

PAO Severstal and subsidiaries

Consolidated financial statements
for the years ended December 31, 2015, 2014 and 2013

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Years ended December 31, 2015, 2014 and 2013

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Auditors' Report

To the Shareholders and Board of Directors

PAO Severstal

We have audited the accompanying 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 2015, 2014 and 2013, and the consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for 2015, 2014 and 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audits. We conducted our audits in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 management, as well as evaluating the overall presentation of the consolidated financial statements.

Entity: PAO Severstal

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

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

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

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

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

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, 2014 and 2013 and its financial performance and its cash flows for 2015, 2014 and 2013 in accordance with International Financial Reporting Standards.



Kiseleva L.R.

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

JSC "KPMG"

2 February 2016

Moscow, Russian Federation

PAO Severstal and subsidiaries

Consolidated income statements

Years ended December 31, 2015, 2014 and 2013

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

	Note	Year ended December 31,		
		2015	2014*	2013*
Revenue				
Revenue - third parties		6,322,765	8,181,346	9,299,578
Revenue - related parties	11	73,156	115,079	133,966
	4	6,395,921	8,296,425	9,433,544
Cost of sales		(3,787,489)	(5,440,623)	(6,610,611)
Gross profit		2,608,432	2,855,802	2,822,933
General and administrative expenses		(290,081)	(419,307)	(552,904)
Distribution expenses		(540,952)	(717,078)	(934,977)
Other taxes and contributions		(67,874)	(96,418)	(131,952)
Share of associates' and joint ventures' loss		(551)	(24,137)	(4,186)
(Loss)/gain on disposal of property, plant and equipment and intangible assets		(13,014)	(11,174)	12,473
Net other operating income		6,803	14,414	717
Profit from operations		1,702,763	1,602,102	1,212,104
Impairment of non-current assets	8	(182,678)	(291,587)	(241,714)
Net other non-operating expenses	9	(51,101)	(102,093)	(70,233)
Profit before financing and taxation		1,468,984	1,208,422	900,157
Finance costs, net	6	(122,876)	(208,067)	(258,113)
Foreign exchange loss	7	(623,583)	(1,806,875)	(310,137)
Profit/(loss) before income tax		722,525	(806,520)	331,907
Income tax (expense)/benefit	10	(160,063)	11,055	(70,368)
Profit/(loss) from continuing operations		562,462	(795,465)	261,539
Profit/(loss) from discontinued operation	27	40,925	(800,852)	(169,349)
Profit/(loss) for the period		603,387	(1,596,317)	92,190
Attributable to:				
shareholders of PAO Severstal		604,993	(1,595,362)	85,715
non-controlling interests		(1,606)	(955)	6,475
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)		0.75	(1.97)	0.11
Basic and diluted earnings/(loss) per share - continuing operations (US dollars)		0.70	(0.98)	0.32
Basic and diluted earnings/(loss) per share - discontinued operation (US dollars)		0.05	(0.99)	(0.21)

*These amounts reflect adjustments made in connection with the change in the unrealized gain in inventory calculation methodology (Note 2).

These consolidated financial statements were approved by the Board of Directors on February 02, 2016.

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

PAO Severstal and subsidiaries

Consolidated statements of comprehensive income Years ended December 31, 2015, 2014 and 2013

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

	Year ended December 31,		
	2015	2014*	2013*
Profit/(loss) for the period	603,387	(1,596,317)	92,190
Other comprehensive loss:			
Items that will not be reclassified to profit or loss			
Actuarial (losses)/gains	(19,966)	23,942	(8,068)
Translation to presentation currency	(147,654)	(1,172,294)	(225,148)
Total items that will not be reclassified to profit or loss	<u>(167,620)</u>	<u>(1,148,352)</u>	<u>(233,216)</u>
Items that may be reclassified subsequently to profit or loss			
Translation to presentation currency - foreign operations	(205,308)	(258,489)	92,170
Changes in fair value of cash flow hedges	-	-	(2,965)
Deferred tax on changes in fair value of cash flow hedges	-	-	422
Changes in fair value of available-for-sale financial assets	-	-	(569)
Deferred tax on changes in fair value of available-for-sale financial assets	-	-	467
Total items that may be reclassified subsequently to profit or loss	<u>(205,308)</u>	<u>(258,489)</u>	<u>89,525</u>
Items that were reclassified to profit or loss			
Realised gains on disposal of available-for-sale financial assets	-	-	(2,111)
Reclassification of the reserves of disposed subsidiaries to profit or loss (Notes 27, 28)	7,258	(6,249)	-
Total items that were reclassified to profit or loss	<u>7,258</u>	<u>(6,249)</u>	<u>(2,111)</u>
Other comprehensive loss for the period, net of tax	<u>(365,670)</u>	<u>(1,413,090)</u>	<u>(145,802)</u>
Total comprehensive income/(loss) for the period	<u>237,717</u>	<u>(3,009,407)</u>	<u>(53,612)</u>
Attributable to:			
shareholders of PAO Severstal	240,274	(3,004,208)	(57,637)
non-controlling interests	<u>(2,557)</u>	<u>(5,199)</u>	<u>4,025</u>

*These amounts reflect adjustments made in connection with the change in the unrealized gain in inventory calculation methodology (Note 2).

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

PAO Severstal and subsidiaries

Consolidated statements of financial position

December 31, 2015, 2014 and 2013

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

	Note	December 31, 2015	December 31, 2014*	December 31, 2013*
Assets				
Current assets:				
Cash and cash equivalents	13	1,647,168	1,896,675	1,035,948
Short-term financial investments	14	10,901	21,129	60,016
Trade accounts receivable	15	431,555	648,990	1,356,916
Accounts receivable from related parties	12	10,321	14,735	18,620
Restricted financial assets		1,554	-	1,114
Inventories	16	649,577	815,112	2,002,717
VAT recoverable		57,738	63,642	119,151
Income tax recoverable		35,999	29,416	19,048
Other current assets	17	92,161	122,199	276,863
Total current assets		2,936,974	3,611,898	4,890,393
Non-current assets:				
Long-term financial investments	18	52,902	85,748	115,481
Investments in associates and joint ventures	19	26,391	81,436	256,671
Property, plant and equipment	20	2,610,641	3,336,298	8,254,192
Intangible assets	21	224,932	376,755	678,910
Restricted financial assets		-	-	39,478
Deferred tax assets	10	7,275	43,814	78,118
Other non-current assets		7,670	16,594	204,441
Total non-current assets		2,929,811	3,940,645	9,627,291
Total assets		5,866,785	7,552,543	14,517,684
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		421,143	500,228	1,145,873
Accounts payable to related parties	12	9,388	15,898	42,998
Short-term debt finance	22	507,177	774,493	627,519
Income taxes payable		5,730	8,814	10,660
Other taxes and social security payable		76,535	99,719	138,657
Dividends payable		2,328	2,355	28,065
Other current liabilities	23	274,689	332,881	555,401
Total current liabilities		1,296,990	1,734,388	2,549,173
Non-current liabilities:				
Long-term debt finance	22	1,945,026	2,654,370	4,126,575
Deferred tax liabilities	10	141,006	120,368	313,193
Retirement benefit liabilities	24	53,447	48,258	189,913
Other non-current liabilities	25	162,548	167,780	355,073
Total non-current liabilities		2,302,027	2,990,776	4,984,754
Equity:				
Share capital	26	2,752,728	2,752,728	2,752,728
Treasury shares		(235,657)	(235,657)	(235,657)
Additional capital		296,236	312,645	315,922
Translation reserve		(2,318,948)	(1,974,195)	(542,186)
Retained earnings		1,758,132	1,953,966	4,675,975
Other reserves		265	265	1,044
Total equity attributable to shareholders of PAO Severstal		2,252,756	2,809,752	6,967,826
Non-controlling interests		15,012	17,627	15,931
Total equity		2,267,768	2,827,379	6,983,757
Total equity and liabilities		5,866,785	7,552,543	14,517,684

*These amounts reflect adjustments made in connection with the change in the unrealized gain in inventory calculation methodology (Note 2).

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

PAO Severstal and subsidiaries

Consolidated statements of cash flows

Years ended December 31, 2015, 2014 and 2013

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

	Year ended December 31,		
	2015	2014*	2013*
Operating activities:			
Profit before financing and taxation	1,468,984	1,208,422	900,157
Adjustments to reconcile profit to cash generated from operations:			
Depreciation and amortization	366,567	560,682	607,231
Impairment of non-current assets (Note 8)	182,678	291,587	241,714
Movements in provision for inventories, receivables and other provisions	32,344	59,691	8,381
Loss/(gain) on disposal of property, plant and equipment and intangible assets	13,014	11,174	(12,473)
Loss on disposal of subsidiaries (Note 28)	3,258	27,336	1,195
Share of associates' and joint ventures' results less dividends from associates and joint ventures	5,391	31,062	8,633
Changes in operating assets and liabilities:			
Trade accounts receivable	98,347	19,811	(294,814)
Amounts receivable from related parties	3,871	(4,344)	(2,589)
VAT recoverable	(12,343)	6,378	87,832
Inventories	(41,526)	(146,968)	192,823
Trade accounts payable	(48,515)	45,805	37,022
Amounts payable to related parties	(6,517)	3,649	6,477
Other taxes and social security payable	(195)	43,212	(1,414)
Other non-current liabilities	(6,904)	(27,271)	(33,637)
Net other changes in operating assets and liabilities	37,067	101,347	1,326
Cash generated from operations	2,095,521	2,231,573	1,747,864
Interest paid	(177,251)	(246,837)	(307,218)
Income tax paid	(50,531)	(54,275)	(63,815)
Net cash from operating activities - continuing operations	1,867,739	1,930,461	1,376,831
Net cash (used in)/from operating activities - discontinued operation	(14,326)	107,532	201,076
Net cash from operating activities	1,853,413	2,037,993	1,577,907
Investing activities:			
Additions to property, plant and equipment	(412,291)	(699,947)	(968,008)
Additions to intangible assets	(27,203)	(79,457)	(115,958)
Additions to financial investments, associates and joint ventures	(2,252)	(37,284)	(42,126)
Net cash inflow from disposals of subsidiaries (Notes 27, 28)	4,000	2,012,756	3,628
Proceeds from disposal of property, plant and equipment	24,841	23,343	57,738
Proceeds from disposal of financial investments	9,852	19,862	13,266
Interest received	99,289	56,170	25,969
Dividends received	-	1,101	4,856
Cash (used in)/from investing activities - continuing operations	(303,764)	1,296,544	(1,020,635)
Cash used in investing activities - discontinued operation	-	(94,207)	(99,846)
Cash (used in)/from investing activities	(303,764)	1,202,337	(1,120,481)
Financing activities:			
Proceeds from debt finance	243,090	1,948,868	849,300
Repayments of debt finance **	(1,222,117)	(2,571,583)	(1,408,441)
Repayments under lease obligations	(211)	(246)	(1,718)
Dividends paid	(722,921)	(1,060,565)	(213,246)
Acquisitions of non-controlling interests	(218)	-	(4,083)
Cash used in financing activities - continuing operations	(1,702,377)	(1,683,526)	(778,188)
Cash used in financing activities - discontinued operation	-	(367,191)	(363,015)
Cash used in financing activities	(1,702,377)	(2,050,717)	(1,141,203)
Effect of exchange rates on cash and cash equivalents	(96,779)	(328,886)	(6,550)
Net (decrease)/increase in cash and cash equivalents	(249,507)	860,727	(690,327)
Cash and cash equivalents at beginning of the period	1,896,675	1,035,948	1,726,275
Cash and cash equivalents at end of the period	1,647,168	1,896,675	1,035,948

*These amounts reflect adjustments made in connection with the change in the unrealized gain in inventory calculation methodology (Note 2).

** These amounts include repurchases of bonds of US\$ 634.7 million for the year ended December 31, 2015, repurchase and redemption of bonds of US\$ 1,406.1 million for the year ended December 31, 2014 and redemption of bonds of US\$ 1,037.4 million for the year ended December 31, 2013.

