

# **PAO Severstal and subsidiaries**

Consolidated interim condensed financial statements  
for the three months ended 31 March 2016 and 2015

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**Consolidated interim condensed financial statements**  
**Three months ended 31 March 2016 and 2015**

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## **Auditors' Report on Review of Consolidated Interim Condensed Financial Statements**

To the Shareholders and Board of Directors  
PAO Severstal

### *Introduction*

We have reviewed the accompanying consolidated interim condensed statement of financial position of PAO Severstal (the "Company") and its subsidiaries (the "Group") as at 31 March 2016, and the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 2016 and 2015, and notes to the consolidated interim condensed financial statements (the "consolidated interim condensed financial statements"). Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Entity: PAO Severstal

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

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

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

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

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

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

Member of the Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at 31 March 2016 and for the three-month periods ended 31 March 2016 and 2015 are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Kiseleva L.R.

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

JSC "KPMG"

20 April 2016

Moscow, Russian Federation

## PAO Severstal and subsidiaries

### Consolidated interim condensed income statements Three months ended 31 March 2016 and 2015

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

	<b>Note</b>	<b>Three months ended 31 March</b>	
		<b>2016</b>	<b>2015</b>
		<b>(unaudited)</b>	<b>(unaudited)*</b>
<b>Revenue</b>			
Revenue - third parties		1,076	1,515
Revenue - related parties	5	21	16
	2	1,097	1,531
Cost of sales		(715)	(824)
<b>Gross profit</b>		382	707
General and administrative expenses		(77)	(77)
Distribution expenses		(103)	(125)
Other taxes and contributions		(13)	(16)
Share of associates' and joint ventures' profit		5	5
Loss on disposal of property, plant and equipment and intangible assets		(4)	(1)
Net other operating income		6	2
<b>Profit from operations</b>		196	495
Impairment of non-current assets		(4)	-
Net other non-operating expenses		(9)	(14)
<b>Profit before financing and taxation</b>		183	481
Finance costs, net	3	(24)	(11)
Foreign exchange gain/(loss), net	4	175	(32)
<b>Profit before income tax</b>		334	438
Income tax expense		(64)	(102)
<b>Profit from continuing operations</b>		270	336
Loss from discontinued operation		-	(1)
<b>Profit for the period</b>		270	335
Attributable to:			
shareholders of PAO Severstal		270	335
Basic and diluted weighted average number of shares outstanding during the period (millions of shares)		810.6	810.6
Basic and diluted earnings per share (US dollars)		0.33	0.41
Basic and diluted earnings per share - continuing operations (US dollars)		0.33	0.41

\*These amounts reflect adjustments made in connection with the changes in the unrealised gain in inventory calculation methodology and in presentation as described in Note 1 to these consolidated interim condensed financial statements.

These consolidated interim condensed financial statements were approved by the Board of Directors on 20 April 2016.

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

## PAO Severstal and subsidiaries

### Consolidated interim condensed statements of comprehensive income Three months ended 31 March 2016 and 2015

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

	Three months ended 31 March	
	2016 (unaudited)	2015 (unaudited)*
<b>Profit for the period</b>	270	335
<b>Other comprehensive income/(loss):</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Actuarial losses	(2)	(2)
Translation to presentation currency	-	37
<b>Total items that will not be reclassified to profit or loss</b>	(2)	35
<b>Items that may be reclassified subsequently to profit or loss</b>		
Translation to presentation currency - foreign operations	71	(232)
<b>Total items that may be reclassified subsequently to profit or loss</b>	71	(232)
<b>Other comprehensive income/(loss) for the period</b>	69	(197)
<b>Total comprehensive income for the period</b>	339	138
Attributable to:		
shareholders of PAO Severstal	339	138

\*These amounts reflect adjustments made in connection with the changes in the unrealised gain in inventory calculation methodology and in presentation as described in Note 1 to these consolidated interim condensed financial statements.

