 2016 and 2017 in the amount of USD 72,242,000 and USD 216,127,000 respectively, the proceeds of which were used to redeem corresponding amount of the Notes due 2014 and 2017.

On 29 September 2014, Severstal partially cancelled Loan due 2016, 2017, 2018 and 2022 in the amount of USD 25,420,000, USD 77,650,000, USD 23,700,000 and USD 52,711,000 respectively, the proceeds of which were used to redeem corresponding amount of the Notes due 2016, 2017, 2018 and 2022 respectively.

On 17 December 2014, Severstal partially cancelled Loan due 2016, 2017 and 2018 in the amount of USD 10,500,000, USD 737,000, and USD 3,800,000 respectively, the proceeds of which were used to redeem corresponding amount of the Notes due 2016, 2017 and 2018 respectively.

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Notes to the Annual Accounts
for the year ended 31 December 2014
(continued)

<u>Note 4 - Amounts owed by affiliated undertakings</u>	<u>31-Dec-2014</u>	<u>31-Dec-2013</u>
	EUR	EUR

Amounts owed by affiliated undertakings, in the amount of **EUR NIL** is comprised as follows:

Interest receivable on loans	-	35,764,681
Arrangement fees receivable	-	355,727
	-	36,120,408

<u>Note 4 - Other receivables</u>	<u>31-Dec-2014</u>	<u>31-Dec-2013</u>
	EUR	EUR

Other receivables, in the amount of **EUR 21,041,143**, are comprised as follows:

Interest receivable on loans	28,681,090	-
Arrangement fees receivable	145,530	-
Tax advance 2014	121,560	-
Tax advance 2013	71,390	67,405
VAT receivable 2013	9,495	8,552
VAT receivable 2012	3,918	5,366
VAT receivable 2014	2,985	-
Tax advance 2010	1,725	1,725
Tax advance 2011	1,725	1,725
Tax advance 2012	1,725	1,725
	29,041,143	86,498

Amounts owed by affiliated undertakings of EUR 36,120,408 were reclassified to Other receivables.

<u>Note 5 - Cash at bank, cash in postal cheque accounts, cheques and cash in hand</u>	<u>31-Dec-2014</u>	<u>31-Dec-2013</u>
	EUR	EUR

Cash at bank, cash in postal cheque accounts, cheques and cash in hand, in the amount of **EUR 118,017**, are comprised as follows:

Cash account with Deutsche Bank Luxembourg S.A. - EUR	117,055	1,763
Cash account with Deutsche Bank Luxembourg S.A. - USD	962	-
	118,017	1,763

Note 6 - Capital and reserves

The subscribed capital of the Company consists of 310 shares with a par value of EUR 100 each (EUR 31,000). As at 31 December 2014, 310 shares were issued and fully paid.

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**Notes to the Annual Accounts
for the year ended 31 December 2014**
(continued)

Note 6 - Capital and reserves (continued)

The carrying value of the capital and reserves is comprised as follows:

	Subscribed capital
Balance as at 1 January 2014 and 31 December 2014	31,000

Legal Reserve

In accordance with Luxembourg Company law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders.

Note 7 - Provisions for taxation

	31-Dec-2014	31-Dec-2013
	EUR	EUR
Provisions for taxation, in the amount of EUR 388,154 , are comprised as follows:		
Corporate tax - 2010	53,490	53,490
Corporate tax - 2011	69,588	69,588
Corporate tax - 2012	81,134	81,134
Corporate tax - 2013	104,334	104,334
Corporate tax - 2014	79,608	-
	388,154	308,546

Note 8 - Other provisions

	31-Dec-2014	31-Dec-2013
	EUR	EUR
Other provisions, in the amount of EUR 21,677 , are comprised as follows:		
Management fees	7,313	6,250
VAT filing fees	4,212	3,600
Accountancy fees	4,095	3,500
Audit fees	2,926	4,500
Administration fees	2,925	2,500
Other costs	206	175
Professional fees	-	3,315
	21,677	23,840

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Notes to the Annual Accounts
for the year ended 31 December 2014
(continued)

Note 9 - Non-convertible loans

Non-convertible loans issued, in the amount of **EUR 1,974,839,932**, are comprised of Loan Participation Notes (the "Notes") as follows:

Notes	CCY	Outstanding amount	Interest rate	Maturity date	Balance as at 1-Jan-2014 EUR	(Disposals) / additions during the year EUR	Foreign currency revaluation EUR	Balance as at 31-Dec-2014 EUR
Notes 2	USD	-	9.25%	19-Apr-2014	271,434,259	(271,611,198)	176,939	-
Notes 3	USD	705,486,000	6.70%	25-Oct-2017	723,824,690	(219,407,824)	75,609,443	580,026,309
Notes 4	USD	391,838,000	6.25%	26-Jul-2016	361,912,345	(81,188,919)	41,432,292	322,155,718
Notes 5	USD	697,289,000	5.90%	17-Oct-2022	542,868,517	(41,552,166)	71,970,667	573,287,018
Notes 6	USD	572,500,000	4.45%	19-Mar-2018	434,294,814	(21,748,377)	58,143,360	470,689,797
					2,334,334,625	(635,508,484)	247,332,701	1,946,158,842
							31-Dec-2014 EUR	31-Dec-2013 EUR
<i>becoming due and payable after less than one year</i>								
Interest payable on Notes							28,681,090	35,764,681
<i>becoming due and payable after more than one year</i>								
Principal amount							1,946,158,842	2,334,334,625
Total Non-Convertible loans							1,974,839,932	2,370,099,306

On 19 April 2014, the Loan Participation Notes due 2014 of USD 375,000,000 9.25% matured.