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

PAO Severstal and subsidiaries

Consolidated statements of changes in equity Years ended December 31, 2015, 2014 and 2013

(Amounts expressed in thousands 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 at December 31, 2012	2,752,728	(235,657)	315,922	(411,658)	4,747,838	5,800	7,174,973	20,783	7,195,756
Profit for the period	-	-	-	-	85,715	-	85,715	6,475	92,190
Translation to presentation currency	-	-	-	(130,528)	-	-	(130,528)	(2,450)	(132,978)
Other comprehensive loss	-	-	-	-	(8,068)	(5,645)	(13,713)	-	(13,713)
Deferred tax on other comprehensive loss	-	-	-	-	-	889	889	-	889
Total comprehensive (loss)/income for the period	-	-	-	(130,528)	77,647	(4,756)	(57,637)	4,025	(53,612)
Dividends	-	-	-	-	(154,305)	-	(154,305)	-	(154,305)
Other	-	-	-	-	4,795	-	4,795	(8,877)	(4,082)
Balances at December 31, 2013	2,752,728	(235,657)	315,922	(542,186)	4,675,975	1,044	6,967,826	15,931	6,983,757
Loss for the period	-	-	-	-	(1,595,362)	-	(1,595,362)	(955)	(1,596,317)
Translation to presentation currency	-	-	-	(1,426,539)	-	-	(1,426,539)	(4,244)	(1,430,783)
Other comprehensive (loss)/income	-	-	-	(5,470)	23,942	(779)	17,693	-	17,693
Total comprehensive loss for the period	-	-	-	(1,432,009)	(1,571,420)	(779)	(3,004,208)	(5,199)	(3,009,407)
Dividends	-	-	-	-	(1,151,459)	-	(1,151,459)	(262)	(1,151,721)
Repayment of convertible bonds	-	-	(3,277)	-	-	-	(3,277)	-	(3,277)
Other	-	-	-	-	870	-	870	7,157	8,027
Balances at December 31, 2014	2,752,728	(235,657)	312,645	(1,974,195)	1,953,966	265	2,809,752	17,627	2,827,379
Profit/(loss) for the period	-	-	-	-	604,993	-	604,993	(1,606)	603,387
Translation to presentation currency	-	-	-	(352,011)	-	-	(352,011)	(951)	(352,962)
Other comprehensive income/(loss)	-	-	-	7,258	(19,966)	-	(12,708)	-	(12,708)
Total comprehensive (loss)/income for the period	-	-	-	(344,753)	585,027	-	240,274	(2,557)	237,717
Dividends	-	-	-	-	(752,167)	-	(752,167)	-	(752,167)
Repayment of convertible bonds (Note 22)	-	-	(16,409)	-	-	-	(16,409)	-	(16,409)
Other	-	-	-	-	(28,694)	-	(28,694)	(58)	(28,752)
Balances at December 31, 2015	2,752,728	(235,657)	296,236	(2,318,948)	1,758,132	265	2,252,756	15,012	2,267,768

*These amounts reflect adjustments made in connection with the change in the unrealized gain in inventory calculation methodology (Note 2).

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 December 31, 2015, 2014 and 2013 (Amounts expressed in thousands 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 August 24, 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On September 24, 1993, as a part of the Russian privatization program, Severstal was registered as an Open Joint Stock Company ('OAO') and privatized. Through participating in Severstal's privatization auctions and other purchases, Alexey Mordashov (the 'Majority Shareholder') purchased shares in Severstal such that as at December 31, 2015 he controlled indirectly 79.18% (December 31, 2014, 2013: 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 depository 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 realization and settlement of its assets and liabilities.

The recent conflict in Ukraine 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 Ruble, 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 December 31, 2015, 2014 and 2013 (Amounts expressed in thousands 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.
- 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 on the domestic market. Severstal is the first and currently only Russian company, for which, since September 2005, the hot-rolled plates market is open.
- The US Department of Commerce has started anti-dumping and countervailing investigations against imports of cold-rolled steel flat products from eight countries, including the Russian Federation.
- The European Commission is conducting anti-dumping proceedings concerning imports of certain cold-rolled steel flat products originating in the People's Republic of China and the Russian Federation.
- There are also several on-going trade remedy proceedings initiated by other national authorities particularly in Turkey and India.

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 the Russian rubles 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 at fair value through profit and loss and available-for-sale financial assets stated at fair value.

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.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended December 31, 2015, 2014 and 2013 (Amounts expressed in thousands of US dollars, except as otherwise stated)

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; and
- deferred income tax assets.

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 realizable value. Estimates of net realizable 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

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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 recognized 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 recognizing 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 income tax assets

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilization 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 utilization of deferred tax assets must be reduced, this reduction will be recognized in the income statement.

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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 ruble. 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 recognized as a separate component in other comprehensive income.

The following exchange rates were used in the consolidated financial statements:

	2015		2014		2013	
	31 December	Average	31 December	Average	31 December	Average
USD/RUB	72.8827	60.9199	56.2584	38.3980	32.7292	31.8467
EUR/USD	1.0887	1.1095	1.2141	1.3264	1.3791	1.3276

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 amended Standards

A number of amended Standards were adopted for the year ended December 31, 2015, and have been applied in these consolidated financial statements.

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

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New accounting pronouncements

A number of new Standards and amendments to Standards were not yet effective for the year ended December 31, 2015, and have not been applied in these consolidated financial statements.

Standards	Effective for annual periods beginning on or after
IAS 1 (Amended) "Presentation of Financial Statements"	January 1, 2016
IAS 16 (Amended) "Property, Plant and Equipment"	January 1, 2016
IAS 19 (Amended) "Employee Benefits"	January 1, 2016
IAS 27 (Amended) "Separate Financial Statements"	January 1, 2016
IAS 28 (Amended) "Investments in Associates and Joint Ventures"	January 1, 2016
IAS 34 (Amended) "Interim Financial Reporting"	January 1, 2016
IAS 38 (Amended) "Intangible Assets"	January 1, 2016
IAS 41 (Amended) "Agriculture"	January 1, 2016
IFRS 1 (Amended) "First-time Adoption of International Financial Reporting Standards"	January 1, 2016
IFRS 5 (Amended) "Non-current Assets Held for Sale and Discontinued Operations"	January 1, 2016
IFRS 7 (Amended) "Financial Instruments: Disclosure"	January 1, 2016
IFRS 9 (Amended) "Financial Instruments"	January 1, 2018
IFRS 10 (Amended) "Consolidated Financial Statements"	January 1, 2016
IFRS 11 (Amended) "Joint Arrangements"	January 1, 2016
IFRS 12 (Amended) "Disclosure of Interests in Other Entities"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019

The adoption of the pronouncements listed above is not expected to have a significant impact on the Group's consolidated financial statements in future periods except for those discussed below.

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

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Restatements

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

Accordingly the following adjustments were made to the prior periods:

	Year ended December 31,	
	2014	2013
Decrease in cost of sales	7,824	3,444
(Decrease)/increase in income tax benefit/(expense)	(1,518)	(457)
Decrease/increase in (loss)/profit for the period	6,306	2,987

	December 31,	
	2014	2013
Decrease in raw materials and supplies	(319)	(1,039)
Decrease in finished goods	(3,579)	(6,687)
Decrease in work-in-progress	(4,321)	(8,317)
Increase in deferred tax liabilities	1,975	457
Decrease in retained earnings	(10,194)	(16,500)

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.

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 unrealized gains arising from intra-group transactions, are eliminated in preparing these consolidated financial statements; unrealized 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

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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 recognizes 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 recognized 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 recognized 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 recognized from the moment the acquired companies are included in these financial statements.

No goodwill is recognized 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 recognized 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 recognizes 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 recognized 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.

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Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized 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.

Unrealized 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; unrealized 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 recognized 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

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and goodwill relating to associates and jointly controlled entities is included within the carrying value of the investments in these entities.

No goodwill is recognized 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 recognized 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 recognized 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 the date of the transaction. Foreign exchange gains and losses arising on the translation are recognized in the income statement.

c. Exploration for and evaluation of mineral resources

Expenditures associated with search for specific mineral resources are recognized 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 analyzing 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 capitalized as a part of the cost of the intangible asset.

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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 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 capitalized 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.

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 current period.

The Group recognizes 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.

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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 capitalized. 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 recognized 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 derecognized. Repair and maintenance expenses are charged to the income statement as incurred. Gains or losses on disposals of property, plant and equipment are recognized 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. Lease

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 recognized 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 recognized 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.

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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 amortization and accumulated impairment losses.

Intangible assets are amortized 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 amortization 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. Amortization 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 recognized 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 amortized 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 recognized. 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 amortization, if no impairment loss had been recognized.

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j. Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable 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 amortized 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 recognized 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

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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 recognized in profit or loss. The net gain or loss recognized 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 amortized 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 amortized cost using the effective interest method, less any impairment. Interest income is recognized 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 that are traded in an active market are stated at their market value. Investments in unlisted shares 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 recognized in other comprehensive income with the exception of impairment losses, which are recognized directly in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the equity is included in the income statement for the period.

Dividends on AFS equity instruments are recognized in the income statement when the Group's right to receive the dividends is established.

Derecognition of financial assets

The Group derecognizes 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.

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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 recognized in profit or loss. The net gain or loss recognized 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 capitalized as a part of the cost of the asset they are financing.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized in the income statement.

Derecognition of financial liabilities

The Group derecognizes 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 recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

n. Dividends payable

Dividends are recognized as a liability in the period in which they are authorized by the shareholders.

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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 recognized in the income statement except to the extent that it relates to items recognized in other comprehensive income, in which case it is recognized 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 realized simultaneously.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which these assets can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax income will be realized.

Deferred tax is not recognized 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.

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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 recognized 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 recognized 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 capitalized and the corresponding decommissioning liability raised as soon as the constructive obligation to incur such costs arises. Future decommissioning costs are capitalized 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 recognized in the consolidated income statement as an interest expense. Ongoing rehabilitation costs are expensed when incurred.

Onerous contracts

A provision for onerous contracts is recognized 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 recognizes any impairment loss on the assets associated with that contract.

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Other provisions

Other provisions are recognized 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 recognized as a deduction from equity, net of any tax effects.

Repurchase of issued shares

When share capital recognized as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognized 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 recognized 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.

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.

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Sale of goods

Revenue from the sale of goods is recognized 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 recognized by reference to the stage of completion of the contract.

u. Finance costs, net

Interest income

Interest income is recognized 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 recognized 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), realized and unrealized gains on financial assets at fair value through profit or loss, realized 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.

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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 recognized 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.

y. Government grants

Government grants are recognized when there is a reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Government grants related to assets are presented as a deduction from the cost of the asset.

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4. Revenue

Revenue by product was as follows:

	Year ended December 31,		
	2015	2014	2013
Hot-rolled strip and plate	1,799,460	2,366,275	2,745,352
Large diameter pipes	696,872	571,080	511,765
Cold-rolled sheet	595,284	804,918	876,604
Metalware products	495,772	663,831	770,523
Shipping and handling costs billed to customers	468,467	633,200	762,964
Long products	433,128	600,753	522,959
Other tubes and pipes, formed shapes	386,726	553,341	508,235
Galvanized and other metallic coated sheet	348,447	435,407	506,095
Colour-coated sheet	312,931	426,153	476,880
Pellets and iron ore	300,715	494,791	665,533
Coal and coking coal concentrate	175,436	221,737	505,031
Semi-finished products	142,150	171,398	196,270
Scrap	4,048	11,392	12,140
Others	236,485	342,149	373,193
	<u>6,395,921</u>	<u>8,296,425</u>	<u>9,433,544</u>

Revenue by delivery destination was as follows:

	Year ended December 31,		
	2015	2014	2013
Russian Federation	4,194,918	5,300,941	5,927,208
Europe	1,148,937	1,445,123	1,388,722
CIS	408,205	547,776	887,728
The Middle East	315,722	254,298	367,120
China and Central Asia	104,007	67,802	129,832
Central and South America	85,206	161,275	220,783
Africa	75,526	87,203	80,235
North America	52,738	365,249	235,240
South-East Asia	10,662	66,758	196,676
	<u>6,395,921</u>	<u>8,296,425</u>	<u>9,433,544</u>

5. Staff costs

Employment costs were as follows:

	Year ended December 31,		
	2015	2014	2013
Wages and salaries	(662,221)	(1,043,327)	(1,299,201)
Social security costs	(218,678)	(332,877)	(408,274)
Retirement benefit service costs	(1,523)	(4,427)	(2,952)
	<u>(882,422)</u>	<u>(1,380,631)</u>	<u>(1,710,427)</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 December 31, 2015, consisting of salaries and bonuses, totalled US\$ 9.5 million (2014: US\$ 23.3 million; 2013: US\$ 38.9 million).

Additionally, in 2015, a provision for their long-term cash-settled share-based incentive programmes of US\$ 2.2 million was accrued (in 2014 the provision accrued was US\$ 6.8 million and in 2013 the provision reversed was US\$ 6.4 million). This provision is subject to further adjustments, depending on a range of the Group's financial indicators.