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

# PAO Severstal and subsidiaries

## Consolidated interim condensed statements of financial position 31 March 2016 and 31 December 2015

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

	Note	31 March 2016 (unaudited)	31 December 2015
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents		1,547	1,647
Short-term financial investments		50	11
Trade accounts receivable		459	432
Accounts receivable from related parties	6	14	10
Restricted financial assets		-	2
Inventories		739	650
VAT recoverable		73	58
Income tax recoverable		49	36
Other current assets		90	91
<b>Total current assets</b>		3,021	2,937
<b>Non-current assets:</b>			
Long-term financial investments		49	53
Investments in associates and joint ventures		25	26
Property, plant and equipment		2,815	2,611
Intangible assets		242	225
Deferred tax assets		6	7
Other non-current assets		7	8
<b>Total non-current assets</b>		3,144	2,930
<b>Total assets</b>		6,165	5,867
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Trade accounts payable		372	421
Accounts payable to related parties	6	10	9
Short-term debt finance		582	507
Income taxes payable		3	6
Other taxes and social security payable		70	77
Dividends payable		2	2
Other current liabilities		246	275
<b>Total current liabilities</b>		1,285	1,297
<b>Non-current liabilities:</b>			
Long-term debt finance		1,852	1,945
Deferred tax liabilities		214	141
Retirement benefit liabilities		58	53
Other non-current liabilities		149	163
<b>Total non-current liabilities</b>		2,273	2,302
<b>Equity:</b>			
Share capital		2,753	2,753
Treasury shares		(236)	(236)
Additional capital		296	296
Translation reserve		(2,247)	(2,318)
Retained earnings		2,026	1,758
<b>Total equity attributable to shareholders of PAO Severstal</b>		2,592	2,253
<b>Non-controlling interests</b>		15	15
<b>Total equity</b>		2,607	2,268
<b>Total equity and liabilities</b>		6,165	5,867

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

# PAO Severstal and subsidiaries

## Consolidated interim condensed statements of cash flows Three months ended 31 March 2016 and 2015

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

	Three months ended 31 March	
	2016 (unaudited)	2015 (unaudited)*
<b>Operating activities:</b>		
Profit before financing and taxation	183	481
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortisation	74	87
Impairment of non-current assets	4	-
Movements in provision for inventories, receivables and other provisions	19	13
Loss on disposal of property, plant and equipment and intangible assets	4	1
Share of associates' and joint ventures' results less dividends from associates and joint ventures	(5)	(5)
Changes in operating assets and liabilities:		
Trade accounts receivable	(18)	(66)
Amounts receivable from related parties	(2)	1
VAT recoverable	(11)	(18)
Inventories	(38)	(63)
Trade accounts payable	(34)	(68)
Amounts payable to related parties	-	(4)
Other taxes and social security payable	(8)	16
Other non-current liabilities	(15)	(1)
Net other changes in operating assets and liabilities	(42)	(51)
<b>Cash generated from operations</b>	<b>111</b>	<b>323</b>
Interest paid	(31)	(42)
Income tax paid	(14)	(4)
Net cash from operating activities - continuing operations	66	277
Net cash used in operating activities - discontinued operation	-	(14)
<b>Net cash from operating activities</b>	<b>66</b>	<b>263</b>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(115)	(99)
Additions to intangible assets	(4)	(4)
Additions to financial investments	(38)	(2)
Proceeds from disposal of property, plant and equipment	4	2
Proceeds from disposal of financial investments	-	2
Interest received	17	33
<b>Net cash used in investing activities</b>	<b>(136)</b>	<b>(68)</b>
<b>Financing activities:</b>		
Proceeds from debt finance	50	112
Repayments of debt finance **	(96)	(666)
<b>Net cash used in financing activities</b>	<b>(46)</b>	<b>(554)</b>
Effect of exchange rates on cash and cash equivalents	16	(16)
<b>Net decrease in cash and cash equivalents</b>	<b>(100)</b>	<b>(375)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>1,647</b>	<b>1,897</b>
<b>Cash and cash equivalents at end of the period</b>	<b>1,547</b>	<b>1,522</b>

\*These amounts reflect adjustments made in connection with the changes in the unrealised gain in inventory calculation methodology and in presentation as described in Note 1 to these consolidated interim condensed financial statements.