On 16 May 2014, PAO Severstal partially cancelled Notes due 2016 and 2017 in the amount of USD 72,242,000 and USD 216,127,000 respectively. Upon cancellation of the Notes, same proportion of the corresponding Loan has been extinguished.

On 29 September 2014, PAO Severstal partially cancelled Notes due 2016, 2017, 2018 and 2022 in the amount of USD 25,420,000, USD 77,650,000, USD 23,700,000 and USD 52,711,000 respectively. Upon cancellation of the Notes, same proportion of the corresponding Loan has been extinguished.

On 17 December 2014, PAO Severstal partially cancelled Notes due 2016, 2017 and 2018 in the amount of USD 10,500,000, USD 737,000, and USD 3,800,000 respectively. Upon cancellation of the Notes, same proportion of the corresponding Loan has been extinguished.

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**Notes to the Annual Accounts
for the year ended 31 December 2014**
(continued)

Note 10 - Other creditors

	31-Dec-2014	31-Dec-2013
	EUR	EUR
Other creditors, in the amount of EUR 40,505 , are comprised as follows:		
Audit fees	8,775	10,532
Management fees	7,188	6,250
Administration fees	6,575	8,150
Trustee fees	4,933	7,600
Professional fees	4,457	2,856
VAT filing fees	4,140	3,600
Accountancy fees	4,025	3,500
Listing fees	211	-
Other costs	201	669
Legal fees	-	40,319
	40,505	83,476

Note 11 - Other external charges

	Year ended 31-Dec-2014	Year ended 31-Dec-2013
	EUR	EUR
Other external charges, in the amount of EUR 132,116 , are comprised as follows:		
Agent fees	32,433	-
Administration fees	29,319	30,957
Audit fees	26,599	11,082
Tax advisor fees	8,130	8,262
Accountancy fees	8,120	2,975
Trustee fees	7,934	45,232
Tax refund	7,679	-
VAT filing fees	4,140	-
Legal fees	3,678	-
Listing fees	2,841	11,190
Other costs	737	5,653
Annual filing fees	458	-
Interest on late payment of tax	48	-
	132,116	115,351

Note 12 - Other operating charges

	Year ended 31-Dec-2014	Year ended 31-Dec-2013
	EUR	EUR
Other operating charges, in the amount of EUR 327,369 , are comprised as follows:		
Joint lead managers fees	326,272	2,237,085
Currency result	1,097	-
Professional fees	-	6,171
Postage fees	-	42,236
	327,369	2,285,492

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Notes to the Annual Accounts
for the year ended 31 December 2014
(continued)

	Year ended 31-Dec-2014	Year ended 31-Dec-2013
	EUR	EUR

Note 13 - Interest and other financial charges

Other interest and similar financial charges, in the amount of **EUR 157,496,563**, is comprised as follows:

Interest payable on Notes	157,496,563	169,643,828
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Note 14 - Other operating income

Other operating income, in the amount of **EUR 539,093**, are comprised as follows:

	Year ended 31-Dec-2014	Year ended 31-Dec-2013
	EUR	EUR
Recharge of ongoing fees and expenses*	539,093	2,477,548
Investment in associate	-	3,918
Currency result	-	21,266
	539,093	2,502,732

*In consideration of the Company agreeing to make Loans to Severstal, the latter shall pay on demand to the Lender as and when such amounts are due an amount equal to all ongoing fees and costs in accordance with the Loan arrangement fee of the Facility Agreement 15 March 2013.

	Year ended 31-Dec-2014	Year ended 31-Dec-2013
	EUR	EUR

Note 15 - Other interest and other financial income

Other interest and similar financial income, in the amount of **EUR 157,496,563**, is comprised as follows:

Interest receivable on loans	157,496,563	169,643,828
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Note 16 - Personnel

During the year under review, the Company did not employ any personnel and, consequently, no payments for wages, salaries or social securities were made.

Note 17 - Taxation

The Company is subject to the general tax regulations to all commercial companies in Luxembourg.

Note 18 - Subsequent events

During March 2015, Severstal partially cancelled Loans due 2016 and 2017 in the amount of USD 136.720.000 and USD 84,672,000 respectively. Upon cancellation of the Loans, same proportion of the corresponding Notes have been extinguished.

Note 19 - Advances, emoluments and loans granted to members of the administrative, managerial and supervisory bodies

No loans, advances and emoluments were granted to the Board of Directors and any other bodies during the year ended 31 December 2014.



Audit report

To the Board of Directors of
Steel Capital S.A.

Report on the annual accounts

We have audited the accompanying annual accounts of Steel Capital S.A., which comprise the balance sheet as at 31 December 2014, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of Steel Capital S.A. as of 31 December 2014, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Other Matter

The annual accounts of Steel Capital S.A. for the year ended 31 December 2013 were audited by another firm of auditors whose report, dated 30 July 2014, expressed an unmodified opinion on those accounts.

Report on other legal and regulatory requirements

The directors' report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the annual accounts and includes the information required by the law with respect to the Corporate Governance Statement.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 16 July 2015

A handwritten signature in black ink, appearing to read 'H. von Keutz'.

Holger von Keutz

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