6. Finance costs, net

	Year ended December 31,		
	2015	2014	2013
Interest expense	(202,409)	(256,598)	(275,410)
Interest income	100,846	50,828	29,951
(Loss)/gain on remeasurement and disposal:	(14,004)	3,535	(9,626)
Derivative financial assets and liabilities			
Remeasurement to fair value	9,700	11,254	-
Held-to-maturity securities and loans			
Loss on disposal	(2,847)	(10,119)	(14,886)
(Impairment)/reversal of impairment	(54)	1,403	(693)
Available-for-sale financial assets			
Net gain on disposal transferred from equity	-	-	1,540
Impairment	(20,803)	(104)	(443)
Dividend income			
-	-	1,101	4,856
Other finance costs	(7,309)	(5,832)	(3,028)
	<u>(122,876)</u>	<u>(208,067)</u>	<u>(258,113)</u>

The impairment of available-for-sale financial assets in 2015 relates to a greenfield iron ore deposit in Brazil, SPG Mineracao SA, and is the result of iron ore prices decline.

7. Foreign exchange loss

	Year ended December 31,		
	2015	2014	2013
Foreign exchange loss on cash and cash equivalents and debt finance	(654,789)	(1,814,972)	(384,382)
Foreign exchange (loss)/gain on derivative	-	(228,451)	18,584
Foreign exchange gain on other assets and liabilities	31,206	236,548	55,661
	<u>(623,583)</u>	<u>(1,806,875)</u>	<u>(310,137)</u>

8. Impairment of non-current assets

	Year ended December 31,		
	2015	2014	2013
Impairment of intangible assets	(103,553)	(115,500)	(154,617)
Impairment of property, plant and equipment	(79,125)	(168,587)	(24,033)
Impairment of goodwill	-	(7,500)	(63,064)
	<u>(182,678)</u>	<u>(291,587)</u>	<u>(241,714)</u>

For the purpose of impairment testing, the recoverable amount of each cash-generating unit, except PBS Coals Limited in 2014 and Severstal Liberia Iron Ore Ltd in 2015 and 2014, has been determined based on value in use calculations. The value in use calculation uses cash flow projections based on

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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 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 December 31,		
	2015	2014	2013
Russia	4.3 - 7.8	n/a	n/a
USA	n/a	n/a	1.9 - 2.3
Italy	1.0 - 2.0	n/a	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 December 31,		
	2015	2014	2013
Severstal Resources:			
Russia*	14.5	n/a	n/a
USA	n/a	n/a	13.2
Severstal Russian Steel:			
Italy**	10.0	n/a	n/a

*US\$ rate

**EUR rate

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)

2013

An impairment loss was recognized in 2013 of US\$ 217.7 million and US\$ 63.0 million was allocated to goodwill and US\$ 154.7 million to intangible assets.

The carrying amount of goodwill allocated to the cash-generating unit before the impairment loss was US\$ 63.0 million as of December 31, 2013.

The following assumptions were used in the impairment test:

- the forecast extraction volumes decrease by 41% in 2014, increase by 6% in 2015, increase by 41% in 2016, increase on average by 20% p.a. in 2017 to 2019, and remain constant at the 2019 level thereafter;
- the forecast coking coal concentrate prices increase by 1% in 2014, increase by 9% in 2015, increase by 5% in 2016 to 2017, further grow on average by 2% p.a.;
- operating costs are forecast to decrease by 23% in 2014, increase by 10% in 2015, increase by 35% in 2016, further grow on average by 5% p.a.;
- pre-tax discount rate of 13.2% (in US\$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US\$ 21.8 million;
- a 10% decrease in future planned revenues increases the impairment loss by US\$ 65.6 million.

2014

An impairment loss of US\$ 153.9 million was recognized 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 recognized an impairment loss of US\$ 123.0 million in relation to non-current assets of Severstal Liberia Iron Ore Ltd based on its fair value less costs to sell. US\$ 7.5 million of the loss was allocated to goodwill and US\$ 115.5 million to evaluation and exploration assets.

The carrying amount of goodwill allocated to the cash-generating unit before the impairment loss was US\$ 7.5 million as of December 31, 2014.

2015

During 2015, due to the uncertain prospects for the development of the field the Group assessed the recoverable amount of Severstal Liberia Iron Ore Ltd. As a result, in 2015 the Group recognized an impairment loss of US\$ 100.0 million, which was fully allocated to intangible assets and reduced the carrying amount of the cash generating unit to US\$ nil.

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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 recognized in 2015 of US\$ 79.9 million and US\$ 76.3 million was allocated to property, plant and equipment and US\$ 3.6 million to intangible assets. The carrying amount of the cash generating unit is US\$ 79.8 million as of December 31, 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).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US\$ 5.6 million;
- a 10% decrease in future planned revenues increases the impairment loss by US\$ 78.8 million.

Other units

2013

A reversal of impairment loss related to other cash-generating units within the segment of US\$ 0.2 million was recognised in 2013 in relation to specific items of property, plant and equipment.

2014

A reversal of impairment loss related to other cash-generating units within the segment of US\$ 0.1 million was recognized in 2014 relation to specific items of property, plant and equipment.

2015

An impairment loss of US\$ 0.6 million was recognized 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 recognized in 2015, and the recoverable amount of the CGU exceeded its carrying amount by US\$ 51.5 million.

The carrying amount of goodwill allocated to the cash-generating unit was US\$ 25.6 million as of December 31, 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.

Other units

2013

An impairment loss of US\$ 24.2 million was recognized in 2013 in relation to specific items of property, plant and equipment.

2014

An impairment loss of US\$ 14.8 million was recognized in 2014 in relation to specific items of property, plant and equipment.

2015

An impairment loss of US\$ 2.2 million was recognized in 2015 in relation to specific items of property, plant and equipment.

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9. Net other non-operating expenses

	Year ended December 31,		
	2015	2014	2013
Social expenditure	(12,635)	(20,308)	(33,770)
Charitable donations	(22,683)	(32,911)	(29,417)
Depreciation of infrastructure assets	(1,570)	(3,185)	(4,577)
Loss on disposal of subsidiaries (Note 28)	(3,258)	(27,336)	(1,195)
Legal claim of disposed subsidiary	-	(13,469)	-
Other	(10,955)	(4,884)	(1,274)
	(51,101)	(102,093)	(70,233)

10. Taxation

The following is an analysis of the income tax expense:

	Year ended December 31,		
	2015	2014	2013
Current tax charge	(50,595)	(41,270)	(61,937)
Corrections to prior year's current tax charge	16,390	9,839	6,617
Deferred tax (expense)/benefit	(125,858)	42,486	(15,048)
Income tax (expense)/benefit	(160,063)	11,055	(70,368)

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 December 31,		
	2015	2014	2013
Profit/(loss) before income tax	722,525	(806,520)	331,907
Tax charge at Russian statutory rate	(144,505)	161,304	(66,381)
Profits taxed at different rates	18,392	38,087	54,523
Corrections to prior years' current tax charge	16,390	9,839	6,617
Non-tax deductible expenses, net	(29,903)	(13,726)	(27,178)
Changes in non-recognized deferred tax assets	(3,871)	(122,826)	(22,786)
Reassessment of deferred tax assets and liabilities	(16,566)	(61,623)	(15,163)
Income tax (expense)/benefit	(160,063)	11,055	(70,368)

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The composition of the net deferred tax liability based on the temporary differences arising between the fiscal and reporting balance sheets of the consolidated companies, is given below:

	December 31,		
	2015	2014	2013
Deferred tax assets:			
Tax-loss carry forwards	58,311	171,525	80,740
Property, plant and equipment	1,594	1,847	3,199
Intangible assets	12	53	162
Inventory	10,457	28,829	38,121
Accounts receivable	13,784	16,588	63,262
Provisions	25,446	26,918	140,164
Financial investments	34,234	12,139	89,317
Other	14,711	31,816	71,083
Gross deferred tax assets	158,549	289,715	486,048
Less offsetting with deferred tax liabilities	(151,274)	(245,901)	(407,930)
Recognized deferred tax assets	7,275	43,814	78,118
	December 31,		
	2015	2014	2013
Deferred tax liabilities:			
Property, plant and equipment	(235,722)	(293,371)	(574,671)
Provisions	(1,723)	(2,156)	(1,096)
Intangible assets	(39,932)	(45,815)	(89,667)
Inventory	(8,235)	(19,459)	(19,314)
Investments in associates and joint ventures	-	(2,354)	(22,799)
Accounts receivable	(459)	(619)	(2,187)
Financial liabilities	(869)	(731)	(207)
Other	(5,340)	(1,764)	(11,182)
Gross deferred tax liabilities	(292,280)	(366,269)	(721,123)
Less offsetting with deferred tax assets	151,274	245,901	407,930
Recognized deferred tax liabilities	(141,006)	(120,368)	(313,193)
Net deferred tax liability	(133,731)	(76,554)	(235,075)

The movement in the net deferred tax liability was as follows:

	Year ended December 31,		
	2015	2014	2013
Opening balance	(76,554)	(235,075)	(237,282)
Recognized in income statement	(125,858)	(5,084)	(11,597)
Recognized in other comprehensive income	-	-	889
Business de-combinations	-	26,308	-
Translation to presentation currency	68,681	137,297	12,915
Closing balance	(133,731)	(76,554)	(235,075)

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The Group has not recognized cumulative tax-loss carry forwards in the following amounts and with the following expiry dates (stated in millions of US dollars):

	December 31,		
	2015	2014	2013
Between one and five years	172.0	208.8	13.3
Between five and ten years	1,329.3	67.1	119.7
Between ten and twenty years	-	1,866.3	2,475.0
No expiry	62.7	46.5	79.9
	1,564.0	2,188.7	2,687.9

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\$ 5,525.0 million at December 31, 2015 (December 31, 2014: US\$ 5,307.4 million; December 31, 2013: US\$ 6,449.8 million).

11. Related party transactions

	Year ended December 31,		
	2015	2014	2013
Revenue - related parties:			
Revenue - associates	26,633	41,570	47,909
Revenue - joint ventures	22,216	30,228	43,226
Revenue - other related parties	24,307	43,281	42,831
Proceeds from disposal of property, plant and equipment to related parties:			
Proceeds from disposal of property, plant and equipment to other related parties	2,393	-	-
Interest income from related parties:			
Interest income from joint ventures	3,478	4,769	4,518
Interest income from other related parties	22,321	10,316	10,454
	101,348	130,164	148,938
Purchases from related parties:			
Purchases from associates:			
Non-capital expenditures	61,111	86,495	101,663
Purchases from joint ventures:			
Non-capital expenditures	1,043	5,463	5,137
Purchases from other related parties:			
Non-capital expenditures	22,895	34,512	30,031
Capital expenditures	3,278	500	190
	88,327	126,970	137,021

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12. Related party balances

	December 31,		
	2015	2014	2013
Joint ventures' balances			
Short-term trade accounts receivable	3,346	807	4,804
Short-term loans	1,753	471	29,383
Long-term loans	37,748	48,126	39,026
Long-term promissory notes	-	-	29,258
Short-term trade accounts payable	94	424	9,701
Associates' balances			
Short-term trade accounts receivable	2,254	3,003	4,501
Short-term loans	5,225	4,778	4,585
Short-term trade accounts payable	5,481	6,720	25,642
Other related party balances			
Cash and cash equivalents at related party bank	168,353	309,092	373,359
Accounts receivable from other related parties:			
Short-term trade accounts receivable	3,656	8,732	6,274
Advances paid	75	551	856
Short-term other receivables	990	1,642	2,185
Short-term loans	51	320	457
Short-term promissory notes	-	6,755	1,427
Long-term other receivables	1,375	1,491	3,441
Available-for-sale financial assets	235	450	891
	6,382	19,941	15,531
Accounts payable to other related parties:			
Short-term trade accounts payable	724	5,423	1,446
Advances received	692	73	168
Short-term other accounts payable	2,397	3,258	6,041
Long-term other accounts payable	5,335	8,960	2,917
	9,148	17,714	10,572

The amounts outstanding are expected to be settled in cash. The Group did 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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13. Cash and cash equivalents

	December 31,		
	2015	2014	2013
Petty cash	116	106	307
Cash at bank	113,244	157,387	235,720
Bank deposits	1,524,413	1,739,182	799,921
Other cash equivalents	9,395	-	-
	1,647,168	1,896,675	1,035,948

14. Short-term financial investments

	December 31,		
	2015	2014	2013
Loans	9,855	10,258	38,452
Held-to-maturity securities	1,046	10,871	21,564
	10,901	21,129	60,016

15. Trade accounts receivable

	December 31,		
	2015	2014	2013
Customers	466,660	670,348	1,401,207
Allowance for doubtful debts	(35,105)	(21,358)	(44,291)
	431,555	648,990	1,356,916

16. Inventories

	December 31,		
	2015	2014	2013
Raw materials and supplies	297,769	325,064	1,000,683
Finished goods	149,299	196,247	529,552
Work-in-progress	202,509	293,801	472,482
	649,577	815,112	2,002,717

Of the above amounts US\$ 10.2 million (December 31, 2014: US\$ 24.1 million; December 31, 2013: US\$ 21.3 million) were stated at net realizable value.