\*\*These amounts include repurchases of bonds of US\$ 91 million for the three months ended 31 March 2016 and repurchases of bonds of US\$ 221 million for the three months ended 31 March 2015.

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



## PAO Severstal and subsidiaries

### Consolidated interim condensed statements of changes in equity

**Three months ended 31 March 2016 and 2015**

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

	Attributable to shareholders of PAO Severstal					Non- controlling interests	Total	
	Share capital	Treasury shares	Additional capital	Translation reserve	Retained earnings*			Total
Balances at 31 December 2014	2,753	(236)	313	(1,974)	1,954	2,810	17	2,827
Profit for the period (unaudited)	-	-	-	-	335	335	-	335
Translation to presentation currency (unaudited)	-	-	-	(195)	-	(195)	-	(195)
Other comprehensive loss (unaudited)	-	-	-	-	(2)	(2)	-	(2)
Total comprehensive (loss)/income for the period (unaudited)				(195)	333	138	-	138
Balances at 31 March 2015 (unaudited)	2,753	(236)	313	(2,169)	2,287	2,948	17	2,965
Balances at 31 December 2015	2,753	(236)	296	(2,318)	1,758	2,253	15	2,268
Profit for the period (unaudited)	-	-	-	-	270	270	-	270
Translation to presentation currency (unaudited)	-	-	-	71	-	71	-	71
Other comprehensive loss (unaudited)	-	-	-	-	(2)	(2)	-	(2)
Total comprehensive income for the period (unaudited)				71	268	339	-	339
Balances at 31 March 2016 (unaudited)	2,753	(236)	296	(2,247)	2,026	2,592	15	2,607

\*These amounts reflect adjustments made in connection with the changes in the unrealised gain in inventory calculation methodology and in presentation as described in Note 1 to these consolidated interim condensed financial statements.

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

# PAO Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Three months ended 31 March 2016 and 2015

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

### 1. Accounting policies and estimates

These consolidated interim condensed financial statements of PAO Severstal and subsidiaries ('the Group') have been prepared in accordance with International Financial Reporting Standards ('IFRS'), IAS 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board.

These consolidated interim condensed financial statements were presented in millions of US dollars, while previously were presented in thousands of US dollars.

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

	31 March 2016	Three months ended 31 March 2016	31 December 2015	31 March 2015	Three months ended 31 March 2015
USD/RUB	67.6076	74.5898	72.8827	58.4643	62.1070
EUR/USD	1.1386	1.1024	1.0887	1.0758	1.1266

### *Adoption of new and amended Standards*

The accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2015, except that the Group has adopted those new and amended Standards that are mandatory for financial annual periods beginning on 1 January 2016.

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

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

# PAO Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Three months ended 31 March 2016 and 2015

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

### *New accounting pronouncements*

A number of new Standards and amendments to Standards were not yet effective for the three months ended 31 March 2016, and have not been applied in these consolidated interim condensed financial statements.

Standards	Effective for annual periods beginning on or after
IAS 7 (Amended) "Statement of Cash Flows"	1 January 2017
IAS 12 (Amended) "Income Taxes"	1 January 2017
IFRS 9 (Amended) "Financial Instruments"	1 January 2018
IFRS 15 "Revenue from Contracts with Customers"	1 January 2018
IFRS 16 "Leases"	1 January 2019

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

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

### *Restatements*

As of 30 June 2015, the Group changed its methodology for calculating unrealised gain in inventory.