During the year ended December 31, 2015, the Group recognized a US\$ 24.1 million release and a US\$ 32.6 million allowance to reduce the carrying amount to net realizable value (2014: US\$ 39.5 million and US\$ 65.6 million, respectively; 2013: US\$ 52.4 million and US\$ 50.3 million, respectively).

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17. Other current assets

	December 31,		
	2015	2014	2013
Advances paid and prepayments	34,417	40,167	109,288
Other taxes and social security prepaid	23,824	10,859	15,912
Financial receivable	1,400	15,107	-
Incentives receivable	-	17,000	70,000
Other assets	32,520	39,066	81,663
	<u>92,161</u>	<u>122,199</u>	<u>276,863</u>

18. Long-term financial investments

	December 31,		
	2015	2014	2013
Loans	37,751	48,157	39,046
Available-for-sale financial assets	15,151	37,591	46,075
Held-to-maturity securities	-	-	30,360
	<u>52,902</u>	<u>85,748</u>	<u>115,481</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.

	December 31,		
	2015	2014	2013
Associates			
ZAO Air Liquide Severstal	11,418	20,843	28,360
Iron Mineral Beneficiation Services (Proprietary) Ltd	-	11,683	40,768
Spartan Steel Coating LLC	-	-	43,700
Joint ventures			
Severstal-Gonvarri-Kaluga LLC	7,478	13,287	10,648
Gestamp-Severstal-Kaluga LLC	6,881	24,642	30,987
Gestamp Severstal Vsevolozhsk LLC	614	10,315	16,481
Mountain State Carbon LLC	-	-	67,535
Double Eagle Steel Coating Company	-	-	13,285
Other	-	666	4,907
	<u>26,391</u>	<u>81,436</u>	<u>256,671</u>

In 2014, the Group wrote off its other non-current liabilities related to the acquisition of Iron Mineral Beneficiation Services (Proprietary) Ltd and recognized the corresponding impairment loss of US\$ 23.9 million in respect of its investment in this company.

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The following is summarized financial information in respect of associates:

	December 31,		
	2015	2014	2013
Current assets	12,998	26,217	61,905
Non-current assets	59,208	92,214	193,321
Short-term liabilities	9,413	18,177	33,811
Long-term liabilities	25,279	15,263	45,832
Equity	37,514	84,991	175,583
	Year ended December 31,		
	2015	2014	2013
Revenue	62,741	87,934	144,249
Net income	17,473	20,872	29,137
Other comprehensive (loss)/income	(18,152)	(35,185)	4,496
Total comprehensive (loss)/income	(679)	(14,313)	33,633

The following is summarized financial information in respect of joint ventures:

	December 31,		
	2015	2014	2013
Current assets	60,832	89,770	263,087
Non-current assets	151,554	187,652	506,042
Short-term liabilities	27,974	83,962	180,747
Long-term liabilities	149,654	138,257	232,895
Equity	34,758	55,203	355,487
	Year ended December 31,		
	2015	2014	2013
Revenue	186,374	433,547	451,083
Net loss	(24,042)	(93,981)	(52,423)
Other comprehensive loss	(12,610)	(67,423)	(13,219)
Total comprehensive loss	(36,652)	(161,404)	(65,642)

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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:						
December 31, 2012	2,358,142	8,427,971	476,693	120,150	1,930,756	13,313,712
Reclassifications	(3,036)	(22,946)	25,640	342	-	-
Additions	-	-	-	-	1,147,147	1,147,147
Disposals	(10,824)	(157,111)	(24,823)	(12,071)	(7,374)	(212,203)
Business de-combinations	(10,751)	(3,349)	(433)	-	-	(14,533)
Transfers from/(to) other assets and liabilities	6,974	684	5,760	(2,143)	(14,408)	(3,133)
Transfers	136,874	721,052	79,928	12,181	(950,035)	-
Translation to presentation currency	(123,290)	(417,247)	(22,526)	(8,602)	(128,947)	(700,612)
December 31, 2013	2,354,089	8,549,054	540,239	109,857	1,977,139	13,530,378
Reclassifications	657	1,291	(831)	(1,117)	-	-
Additions	-	-	-	-	743,947	743,947
Business combinations	5,490	53,201	-	-	2,194	60,885
Disposals	(8,288)	(115,595)	(19,828)	(6,286)	(17,652)	(167,649)
Business de-combinations	(620,305)	(2,884,084)	(274,985)	-	(131,153)	(3,910,527)
Transfers (to)/from other assets and liabilities	(7,813)	(7,039)	(63)	(5)	30	(14,890)
Transfers	288,248	852,716	89,535	7,228	(1,237,727)	-
Translation to presentation currency	(782,368)	(2,627,001)	(147,055)	(45,490)	(615,094)	(4,217,008)
December 31, 2014	1,229,710	3,822,543	187,012	64,187	721,684	6,025,136
Reclassifications	7,033	2,562	(6,808)	(2,787)	-	-
Additions	-	-	-	-	452,878	452,878
Disposals	(8,337)	(124,930)	(18,126)	(6,651)	(12,430)	(170,474)
Discontinued operation	-	17,214	-	-	16,370	33,584
Transfers from other assets and liabilities	6,818	13,314	354	7	984	21,477
Transfers	132,204	312,696	25,280	9,067	(479,247)	-
Translation to presentation currency	(301,804)	(896,355)	(45,475)	(14,217)	(147,952)	(1,405,803)
December 31, 2015	1,065,624	3,147,044	142,237	49,606	552,287	4,956,798

Of the above amounts of additions to construction-in-progress US\$ 15.8 million (2014: US\$ 33.3 million, 2013: US\$ 54.7 million) is capitalized interest.

The Group applied a weighted average capitalization rate of 5.8% to determine the amount of borrowing costs eligible for capitalization for the year ended December 31, 2015 (2014: 5.9%; 2013: 7.2%).

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	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction- in-progress	Total
Depreciation and impairment:						
December 31, 2012	835,052	3,682,501	219,337	69,686	44,425	4,851,001
Reclassifications	(1,570)	(405)	1,798	177	-	-
Depreciation expense	80,943	604,008	66,517	4,577	-	756,045
Disposals	(5,772)	(131,759)	(19,287)	(11,227)	-	(168,045)
Business de-combinations	(10,568)	(2,774)	(300)	-	-	(13,642)
Transfers from other assets and liabilities	219	4,696	710	-	-	5,625
Impairment of assets	4,452	72,463	18	1,973	59,110	138,016
Translation to presentation currency	(54,164)	(222,058)	(9,195)	(4,926)	(2,471)	(292,814)
December 31, 2013	848,592	4,006,672	259,598	60,260	101,064	5,276,186
Reclassifications	505	(13,296)	12,670	121	-	-
Depreciation expense	69,433	533,103	46,408	3,185	-	652,129
Disposals	(2,404)	(97,595)	(17,278)	(2,781)	(11,626)	(131,684)
Business de-combinations	(315,313)	(1,690,614)	(228,108)	-	(49,263)	(2,283,298)
Transfers from/(to) other assets and liabilities	2	(483)	43	-	-	(438)
Impairment of assets	226,705	708,925	59,938	1,295	20,349	1,017,212
Translation to presentation currency	(335,382)	(1,397,364)	(63,021)	(25,469)	(20,033)	(1,841,269)
December 31, 2014	492,138	2,049,348	70,250	36,611	40,491	2,688,838
Reclassifications	(671)	3,482	(1,689)	(1,122)	-	-
Depreciation expense	44,234	287,938	16,068	1,570	-	349,810
Disposals	(4,850)	(109,114)	(14,049)	(4,754)	(346)	(133,113)
Discontinued operation	-	4,307	-	-	-	4,307
Transfers from other assets and liabilities	-	322	19	-	-	341
Impairment of assets	4,738	29,386	17,996	1,870	25,135	79,125
Translation to presentation currency	(116,383)	(490,723)	(20,126)	(7,404)	(8,515)	(643,151)
December 31, 2015	419,206	1,774,946	68,469	26,771	56,765	2,346,157
Net book values:						
December 31, 2013	1,505,497	4,542,382	280,641	49,597	1,876,075	8,254,192
December 31, 2014	737,572	1,773,195	116,762	27,576	681,193	3,336,298
December 31, 2015	646,418	1,372,098	73,768	22,835	495,522	2,610,641

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:						
December 31, 2012	552,500	404,238	206,716	190,525	158,578	1,512,557
Reclassifications	-	-	(429)	429	-	-
Additions	-	11,682	57,622	46,618	1,037	116,959
Transfers from other assets	-	-	13,386	1,077	18	14,481
Disposals	-	(1,107)	-	-	(44)	(1,151)
Translation to presentation currency	(589)	(6,045)	(14,561)	(2,751)	(5,558)	(29,504)
December 31, 2013	551,911	408,768	262,734	235,898	154,031	1,613,342
Reclassifications	-	-	-	242	(242)	-
Additions	-	2	51,269	27,857	6,976	86,104
Business combinations	-	-	-	-	1,747	1,747
Transfers (to)/from other assets	-	-	(1,964)	-	8,856	6,892
Disposals	-	(28)	(85)	-	(92)	(205)
Business de-combinations	(472,088)	(318,533)	(32,466)	-	(89,540)	(912,627)
Translation to presentation currency	(20,190)	(38,134)	(110,185)	(19,757)	(31,275)	(219,541)
December 31, 2014	59,633	52,075	169,303	244,240	50,461	575,712
Reclassifications	-	484	-	(357)	(127)	-
Additions	-	-	20,489	7,343	265	28,097
Transfers (to)/from other assets	-	-	(1,926)	3,767	(5,367)	(3,526)
Disposals	-	(473)	(270)	(15)	(131)	(889)
Translation to presentation currency	(5,385)	(11,849)	(41,606)	(8,131)	(9,861)	(76,832)
December 31, 2015	54,248	40,237	145,990	246,847	35,240	522,562
Amortization and impairment:						
December 31, 2012	437,077	94,554	45,387	2,955	111,649	691,622
Reclassifications	-	-	(211)	211	-	-
Amortization expense	-	9,251	18,664	1,569	2,702	32,186
Impairment	63,064	154,617	-	-	-	217,681
Transfers (to)/from other assets	-	(25)	88	(7)	(7)	49
Translation to presentation currency	(2,021)	(384)	(2,194)	(292)	(2,215)	(7,106)
December 31, 2013	498,120	258,013	61,734	4,436	112,129	934,432
Reclassifications	-	-	65	(65)	-	-
Amortization expense	-	766	18,454	2,245	2,404	23,869
Impairment	7,500	-	-	115,500	3,395	126,395
Transfers from other assets	-	-	4,588	-	-	4,588
Business de-combinations	(472,088)	(253,651)	(25,886)	-	(87,866)	(839,491)
Translation to presentation currency	(10,887)	(2,082)	(21,873)	(2,652)	(13,342)	(50,836)
December 31, 2014	22,645	3,046	37,082	119,464	16,720	198,957
Reclassifications	-	-	42	(77)	35	-
Amortization expense	-	728	13,110	1,680	1,239	16,757
Impairment	-	1,302	43	100,573	1,635	103,553
Transfers (to)/from other assets	-	-	(5,339)	-	2,791	(2,548)
Disposals	-	-	(263)	(76)	(57)	(396)
Translation to presentation currency	(1,968)	(863)	(10,046)	(1,223)	(4,593)	(18,693)
December 31, 2015	20,677	4,213	34,629	220,341	17,770	297,630
Net book values:						
December 31, 2013	53,791	150,755	201,000	231,462	41,902	678,910
December 31, 2014	36,988	49,029	132,221	124,776	33,741	376,755
December 31, 2015	33,571	36,024	111,361	26,506	17,470	224,932

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22. Debt finance

	December 31,		
	2015	2014	2013
Eurobonds 2014	-	-	375,000
Eurobonds 2016	255,118	391,838	500,000
Eurobonds 2017	620,714	705,486	1,000,000
Eurobonds 2018	570,600	572,500	600,000
Eurobonds 2022	675,981	697,289	750,000
Convertible bonds 2017	61,800	451,800	475,000
Severstal Columbus bonds	-	-	525,000
Bank financing	233,980	598,182	519,259
Factoring of receivables	-	-	4,540
Other financing	5,648	13,268	22,146
Accrued interest	31,823	37,493	73,122
Discounting	(967)	(28,140)	(52,662)
Unamortized balance of transaction costs	(2,494)	(10,853)	(37,311)
	<u>2,452,203</u>	<u>3,428,863</u>	<u>4,754,094</u>

Total debt is denominated in the following currencies:

US Dollars	2,214,600	3,129,836	4,455,459
Euro	22,650	32,404	295,671
Rubles	214,953	266,623	2,964
	<u>2,452,203</u>	<u>3,428,863</u>	<u>4,754,094</u>

Total debt is contractually repayable after the balance sheet date as follows:

Less than one year	507,177	774,493	627,519
Between one and five years	1,261,840	1,948,921	3,373,431
After more than five years	683,186	705,449	753,144
	<u>2,452,203</u>	<u>3,428,863</u>	<u>4,754,094</u>

Bonds issued

In April 2004, Citigroup Germany, a non-related party, issued US dollar-denominated loan participation notes with an aggregate principal amount of US\$ 375.0 million for the sole purpose of financing a loan facility between the Group and Citigroup Germany. The loan was due in April 2014 and bears interest at an annual rate of 9.25% payable semi-annually in April and in October each year. As at December 31, 2015 the amount outstanding under this facility was US\$ nil.

In February 2010, the Group's subsidiary Severstal Columbus issued US dollar-denominated bonds with an aggregate principal amount of US\$ 525.0 million maturing in 2018. These bonds bear an interest rate of 10.25% per annum, which is payable semi-annually in February and August each year, beginning in August 2010. As at December 31, 2015 the amount outstanding under this facility was US\$ nil.

In October 2010, the Group issued US\$ 1.0 billion US dollar-denominated bonds maturing in 2017. Bonds bearing an interest rate of 6.7% per annum which is payable semi-annually in April and October each year, beginning in April 2011. These bonds were issued under the Group's newly established US\$ 3.0 billion Loan Participation Note Programme. The proceeds from the bonds issuance were used to fund the purchase of US\$ 706.4 million nominal of Group's US\$ 1,250.0 million Eurobonds in US dollars and for refinancing of certain other Group's debts. As at December 31, 2015 the amount outstanding under this facility was US\$ 620.7 million.

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In July 2011, the Group issued US\$ 500.0 million bonds denominated in US dollars maturing in 2016. These bonds bear an interest rate of 6.25% per annum, which is payable semi-annually in January and July each year, beginning in January 2012. The proceeds from the bonds issuance were partially utilized to refinance short-term loan facilities. As at December 31, 2015 the amount outstanding under this facility was US\$ 255.1 million.

In September 2012, the Group issued US\$ 475.0 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 November 5, 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\$ 47.1 million as at December 31, 2015 (December 31, 2014: US\$ 63.5 million, December 31, 2013: US\$ 66.8 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\$ 16.4 million was recognized as a reduction in equity. As at December 31, 2015 the amount outstanding under this facility was US\$ 61.8 million.

In October 2012, the Group issued US\$ 750.0 million bonds denominated in US dollars maturing in 2022. These bonds bear an interest rate of 5.9% 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 December 31, 2015 the amount outstanding under this facility was US\$ 676.0 million.

In March 2013, the Group issued US\$ 600.0 million bonds denominated in US dollars maturing in 2018. These bonds bear an interest rate of 4.45% 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 December 31, 2015 the amount outstanding under this facility was US\$ 570.6 million.

Bank financing

Debt finance arising from banks and committed unused credit lines were secured by the following charges:

- US\$ 16.3 million (December 31, 2014: US\$ 20.5 million; December 31, 2013: US\$ 2,522.5 million) of the net book value of plant and equipment;
- US\$ nil (December 31, 2014: US\$ nil; December 31, 2013: US\$ 1,100.0 million) of current assets and revenues from export contracts;
- all Group's investment in Mountain State Carbon LLC and Double Eagle Steel Coating Company, the Group's joint ventures, and Spartan Steel Coating LLC, the Group's associate, at December 31, 2013.

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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 reorganization 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 during the years ended December 31, 2015, 2014 and 2013 and does not expect any of the terms and conditions of its debt agreements to affect or limit its ability to conduct its business in the ordinary course.

At the reporting date the Group had US\$ 682.5 million (December 31, 2014: US\$ nil; December 31, 2013: US\$ nil) of committed unused short-term credit lines and US\$ nil (December 31, 2014: US\$ 388.2 million; December 31, 2013: US\$ 1,517.6 million) of committed unused long-term credit lines available to it.

23. Other current liabilities

	December 31,		
	2015	2014	2013
Advances received	130,379	169,691	190,428
Amounts payable to employees	83,437	72,964	230,708
Deferred income	30,426	30,529	31,911
Provisions (Note 25)	5,166	31,351	13,412
Derivative financial liabilities	5,100	-	-
Retirement benefit liability (Note 24)	2,753	4,423	11,005
Lease liabilities	144	241	1,000
Accrued expenses	119	647	30,986
Decommissioning liability (Note 25)	-	-	3,000
Other payables	17,165	23,035	42,951
	<u>274,689</u>	<u>332,881</u>	<u>555,401</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:

	December 31,		
	2015	2014	2013
Current portion	2,753	4,423	11,005
Non-current portion	53,447	48,258	189,913
	<u>56,200</u>	<u>52,681</u>	<u>200,918</u>

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The following assumptions were used to calculate the retirement benefit liability:

	December 31,		
	2015	2014	2013
Discount rates:			
Russia	9.5%	11.9% to 13.4%	7.8% to 7.9%
USA	n/a	n/a	4.5%
Future rates of benefit increase:			
Russia	5.3%	5.7% to 5.9%	4.7% to 4.9%
USA	n/a	n/a	Fixed at 0%

The Group's weighted average remaining life of the pensioners and employees, receiving the retirement benefits equaled to 16 years as at December 31, 2015.

The present value of the defined benefit obligation less the fair value of plan assets is recognized as a retirement benefit liability in the statement of financial position.

	December 31,				
	2015	2014	2013	2012	2011
Present value of the defined benefit obligation	83,448	88,426	263,045	273,059	230,517
Fair value of the plan assets	(27,248)	(35,745)	(62,127)	(66,590)	(59,841)
Retirement benefit liability	56,200	52,681	200,918	206,469	170,676

The movements in the defined benefit obligation were as follows:

	Year ended December 31,		
	2015	2014	2013
Opening balance	88,426	263,045	273,059
Benefits paid	(11,689)	(18,530)	(24,618)
Interest cost	9,224	15,559	16,112
Service cost	1,523	4,427	5,550
Curtailment	-	-	(526)
Actuarial losses/(gains)*	19,538	(24,445)	8,337
Business de-combinations	-	(69,870)	-
Translation to presentation currency	(23,574)	(81,760)	(14,869)
Closing balance	83,448	88,426	263,045

*Actuarial losses/(gains) arise primarily from changes in financial assumptions.

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The movements in the plan assets were as follows:

	Year ended December 31,		
	2015	2014	2013
Opening balance	35,745	62,127	66,590
Contributions made during the year	5,889	9,206	10,378
Benefits paid	(9,043)	(12,563)	(14,619)
Return on assets	3,237	4,180	4,315
Actuarial (losses)/gains*	(428)	(503)	269
Translation to presentation currency	(8,152)	(26,702)	(4,806)
Closing balance	27,248	35,745	62,127

*Actuarial (losses)/gains arise primarily from changes in financial assumptions.

The defined benefit obligation analysis was as follows:

	December 31,		
	2015	2014	2013
Wholly unfunded	43,068	40,719	163,683
Partly funded	40,380	47,707	99,362
	83,448	88,426	263,045

The plan assets analysis was as follows:

	December 31,		
	2015	2014	2013
Corporate bonds	18,627	25,239	41,819
Shares in mutual funds	7,120	9,621	-
Equity instruments	1,030	-	4,167
Cash	170	88	121
Deposits	-	-	10,395
Government bonds	-	90	5,625
Other investments	301	707	-
	27,248	35,745	62,127

The Group's best estimate of contributions expected to be paid to the plan in 2016 is US\$ 6.0 million.

The Group's retirement benefit service costs are allocated and recognized 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 recognized in discontinued operation.

Interest cost and return on plan assets are recognized as part of 'Finance costs, net', except interest cost related to the Severstal International segment which was recognized in discontinued operation; actuarial (losses)/gains are recognized as a separate component in other comprehensive income.

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25. Other non-current liabilities

	December 31,		
	2015	2014	2013
Decommissioning liabilities	66,733	47,439	149,068
Deferred income	58,702	92,918	142,712
Amounts payable to employees	5,194	3,943	28,126
Provisions	3,422	6,671	11,815
Derivative financial liabilities	-	16,574	-
Lease liabilities	-	142	1,110
Other liabilities	28,497	93	22,242
	162,548	167,780	355,073

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 2018 – 2045. 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, %		
	2015	2014	2013
Severstal Resources:			
Russia	3.5 - 5.0	6.8 - 7.5	2.3 - 5.4
USA	n/a	n/a	0.8 - 3.0

The movements in the decommissioning liabilities were as follows:

	Year ended December 31,		
	2015	2014	2013
Opening balance	47,439	152,068	136,495
Additional accrual	4,899	-	12,594
Change in assumptions	20,486	(16,410)	(738)
Interest cost	9,653	12,718	17,982
Usage of decommissioning liability	-	(5,546)	(7,985)
Business de-combinations	-	(53,709)	-
Translation to presentation currency	(15,744)	(41,682)	(6,280)
Closing balance	66,733	47,439	152,068

The change in assumptions related to the re-scheduling of the decommissioning of Vorkutaugol in 2014 and 2013 and PBS Coals mines in 2013 and the change in the discount rate.

	December 31,		
	2015	2014	2013
Current portion	-	-	3,000
Non-current portion	66,733	47,439	149,068
	66,733	47,439	152,068

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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:

	December 31,		
	2015	2014	2013
Tax and social security claims	5,166	15,257	1,512
Legal claims	-	-	6,460
Legal claim of disposed subsidiary	-	13,469	-
Other employee related	-	-	4,359
Environmental claims	-	-	1,799
Other	3,422	9,296	11,097
	<u>8,588</u>	<u>38,022</u>	<u>25,227</u>

	December 31,		
	2015	2014	2013
Current portion	5,166	31,351	13,412
Non-current portion	3,422	6,671	11,815
	<u>8,588</u>	<u>38,022</u>	<u>25,227</u>

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 December 31,		
	2015	2014	2013
Opening balance	38,022	25,227	56,527
Charge to the income statement	1,318	22,944	(30,552)
Business combinations	-	2,714	-
Usage of provisions	(28,623)	(157)	(702)
Business de-combinations	-	(8,653)	-
Translation to presentation currency	(2,129)	(4,053)	(46)
Closing balance	<u>8,588</u>	<u>38,022</u>	<u>25,227</u>

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 authorized share capital of Severstal at December 31, 2015, 2014 and 2013 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 capital funds were converted into ordinary shares on September 24, 1993 and sold by the Government at privatization auctions.

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The total value of issued share capital presented in these consolidated financial statements comprised:

	Number of shares, mln.	US \$'000
Share capital at December 31, 2013	837.7	2,752,728
Share capital at December 31, 2014	837.7	2,752,728
Share capital at December 31, 2015	837.7	2,752,728

All shares carry equal voting and distribution rights.

Earnings/(loss) per share

In 2012 the Group issued US\$ 475.0 million convertible bonds (Note 22), which had an accretive effect on earnings/(loss) per share as demonstrated below:

	Year ended December 31,		
	2015	2014	2013
Profit/(loss) for the period attributable to shareholders of PAO Severstal	604,993	(1,595,362)	85,715
Interest expense on convertible bonds, net of tax	24,968	20,954	20,312
Adjusted profit/(loss) for the period attributable to shareholders of PAO Severstal	629,961	(1,574,408)	106,027
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)	18.2	24.6	24.9
Adjusted weighted average number of shares outstanding during the period (millions of shares)	828.8	835.2	835.5
Basic and diluted earnings/(loss) per share (US dollars)	0.75	(1.97)	0.11
Adjusted earnings/(loss) per share (US dollars)	0.76	(1.89)	0.13

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 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.

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On June 13, 2013 the Meeting of Shareholders approved an annual dividend of RUB 1.89 (US\$ 0.06 at June 13, 2013 exchange rate) per share and per GDR for the year 2012 and an interim dividend of RUB 0.43 (US\$ 0.01 at June 13, 2013 exchange rate) per share and per GDR for the first quarter of 2013.

On September 30, 2013 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 2.03 (US\$ 0.06 at September 30, 2013 exchange rate) per share and per GDR for the first six months of 2013.