Accordingly the following adjustments were made to the prior period:

	Three months ended 31 March 2015 (unaudited)
Increase in cost of sales	(7)
Decrease in profit for the period	(7)
	31 December 2014
Decrease in retained earnings	(10)

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

Accordingly the following adjustments were made to the prior period:

	Three months ended 31 March 2015 (unaudited)
Increase in cost of sales	(5)
Decrease in distribution expenses	5

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Three months ended 31 March 2016 and 2015

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

#### 2. Revenue

Revenue by product was as follows:

	<b>Three months ended 31 March</b>	
	<b>2016</b>	<b>2015</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Hot-rolled strip and plate	305	459
Large diameter pipes	120	145
Shipping and handling costs billed to customers	96	112
Metalware products	95	113
Other tubes and pipes, formed shapes	75	95
Cold-rolled sheet	74	135
Long products	74	123
Galvanized and other metallic coated sheet	52	77
Colour-coated sheet	49	62
Pellets and iron ore	46	81
Coal and coking coal concentrate	39	34
Semi-finished products	29	40
Scrap	3	-
Others	40	55
	<u>1,097</u>	<u>1,531</u>

Revenue by delivery destination was as follows:

	<b>Three months ended 31 March</b>	
	<b>2016</b>	<b>2015</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Russian Federation	695	939
Europe	208	288
CIS	66	120
The Middle East	34	58
South-East Asia	33	8
China and Central Asia	30	35
Africa	17	30
Central and South America	13	45
North America	1	8
	<u>1,097</u>	<u>1,531</u>

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Three months ended 31 March 2016 and 2015

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

#### 3. Finance costs, net

	Three months ended 31 March	
	2016	2015
	(unaudited)	(unaudited)
Interest expense	(41)	(50)
Interest income	16	32
Gain on remeasurement and disposal of financial investments	2	9
Other finance costs	(1)	(2)
	(24)	(11)

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

	Three months ended 31 March	
	2016	2015
	(unaudited)	(unaudited)
Foreign exchange gain on cash and cash equivalents and debt finance	183	12
Foreign exchange loss on other assets and liabilities	(8)	(44)
	175	(32)

#### 5. Related party transactions

	Three months ended 31 March	
	2016	2015
	(unaudited)	(unaudited)
Revenue - related parties:		
Revenue - associates	6	7
Revenue - joint ventures	10	4
Revenue - other related parties	5	5
Interest income from related parties:		
Interest income from joint ventures	1	1
Interest income from other related parties	3	7
	25	24
Purchases from related parties:		
Purchases from associates:		
Non-capital expenditures	13	16
Purchases from other related parties:		
Non-capital expenditures	5	6
	18	22

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Three months ended 31 March 2016 and 2015

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

#### 6. Related party balances

	<b>31 March 2016</b>	<b>31 December</b>
	<b>(unaudited)</b>	<b>2015</b>
<b>Joint ventures' balances</b>		
Short-term trade accounts receivable	4	3
Short-term loans	8	2
Long-term loans	34	38
<b>Associates' balances</b>		
Short-term trade accounts receivable	3	2
Short-term loans	5	5
Short-term trade accounts payable	6	5
<b>Other related party balances</b>		
Cash and cash equivalents at related party bank	171	168
Accounts receivable from other related parties:		
Short-term trade accounts receivable	6	4
Short-term other receivables	1	1
Long-term other receivables	1	1
	8	6
Accounts payable to other related parties:		
Short-term trade accounts payable	1	1
Advances received	1	1
Short-term other accounts payable	2	2
Long-term other accounts payable	5	5
	9	9

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

#### 7. Carrying amounts and fair values

As of 31 March 2016, the fair value of the Group's financial liabilities was greater than their carrying amount by approximately US\$ 52 million (31 December 2015: US\$ 13 million).

As of 31 March 2016, short-term financial investments included held for trading financial assets which value was determined with reference to quoted market prices (level 1 of the fair value hierarchy). Carrying value of other Group's financial assets does not differ significantly from its fair value.

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Three months ended 31 March 2016 and 2015

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

#### 8. Segment information

As of 31 March 2016, the Group had two reportable segments: Severstal Resources and Severstal Russian Steel.

Severstal Resources has its extraction facilities in the Russian Federation producing iron ore and coal.

Severstal Russian Steel produces a wide range of products, including hot-rolled sheets, profiles, large-diameter pipes and cold-rolled coated sheets encompassing special-grade sheets for the automotive industry, hot-rolled plates, metalware and long products in steel production facilities located in the Russian Federation. It sells steel products to the domestic Russian market, serving the needs of the Russian automotive, construction, shipbuilding, oil and gas, engineering and other industries, as well as the international market.

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

	<b>Three months ended 31 March</b>	
	<b>2016</b>	<b>2015</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Revenue</b>		
Severstal Resources	229	289
Severstal Russian Steel	998	1,396
Intersegment transactions	(130)	(154)
	<u>1,097</u>	<u>1,531</u>
<b>Profit before financing and taxation</b>		
Severstal Resources	26	33
Severstal Russian Steel	161	460
Intersegment transactions	(4)	(12)
	<u>183</u>	<u>481</u>

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

	<b>31 March</b>	<b>31 December</b>
	<b>2016 (unaudited)</b>	<b>2015</b>
<b>Total assets</b>		
Severstal Resources	3,543	3,335
Severstal Russian Steel	7,188	6,833
Intersegment balances	(4,566)	(4,301)
	<u>6,165</u>	<u>5,867</u>

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

	<b>31 March</b>	<b>31 December</b>
	<b>2016 (unaudited)</b>	<b>2015</b>
<b>Total liabilities</b>		
Severstal Resources	1,031	861
Severstal Russian Steel	3,615	3,563
Intersegment balances	(1,088)	(825)
	<u>3,558</u>	<u>3,599</u>

# PAO Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Three months ended 31 March 2016 and 2015

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

In February 2016, an explosion occurred at the Vorkutaugol's Severnaya mine which is included in Severstal Resources segment. By the reporting date, the Group has already paid a compensation of US\$ 2 million to the injured workers and the relatives of those killed. An impairment loss of US\$ 2 million was recognised in relation to property, plant and equipment in that part of the mine where the explosion occurred. All other four mines and one open pit of Vorkutaugol are operating as usual. Management is in the process of analysing the incident's implications and potential activities to recommence operation of the mine.

### **9. Contingencies for litigation, tax and other liabilities**

The taxation system and regulatory environment of the Russian Federation are characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations between the differing regulatory authorities and jurisdictions, who are empowered to impose significant fines, penalties and interest charges. Events during recent years suggest that the regulatory authorities within this country are adopting a more assertive stance regarding the interpretation and enforcement of legislation. This situation creates substantial tax and regulatory risks. In addition, a number of new laws introducing changes to Russian tax legislation were adopted in the fourth quarter of 2014 and were effective from 1 January 2015. In particular, those changes are aimed at regulating transactions with foreign companies and their activities, including the withholding of dividends tax, which may potentially impact the Group's tax position and create additional tax risks going forward. At the reporting date, the actual and potential contingent claims for taxes, fines and penalties made by the Russian tax authorities to certain Group's entities amounted to approximately US\$ 43 million (31 December 2015: US\$ 44 million). Management does not agree with the tax authorities' claims and believes that the Group has complied in all material respects with all existing, relevant legislation. Management is unable to assess the ultimate outcome of the claims and the outflow of financial resources to settle such claims, if any. Management believes that it has made adequate provision for other probable tax claims.

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

### **10. Capital commitments**

As of 31 March 2016, the Group had contractual capital commitments of US\$ 212 million (31 December 2015: US\$ 189 million).



## **PAO Severstal and subsidiaries**

### **Notes to the consolidated interim condensed financial statements Three months ended 31 March 2016 and 2015**

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

#### **11. Dividends**

On 2 February 2016, the Board of Directors recommended an annual dividend of RUB 20.27 per share and per GDR for the year ended 31 December 2015 subject to approval at the Annual General Meeting of Shareholders in June 2016.