On December 17, 2013 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 2.01 (US\$ 0.06 at December 17, 2013 exchange rate) per share and per GDR for the nine months of 2013.

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

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

On November 14, 2014 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 54.46 (US\$ 1.18 at November 14, 2014 exchange rate) per share and per GDR for the nine months of 2014.

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

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

On December 10, 2015 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 13.17 (US\$ 0.19 at December 10, 2015 exchange rate) per share and per GDR for the nine months of 2015.

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27. Discontinued operation

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

The results of discontinued operation was as follows:

	Year ended December 31,		
	2015	2014	2013
Revenue	-	3,014,442	3,878,058
Income/(expenses)*	40,925	(3,861,501)	(4,050,731)
Profit/(loss) before income tax	40,925	(847,059)	(172,673)
Income tax (expense)/benefit	-	(54,272)	3,324
Profit/(loss), net of tax	40,925	(901,331)	(169,349)
Net gain on disposal	-	100,479	-
Profit/(loss) for the period	40,925	(800,852)	(169,349)
Attributable to: shareholders of PAO Severstal	40,925	(800,852)	(169,349)

* This amount includes US\$ 12.8 million accrual for taxes receivable and a US\$ 29.3 million adjustment in respect of the disposed SNA assets.

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\$ 2,024.4 million, after settlement of US\$ 385.3 million of external debt. A cumulative net loss on the disposal of US\$ 811.4 million was recognized in these consolidated financial statements, of which the loss of US\$ 911.9 million was primarily recognized as impairment of property, plant and equipment in June, 2014 and included into the expenses of discontinued operation, and net gain on the disposal of US\$ 100.5 million recognized in 2014.

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A summary of assets and liabilities disposed during the years ended December 31, 2015, 2014 and 2013 is presented below:

	Year ended December 31,		
	2015	2014	2013
Cash and cash equivalents	-	(62,998)	-
Trade accounts receivable	-	(328,623)	-
Inventories	-	(682,502)	-
Other current assets	-	(36,443)	-
Property, plant and equipment	-	(1,601,500)	-
Intangible assets	-	(8,254)	-
Long-term financial investments	-	(30,085)	-
Other non-current assets	-	(108,967)	-
Trade accounts payable	-	383,975	-
Accounts payable to related parties	-	27,244	-
Other taxes and social security payable	-	3,896	-
Other current liabilities	-	28,781	-
Long-term debt finance	-	385,323	-
Other non-current liabilities	-	101,421	-
Net identifiable assets	-	(1,928,732)	-
Translation to presentation currency - foreign operations and other reserves	-	4,795	-
Consideration:			
Consideration in cash	-	2,024,416	-
Net gain on disposal	-	100,479	-
Net change in cash and cash equivalents	-	1,961,418	-

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Notes to the consolidated financial statements for the years ended December 31, 2015, 2014 and 2013 (Amounts expressed in thousands 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:

Company	December 31,			Location	Activity
	2015	2014	2013		
Severstal Russian Steel segment:					
<i>Subsidiaries:</i>					
CJSC Severgal	n/a	n/a	100.0%	Russia	Hot dip galvanizing
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
ZAO 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%	77.3%	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%	99.8%	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
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
ZAO Rospromresursy	n/a	n/a	100.0%	Russia	Processing scrap
JSC Arhangel'ski Vtormet	75.0%	75.0%	75.0%	Russia	Processing scrap
AO Severstal Distribution **	100.0%	100.0%	100.0%	Russia	Metal sales
ZAO North Steel Company	n/a	n/a	99.9%	Russia	Leasing
AO Rostovmetall	n/a	100.0%	100.0%	Russia	Leasing
PPTK-1 LLC	100.0%	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%	n/a	n/a	The Netherlands	Holding company
7029740 Canada Limited ***	100.0%	n/a	n/a	Canada	Holding company
<i>Associates:</i>					
ZAO Air Liquide Severstal	25.0%	25.0%	25.0%	Russia	Production liquid oxygen
Iron Mineral Beneficiation Services (Proprietary) Ltd ***	33.2%	n/a	n/a	Republic of South Africa	Research & investing
<i>Joint ventures:</i>					
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 Russian production entities, foreign trading companies, which sell products primarily produced in Russia, and other foreign companies, which either provide services to Russian production entities or are managed from Russia.

(**) – The entity was re-named from ZAO Trade House Severstal-Invest to AO Severstal Distribution and legal form was changed following the requirements of the amended Russian Civil Code in 2015.

(***) – The entities were transferred from the Severstal Resources segment to the Severstal Russian Steel segment following a change in the Group's management structure (Note 29).

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Company	December 31,			Location	Activity
	2015	2014	2013		
Severstal International segment (classified as discontinued operation)*:					
<i>Subsidiaries:</i>					
Severstal US Holdings LLC	n/a	n/a	100.0%	USA	Holding company
Severstal Dearborn LLC	n/a	n/a	100.0%	USA	Iron & steel mill
Severstal Columbus LLC	n/a	n/a	100.0%	USA	Steel mill
<i>Associates:</i>					
Delaco Processing LLC	n/a	n/a	49.0%	USA	Steel slitting
Spartan Steel Coating LLC	n/a	n/a	48.0%	USA	Hot dip galvanizing
<i>Joint ventures:</i>					
Double Eagle Steel Coating Company	n/a	n/a	50.0%	USA	Electro-galvanizing
Mississippi Steel Processing LLC	n/a	n/a	20.0%	USA	Steel service center
Mountain State Carbon LLC	n/a	n/a	50.0%	USA	Coking coal
Severstal Resources segment:					
<i>Subsidiaries:</i>					
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
PBS Coals Limited	n/a	n/a	100.0%	USA	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	100.0%	100.0%	The Netherlands	Holding company
7029740 Canada Limited***	n/a	100.0%	100.0%	Canada	Holding company
<i>Associates:</i>					
Iron Mineral Beneficiation Services (Proprietary) Ltd***	n/a	33.2%	33.2%	Republic of South Africa	Research & investing

(*) – Note 27.

(**) – Legal form was changed following the requirements of the amended Russian Civil Code in 2015.

(***) – The entities were transferred from the Severstal Resources segment to the Severstal Russian Steel segment following a change in the Group's management structure (Note 29).

In addition, at the reporting date, a further 31 (December 31, 2014: 35; December 31, 2013: 49) subsidiaries, associates and a joint venture, 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 associate

In September 2013, the Group exercised its put option to sell back a 12.8% stake in SPG Mineracao SA by setting off its US\$ 25.0 million deferred consideration payable. As a result, the Group's ownership interest decreased from 25.0% to 12.2%. Additionally, the Group cancelled a call option agreement to purchase an additional 50.0% stake in this company.

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\$ 57.1 million. A cumulative net loss on the disposal of US\$ 177.3 million was recognized in these consolidated financial statements, of which US\$ 153.9 million was recognized as impairment of property, plant and equipment in June, 2014 and US\$ 23.4 million recognized as part of net other non-operating expense upon the disposal.

PAO Severstal and subsidiaries

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

A summary of assets and liabilities disposed during 2015, 2014 and 2013 is presented below:

	Year ended December 31,		
	2015	2014	2013
Cash and cash equivalents	-	(1,780)	-
Trade accounts receivable	-	(11,935)	-
Inventories	-	(21,047)	-
Other current assets	-	(2,644)	-
Property, plant and equipment	-	(25,729)	-
Intangible assets	-	(64,882)	-
Other non-current assets	-	(51,792)	-
Trade accounts payable	-	12,049	-
Other taxes and social security payable	-	421	-
Other current liabilities	-	3,550	-
Deferred tax liabilities	-	26,348	-
Other non-current liabilities	-	55,505	-
Net identifiable assets	-	(81,936)	-
Translation to presentation currency - foreign operations and other reserves	(7,258)	1,454	-
Consideration in cash	4,000	53,101	-
Net loss on disposal	(3,258)	(27,381)	-
Net change in cash and cash equivalents	4,000	51,321	-

Transaction within discontinued operation

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

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended December 31, 2015, 2014 and 2013 (Amounts expressed in thousands of US dollars, except as otherwise stated)

29. Segment information

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

Segmental statements of financial position as at December 31, 2015:

	Severstal Resources	Severstal Russian Steel	Inter segment balances	Conso- lidated
Assets				
Current assets:				
Cash and cash equivalents	25,668	1,621,500	-	1,647,168
Short-term financial investments	165,264	395,867	(550,230)	10,901
Trade accounts receivable	66,337	365,218	-	431,555
Accounts receivable from related parties	41,654	222,948	(254,281)	10,321
Restricted financial assets	-	1,554	-	1,554
Inventories	68,507	596,024	(14,954)	649,577
VAT recoverable	5,324	52,414	-	57,738
Income tax recoverable	1,137	34,862	-	35,999
Other current assets	16,792	75,369	-	92,161
Total current assets	390,683	3,365,756	(819,465)	2,936,974
Non-current assets:				
Long-term financial investments	2,127,043	1,395,018	(3,469,159)	52,902
Investments in associates and joint ventures	-	26,391	-	26,391
Property, plant and equipment	756,004	1,853,016	1,621	2,610,641
Intangible assets	59,785	165,147	-	224,932
Deferred tax assets	1,279	20,548	(14,552)	7,275
Other non-current assets	278	7,392	-	7,670
Total non-current assets	2,944,389	3,467,512	(3,482,090)	2,929,811
Total assets	3,335,072	6,833,268	(4,301,555)	5,866,785
Liabilities				
Current liabilities:				
Trade accounts payable	59,600	361,543	-	421,143
Accounts payable to related parties	7,202	50,657	(48,471)	9,388
Short-term debt finance	387,295	670,112	(550,230)	507,177
Income taxes payable	1	5,729	-	5,730
Other taxes and social security payable	23,129	53,406	-	76,535
Dividends payable	205,810	2,328	(205,810)	2,328
Other current liabilities	26,932	247,757	-	274,689
Total current liabilities	709,969	1,391,532	(804,511)	1,296,990
Non-current liabilities:				
Long-term debt finance	6,535	1,944,683	(6,192)	1,945,026
Deferred tax liabilities	69,821	85,146	(13,961)	141,006
Retirement benefit liabilities	7,592	45,855	-	53,447
Other non-current liabilities	66,819	95,729	-	162,548
Total non-current liabilities	150,767	2,171,413	(20,153)	2,302,027
Equity	2,474,336	3,270,323 *	(3,476,891)	2,267,768
Total equity and liabilities	3,335,072	6,833,268	(4,301,555)	5,866,785

* This amount includes US\$ 47.1 million effect of convertible bonds issue (Note 22).

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Notes to the consolidated financial statements for the years ended December 31, 2015, 2014 and 2013 (Amounts expressed in thousands of US dollars, except as otherwise stated)

Segmental statements of financial position as at December 31, 2014:

	Severstal Resources	Severstal Russian Steel	Inter segment balances	Conso- lidated
Assets				
Current assets:				
Cash and cash equivalents	73,626	1,823,049	-	1,896,675
Short-term financial investments	130,402	281,228	(390,501)	21,129
Trade accounts receivable	67,488	581,502	-	648,990
Accounts receivable from related parties	88,635	298,325	(372,225)	14,735
Inventories	70,041	761,755	(16,684)	815,112
VAT recoverable	8,817	54,825	-	63,642
Income tax recoverable	4,190	25,226	-	29,416
Other current assets	24,038	98,161	-	122,199
Total current assets	467,237	3,924,071	(779,410)	3,611,898
Non-current assets:				
Long-term financial investments	2,324,505	1,531,931	(3,770,688)	85,748
Investments in associates and joint ventures	-	81,436	-	81,436
Property, plant and equipment	954,324	2,409,663	(27,689)	3,336,298
Intangible assets	177,106	199,649	-	376,755
Deferred tax assets	1,380	42,434	-	43,814
Other non-current assets	364	16,230	-	16,594
Total non-current assets	3,457,679	4,281,343	(3,798,377)	3,940,645
Total assets	3,924,916	8,205,414	(4,577,787)	7,552,543
Liabilities				
Current liabilities:				
Trade accounts payable	62,228	438,000	-	500,228
Accounts payable to related parties	8,139	104,219	(96,460)	15,898
Short-term debt finance	261,750	905,425	(392,682)	774,493
Income taxes payable	-	8,814	-	8,814
Other taxes and social security payable	24,761	74,958	-	99,719
Dividends payable	275,514	2,355	(275,514)	2,355
Other current liabilities	57,164	275,717	-	332,881
Total current liabilities	689,556	1,809,488	(764,656)	1,734,388
Non-current liabilities:				
Long-term debt finance	87,634	2,882,634	(315,898)	2,654,370
Deferred tax liabilities	97,359	22,654	355	120,368
Retirement benefit liabilities	9,714	38,544	-	48,258
Other non-current liabilities	47,497	120,283	-	167,780
Total non-current liabilities	242,204	3,064,115	(315,543)	2,990,776
Equity	2,993,156	3,331,811 *	(3,497,588)	2,827,379
Total equity and liabilities	3,924,916	8,205,414	(4,577,787)	7,552,543

* This amount includes US\$ 63.5 million effect of convertible bonds issue (Note 22).

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Segmental statements of financial position as at December 31, 2013:

	Severstal Resources	Severstal Russian Steel	Severstal International	Inter segment balances	Conso- lidated
Assets					
Current assets:					
Cash and cash equivalents	309,801	706,708	19,439	-	1,035,948
Short-term financial investments	492,990	1,488,077	-	(1,921,051)	60,016
Trade accounts receivable	181,790	870,958	304,168	-	1,356,916
Accounts receivable from related parties	133,189	69,689	2,533	(186,791)	18,620
Restricted financial assets	1,114	-	-	-	1,114
Inventories	131,532	1,184,583	722,359	(35,757)	2,002,717
VAT recoverable	25,618	93,533	-	-	119,151
Income tax recoverable	8,742	10,171	135	-	19,048
Other current assets	48,088	185,758	43,017	-	276,863
Total current assets	1,332,864	4,609,477	1,091,651	(2,143,599)	4,890,393
Non-current assets:					
Long-term financial investments	2,226,419	6,920,753	29,258	(9,060,949)	115,481
Investments in associates and joint ventures	-	130,985	125,686	-	256,671
Property, plant and equipment	1,680,337	4,144,784	2,448,774	(19,703)	8,254,192
Intangible assets	393,879	282,137	2,894	-	678,910
Restricted financial assets	39,463	-	15	-	39,478
Deferred tax assets	2,021	28,529	47,568	-	78,118
Other non-current assets	9,111	67,884	127,446	-	204,441
Total non-current assets	4,351,230	11,575,072	2,781,641	(9,080,652)	9,627,291
Total assets	5,684,094	16,184,549	3,873,292	(11,224,251)	14,517,684
Liabilities					
Current liabilities:					
Trade accounts payable	156,849	544,429	444,595	-	1,145,873
Accounts payable to related parties	28,635	155,288	45,939	(186,864)	42,998
Short-term debt finance	451,515	1,092,768	1,362,510	(2,279,274)	627,519
Income taxes payable	2	10,458	200	-	10,660
Other taxes and social security payable	39,861	94,341	4,455	-	138,657
Dividends payable	-	28,065	-	-	28,065
Other current liabilities	81,673	416,018	57,710	-	555,401
Total current liabilities	758,535	2,341,367	1,915,409	(2,466,138)	2,549,173
Non-current liabilities:					
Long-term debt finance	31,527	3,526,478	731,524	(162,954)	4,126,575
Deferred tax liabilities	153,597	163,059	-	(3,463)	313,193
Retirement benefit liabilities	18,816	106,132	64,965	-	189,913
Other non-current liabilities	155,127	165,977	33,969	-	355,073
Total non-current liabilities	359,067	3,961,646	830,458	(166,417)	4,984,754
Equity	4,566,492	9,881,536 *	1,127,425	(8,591,696)	6,983,757
Total equity and liabilities	5,684,094	16,184,549	3,873,292	(11,224,251)	14,517,684

* This amount includes US\$ 66.8 million effect of convertible bonds issue (Note 22).

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended December 31, 2015, 2014 and 2013 (Amounts expressed in thousands of US dollars, except as otherwise stated)

Segmental income statements for the year ended December 31, 2015:

	Severstal Resources	Severstal Russian Steel	Inter segment transactions	Conso- lidated
Revenue				
Revenue - third parties	622,147	5,700,618	-	6,322,765
Revenue - related parties	618,096	135,163	(680,103)	73,156
	1,240,243	5,835,781	(680,103)	6,395,921
Cost of sales	(757,913)	(3,679,643)	650,067	(3,787,489)
Gross profit	482,330	2,156,138	(30,036)	2,608,432
General and administrative expenses	(59,094)	(267,082)	36,095	(290,081)
Distribution expenses	(127,783)	(413,169)	-	(540,952)
Other taxes and contributions	(26,922)	(40,952)	-	(67,874)
Share of associates' and joint ventures' loss	-	(551)	-	(551)
Loss on disposal of property, plant and equipment and intangible assets	(3,036)	(10,167)	189	(13,014)
Net other operating income	3,364	8,102	(4,663)	6,803
Profit from operations	268,859	1,432,319	1,585	1,702,763
Impairment of non-current assets	(180,513)	(2,165)	-	(182,678)
Net other non-operating (expenses)/income	(60,202)	8,831	270	(51,101)
Profit before financing and taxation	28,144	1,438,985	1,855	1,468,984
Interest income	29,844	155,050	(84,048)	100,846
Interest expense	(62,231)	(224,226)	84,048	(202,409)
Gain/(loss) on remeasurement and disposal	21,335	350,801	(386,140)	(14,004)
Other finance costs	(235)	(7,074)	-	(7,309)
Foreign exchange loss	(16,354)	(607,229)	-	(623,583)
Profit before income tax	503	1,106,307	(384,285)	722,525
Income tax benefit/(expense)	12,069	(171,896)	(236)	(160,063)
Profit from continuing operations	12,572	934,411	(384,521)	562,462
Profit from discontinued operation*	-	11,648	29,277	40,925
Profit for the period	12,572	946,059	(355,244)	603,387
Additional information:				
depreciation and amortization expense	139,872	226,695	-	366,567
capital expenditures	228,086	252,988	(99)	480,975
intersegment revenue (incl. in revenue from related parties)	617,901	62,202	(680,103)	-

* These amounts are related to the discontinued operation represented the Severstal International segment (Note 27).

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Segmental income statements for the year ended December 31, 2014:

	Severstal Resources	Severstal Russian Steel	Severstal International	Inter segment transactions	Conso- lidated
Revenue					
Revenue - third parties	916,838	7,264,508	-	-	8,181,346
Revenue - related parties	933,034	284,700	-	(1,102,655)	115,079
	1,849,872	7,549,208	-	(1,102,655)	8,296,425
Cost of sales	(1,201,277)	(5,304,364)	-	1,065,018	(5,440,623)
Gross profit	648,595	2,244,844	-	(37,637)	2,855,802
General and administrative expenses	(108,602)	(380,497)	-	69,792	(419,307)
Distribution expenses	(176,588)	(540,504)	-	14	(717,078)
Other taxes and contributions	(45,071)	(51,347)	-	-	(96,418)
Share of associates' and joint ventures' loss	-	(24,137)	-	-	(24,137)
Loss on disposal of property, plant and equipment and intangible assets	(3,055)	(8,312)	-	193	(11,174)
Net other operating income	2,738	22,724	-	(11,048)	14,414
Profit from operations	318,017	1,262,771	-	21,314	1,602,102
Impairment of non-current assets	(276,799)	(14,788)	-	-	(291,587)
Net other non-operating expenses	(42,043)	(100,632)	-	40,582	(102,093)
(Loss)/profit before financing and taxation	(825)	1,147,351	-	61,896	1,208,422
Interest income	34,523	82,076	-	(65,771)	50,828
Interest expense	(28,622)	(281,772)	-	53,796	(256,598)
Gain on remeasurement and disposal	12,484	793,280	-	(802,229)	3,535
Other finance costs	(196)	(6,542)	-	906	(5,832)
Foreign exchange loss	(12,546)	(1,794,329)	-	-	(1,806,875)
Profit/(loss) before income tax	4,818	(59,936)	-	(751,402)	(806,520)
Income tax (expense)/benefit	(29,456)	44,328	-	(3,817)	11,055
Loss from continuing operations	(24,638)	(15,608)	-	(755,219)	(795,465)
Loss from discontinued operation	-	-	(802,472)	1,620	(800,852)
Loss for the period	(24,638)	(15,608)	(802,472)	(753,599)	(1,596,317)
Additional information:					
depreciation and amortization expense	218,632	344,324	115,317	(2,275)	675,998
capital expenditures	378,263	401,065	52,022	(1,299)	830,051
intersegment revenue (incl. in revenue from related parties)	927,822	174,833	-	(1,102,655)	-

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Segmental income statements for the year ended December 31, 2013:

	Severstal Resources	Severstal Russian Steel	Severstal International	Inter segment transactions	Conso- lidated
Revenue					
Revenue - third parties	1,469,498	7,830,080	-	-	9,299,578
Revenue - related parties	1,194,771	272,671	-	(1,333,476)	133,966
	2,664,269	8,102,751	-	(1,333,476)	9,433,544
Cost of sales	(1,652,023)	(6,222,619)	-	1,264,031	(6,610,611)
Gross profit	1,012,246	1,880,132	-	(69,445)	2,822,933
General and administrative expenses	(111,976)	(520,466)	-	79,538	(552,904)
Distribution expenses	(292,845)	(642,257)	-	125	(934,977)
Other taxes and contributions	(60,654)	(71,298)	-	-	(131,952)
Share of associates' and joint ventures' loss	-	(4,186)	-	-	(4,186)
(Loss)/gain on disposal of property, plant and equipment and intangible assets	(10,053)	22,526	-	-	12,473
Net other operating income	4,298	2,316	-	(5,897)	717
Profit from operations	541,016	666,767	-	4,321	1,212,104
Impairment of non-current assets	(217,564)	(24,150)	-	-	(241,714)
Net other non-operating expenses	(12,142)	(58,091)	-	-	(70,233)
Profit before financing and taxation	311,310	584,526	-	4,321	900,157
Interest income	36,086	73,984	-	(80,119)	29,951
Interest expense	(46,168)	(286,979)	-	57,737	(275,410)
(Loss)/gain on remeasurement and disposal	(773)	246,501	-	(255,354)	(9,626)
Other finance costs	(198)	(2,830)	-	-	(3,028)
Foreign exchange gain/(loss), net	7,823	(317,960)	-	-	(310,137)
Profit before income tax	308,080	297,242	-	(273,415)	331,907
Income tax expense	(26,051)	(45,181)	-	864	(70,368)
Profit from continuing operations	282,029	252,061	-	(272,551)	261,539
Loss from discontinued operation	-	-	(195,930)	26,581	(169,349)
Profit/(loss) for the period	282,029	252,061	(195,930)	(245,970)	92,190
Additional information:					
depreciation and amortization expense	248,200	362,050	181,000	(3,019)	788,231
capital expenditures	552,840	606,852	100,903	3,511	1,264,106
intersegment revenue (incl. in revenue from related parties)	1,181,466	152,010	-	(1,333,476)	-

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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:

	December 31,		
	2015	2014	2013
Russian Federation	2,746,730	3,520,662	5,916,835
Europe and CIS	89,173	100,126	118,791
Africa	-	97,457	203,229
North America	-	-	2,847,254
	<u>2,835,903</u>	<u>3,718,245</u>	<u>9,086,109</u>

The locations are primarily represented by the following countries:

- In Europe and CIS: Latvia, Italy and Ukraine;
- In Africa: Liberia;
- In North America: the USA.

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30. Financial instruments

The Group's risk management policies are established to identify and analyze 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:

	December 31, 2015		
	Market value	Book value	Difference
Eurobonds 2016	261,190	255,118	6,072
Eurobonds 2017	657,336	620,714	36,622
Eurobonds 2018	570,606	570,600	6
Eurobonds 2022	647,319	675,981	(28,662)
Convertible bonds 2017	60,971	61,800	(829)
	<u>2,197,422</u>	<u>2,184,213</u>	<u>13,209</u>
	December 31, 2014		
	Market value	Book value	Difference
Eurobonds 2016	374,248	391,838	(17,590)
Eurobonds 2017	642,133	705,486	(63,353)
Eurobonds 2018	492,350	572,500	(80,150)
Eurobonds 2022	557,831	697,289	(139,458)
Convertible bonds 2017	427,105	451,800	(24,695)
Bank financing	542,236	598,182	(55,946)
	<u>3,035,903</u>	<u>3,417,095</u>	<u>(381,192)</u>
	December 31, 2013		
	Market value	Book value	Difference
Eurobonds 2014	384,799	375,000	9,799
Eurobonds 2016	533,270	500,000	33,270
Eurobonds 2017	1,079,640	1,000,000	79,640
Eurobonds 2018	593,790	600,000	(6,210)
Eurobonds 2022	727,148	750,000	(22,852)
Convertible bonds 2017	476,344	475,000	1,344
Severstal Columbus bonds	557,813	525,000	32,813
	<u>4,352,804</u>	<u>4,225,000</u>	<u>127,804</u>

The above amounts exclude accrued interest. The market value of the Group's bonds was determined based on London Stock Exchange quotations.

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Notes to the consolidated financial statements for the years ended December 31, 2015, 2014 and 2013 (Amounts expressed in thousands 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 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 minimize credit risk of the counterparty banks, the Group has a centralized 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:

	December 31,		
	2015	2014	2013
Cash and cash equivalents	1,647,168	1,896,675	1,035,948
Loans and receivables	506,842	777,445	1,613,025
Available-for-sale financial assets	15,151	37,591	46,075
Restricted financial assets	1,554	-	40,592
Held-to-maturity securities	1,046	10,871	51,924
	<u>2,171,761</u>	<u>2,722,582</u>	<u>2,787,564</u>

The maximum exposure to credit risk for trade receivables, including trade receivables from related parties by geographic region, was:

	December 31,		
	2015	2014	2013
Russian Federation	299,914	413,021	674,788
Europe	75,081	148,444	264,710
The Middle East	45,520	21,447	17,684
CIS	11,041	16,410	43,262
North America	6,300	39,289	345,743
China and Central Asia	1,435	1,782	15,639
Africa	987	5,362	519
Central and South America	541	5,420	5,439
South-East Asia	473	10,507	4,729
	<u>441,292</u>	<u>661,682</u>	<u>1,372,513</u>

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The maximum exposure to credit risk for trade receivables, including trade receivables from related parties by type of customer, was:

	December 31,		
	2015	2014	2013
Industrial consumers	355,001	477,341	954,456
Wholesale customers	66,638	132,482	332,060
Retail customers	1,359	28,027	14,821
Other customers	18,294	23,832	71,176
	<u>441,292</u>	<u>661,682</u>	<u>1,372,513</u>

Impairment losses

The ageing of trade receivables, including trade receivables from related parties, was:

	December 31,					
	2015		2014		2013	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
Not past due	404,795	(37,241)	602,859	(38,225)	1,237,219	(40,821)
Past due less than 30 days	55,880	(47)	76,917	(278)	122,122	(20)
Past due 31-90 days	18,491	(4,808)	21,202	(5,755)	50,111	(5,428)
Past due 91-180 days	3,788	(2,920)	4,451	(2,790)	10,400	(4,104)
Past due 181-365 days	15,800	(13,867)	3,814	(2,440)	5,095	(2,912)
More than one year	14,775	(13,354)	12,542	(10,615)	37,814	(36,963)
	<u>513,529</u>	<u>(72,237)</u>	<u>721,785</u>	<u>(60,103)</u>	<u>1,462,761</u>	<u>(90,248)</u>

The impairment allowance at December 31, 2015 included an impairment allowance in respect of trade receivables from related parties for US\$ nil (December 31, 2014: US\$ nil; December 31, 2013: US\$ 2.0 million).

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 December 31,		
	2015	2014	2013
Opening balance	(60,103)	(90,248)	(105,045)
Impairment loss recognized	(31,569)	(27,778)	(25,780)
Impairment loss reversed	8,417	39,748	37,581
Translation to presentation currency	11,018	18,175	2,996
Closing balance	<u>(72,237)</u>	<u>(60,103)</u>	<u>(90,248)</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.

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Concentration of credit risk

2015

The Group has a concentration of cash and short-term bank deposits with Sberbank of Russia, AO Bank VTB and AO Metcombank that at December 31, 2015 represented US\$ 1,106.7 million, US\$ 198.5 million and US\$ 162.9 million, respectively.

2014

The Group has a concentration of cash and short-term bank deposits with Sberbank of Russia and OAO Metcombank that at December 31, 2014 represented US\$ 1,448.3 million and US\$ 309.1 million, respectively.

2013

The Group has a concentration of cash and short-term bank deposits with OAO Metcombank, OAO Gazprombank, OAO Bank VTB and AB Russia that at December 31, 2013 represented US\$ 373.1 million, US\$ 289.4 million, US\$ 144.3 million and US\$ 100.7 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 minimize borrowing costs and to achieve an optimal debt profile.

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The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

December 31, 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	2,452,203	(2,866,808)	(599,636)	(795,507)	(708,774)	(762,891)
Lease liabilities	144	(145)	(145)	-	-	-
Trade and other payables	447,617	(447,617)	(447,560)	(57)	-	-
Derivative financial liabilities	5,100	(5,100)	(5,100)	-	-	-
	<u>2,905,064</u>	<u>(3,319,670)</u>	<u>(1,052,441)</u>	<u>(795,564)</u>	<u>(708,774)</u>	<u>(762,891)</u>

December 31, 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	3,428,863	(3,988,270)	(910,289)	(748,473)	(1,502,831)	(826,677)
Lease liabilities	383	(393)	(211)	(182)	-	-
Trade and other payables	538,514	(538,514)	(538,479)	(35)	-	-
Derivative financial liabilities	16,574	(16,574)	-	(16,574)	-	-
	<u>3,984,334</u>	<u>(4,543,751)</u>	<u>(1,448,979)</u>	<u>(765,264)</u>	<u>(1,502,831)</u>	<u>(826,677)</u>

December 31, 2013

	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	4,754,094	(6,015,345)	(820,905)	(283,484)	(3,977,556)	(933,400)
Lease liabilities	2,110	(2,294)	(682)	(647)	(965)	-
Trade and other payables	1,280,784	(1,280,957)	(1,258,682)	(20,055)	(2,220)	-
	<u>6,036,988</u>	<u>(7,298,596)</u>	<u>(2,080,269)</u>	<u>(304,186)</u>	<u>(3,980,741)</u>	<u>(933,400)</u>

2015

At December 31, 2015, the Group has a concentration of bank financing with Sberbank of Russia of US\$ 205.8 million.

2014

At December 31, 2014, the Group has a concentration of bank financing with Sberbank of Russia, Citibank and ING Bank (Evraziya) of US\$ 266.6 million, US\$ 100.0 million and US\$ 100.0 million, respectively.

2013

At December 31, 2013, the Group has a concentration of bank financing with European Bank for Reconstruction and Development and Bank of America N.A. of US\$ 222.3 million and US\$ 226.2 million, respectively.

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Covenant compliance risk

The Group actively monitors compliance with all debt covenants and, in case of the risk of default, approaches the lenders to amend the respective facility agreement, before any event of default occurs.

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:

	December 31, 2015					
	Euro	USD	GBP	RUB	CHF	PLN
Loans and receivables	207,581	149,240	14	39	740	27
Cash and cash equivalents	42,444	1,278,160	-	40	489	109
Restricted financial assets	1,554	-	-	-	-	-
Debt finance	(1,899,887)	(2,484,525)	-	-	-	-
Trade and other payables	(79,060)	(59,554)	(191)	(1,009)	(331)	(2)
Net exposure	<u>(1,727,368)</u>	<u>(1,116,679)</u>	<u>(177)</u>	<u>(930)</u>	<u>898</u>	<u>134</u>

	December 31, 2014					
	Euro	USD	GBP	RUB	CHF	PLN
Loans and receivables	211,646	618,602	12	142	-	2,315
Cash and cash equivalents	62,362	1,006,612	-	601	1,028	20
Debt finance	(1,681,022)	(4,008,398)	-	(3,728)	-	-
Trade and other payables	(107,411)	(87,750)	(250)	(144)	(73)	-
Derivative financial liabilities	-	(16,574)	-	-	-	-
Net exposure	<u>(1,514,425)</u>	<u>(2,487,508)</u>	<u>(238)</u>	<u>(3,129)</u>	<u>955</u>	<u>2,335</u>

	December 31, 2013				
	Euro	USD	GBP	RUB	CHF
Held-to-maturity securities	-	24,621	-	-	-
Loans and receivables	149,843	950,629	41	77,039	-
Cash and cash equivalents	98,593	507,672	-	2,633	-
Debt finance	(2,121,497)	(4,259,482)	-	(19,974)	-
Trade and other payables	(169,192)	(133,261)	(177)	(203)	(4,342)
Net exposure	<u>(2,042,253)</u>	<u>(2,909,821)</u>	<u>(136)</u>	<u>59,495</u>	<u>(4,342)</u>

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Sensitivity analysis

A 10 percent strengthening of the following currencies against the functional currency at December 31, 2015 would have increased/(decreased) profit and equity by the amounts shown below.

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 2014 and 2013.

	Year ended December 31,		
	2015	2014	2013
Net profit			
Euro	(137,320)	(118,622)	(179,229)
USD	(88,771)	(198,126)	(229,096)
GBP	(15)	(19)	(11)
CHF	82	87	(347)
RUB	(76)	(319)	5,919
PLN	11	198	-

A 10 percent weakening of these currencies against the functional currency at December 31, 2015 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. Other part has variable rate which has 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:

	December 31,		
	2015	2014	2013
Variable rate instruments			
Financial assets	7,103	25,167	45,828
Financial liabilities	(28,160)	(331,640)	(494,515)
	<u>(21,057)</u>	<u>(306,473)</u>	<u>(448,687)</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.

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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 2014 and 2013.

	Net profit	
	100 bp increase	100 bp decrease
December 31, 2015		
Financial assets	62	(62)
Financial liabilities	(212)	212
Cash flow sensitivity (net)	<u>(150)</u>	<u>150</u>
December 31, 2014		
Financial assets	220	(220)
Financial liabilities	(2,641)	2,641
Cash flow sensitivity (net)	<u>(2,421)</u>	<u>2,421</u>
December 31, 2013		
Financial assets	424	(424)
Financial liabilities	(4,381)	4,381
Cash flow sensitivity (net)	<u>(3,957)</u>	<u>3,957</u>

Fair value hierarchy

The table below analyzes financial instruments carried at fair value, except financial instruments measured at amortized cost, by valuation method. The levels in the fair value hierarchy into which the fair value measurements are categorized were disclosed in accordance with IFRS.

	Level 1	Level 2	Level 3	Total
Balance at 31 December 2015	-	(5,100)	15,151	10,051
Available-for-sale financial assets	-	-	15,151	15,151
Derivative financial liabilities	-	(5,100)	-	(5,100)
Balance at 31 December 2014	-	(16,574)	37,591	21,017
Available-for-sale financial assets	-	-	37,591	37,591
Derivative financial liabilities	-	(16,574)	-	(16,574)
Balance at 31 December 2013	1,276	-	44,799	46,075
Available-for-sale financial assets	1,276	-	44,799	46,075

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.

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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 at 31 December 2015	<u>15,151</u>
Purchases of financial instruments	2,095
Impairment (Note 6)	(20,803)
Other reclassifications	(3,732)
Balance at 31 December 2014	<u>37,591</u>
Sales of financial instruments	(582)
Other reclassifications	(6,626)
Balance at 31 December 2013	<u>44,799</u>
Purchases of financial instruments	160
Reclassification from investments in associates (Note 28)	22,941
Other reclassifications	(12,064)
Balance at 31 December 2012	<u>33,762</u>

31. Commitments and contingencies

a. For litigation, tax and other liabilities

The taxation system and regulatory environment of the Russian Federation are characterized 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 January 1, 2015. In particular, those changes are aimed at regulating transactions with offshore 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\$ 43.5 million (December 31, 2014: US\$ 2.0 million; December 31, 2013: US\$ 19.6 million). Management does not agree with the tax authorities' claims and believes that the Group has complied in all material respects with all existing, relevant legislation. Management is unable to assess the ultimate outcome of the claims and the outflow of financial resources to settle such claims, if any. Management believes that it has made adequate provision for other probable tax claims.

As of December, 31 2015 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\$ 141.8 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

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financial resources to settle the claim, if any, because it depends on multiple circumstances concerning the facts and the applicability and interpretation of the relevant statutes. In case the Group has to make any payment, the relevant amount paid will be included into Lucchini's creditors' list and will be settled in whole or part in course of the bankruptcy procedure.

As of December, 31 2015, claims related to utilities' supply agreements and factoring agreements made by the counterparties to certain Group's entities amounted to US\$ nil (December 31, 2014 approximately US\$ 24.4 million and US\$ 15.8 million, respectively, December 31, 2013: US\$ 31.2 million, US\$ 43.8 million and US\$ 26.9 million related to land rent agreements, utilities supply agreements and post-retirement obligation, 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\$ 188.7 million (December 31, 2014: US\$ 244.0 million; December 31, 2013: US\$ 488.3 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\$ 2.8 million (December 31, 2014: US\$ 15.4 million; December 31, 2013: US\$ 21.3 million) of guarantees issued, including guarantees issued for related parties, of US\$ 1.0 million (December 31, 2014: US\$ 3.9 million; December 31, 2013: US\$ 8.5 million).