

IMPORTANT NOTICE

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

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

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

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

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

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

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

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – If the Final Terms in respect of any Notes include a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (*EEA*). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, *MiFID II*); or (ii) a customer within the meaning of Directive 2016/97/EU (the *Insurance Distribution Directive*), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the *PRIIPs Regulation*) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II product governance / target market – The Final Terms in respect of any Notes will include a legend entitled “MiFID II product governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (the *Distributor*) should take into consideration the target market assessment; however, a distributor subject to

MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

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

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



PAO SEVERSTAL

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

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

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

PAO SEVERSTAL

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

Notes will be issued in Series (as defined in “*Overview of the Programme*”) and the sole purpose of issuing each Series will be to finance a loan (each a **Loan**) to PAO Severstal (the **Company** or the **Borrower**) as borrower, on the terms of an amended and restated facility agreement between the Issuer and the Company dated 3 September 2019 (the **Facility Agreement**), as amended and supplemented by a loan supplement to be entered into between the Issuer and the Company in respect of each Series on each date on which the Notes of that Series are issued (each a **Loan Supplement** and, together with the Facility Agreement, a **Loan Agreement**). Subject as provided in the Trust Deed (as defined in “*Overview of the Programme*”) the Issuer will (a) charge, in favour of Citibank, N.A., London Branch as trustee (the **Trustee**), by way of a first fixed charge, as security for its payment obligations in respect of each Series of Notes and under the Trust Deed, certain of its rights and interests under the relevant Loan Agreement and the relevant Account (as defined in the relevant Loan Supplement), but excluding any Reserved Rights (as defined in the “*Terms and Conditions of the Notes*”) and (b) assign, in favour of the Trustee, certain of its other rights under the Loan Agreement but excluding any Reserved Rights, in each case for the benefit of the holders of the corresponding Series of Notes (the **Noteholders**), all as more fully described in “*Overview of the Programme*”.

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

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

Arranger and Permanent Dealer

Citigroup

The date of this Base Prospectus is 3 September 2019

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

This document comprises a base prospectus (the **Base Prospectus**), for the purpose of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 (the **Prospectus Regulation**). This Base Prospectus has been approved by the Central Bank of Ireland, as competent authority under Regulation (EU) 2017/1129. The Central Bank of Ireland only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by Regulation (EU) 2017/1129. Such approval should not be considered as an endorsement of the quality of the securities that are subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes. Such approval relates only to the Notes that are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU (as amended, **MiFID II**) or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to The Irish Stock Exchange plc trading as Euronext Dublin (**Euronext Dublin**) for the Notes to be admitted to the official list (the **Official List**) and trading on its regulated market (the **Regulated Market**). References in this Base Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to trading on the Regulated Market. The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. The relevant Final Terms or Series Prospectus in respect of the issue of any Notes will specify whether or not such Notes will be listed on Euronext Dublin (or any other stock exchange). The Central Bank has only approved this document in relation to Notes that are to be listed on Euronext Dublin or another regulated market in the European Economic Area.

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

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

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

IMPORTANT INFORMATION ABOUT THIS BASE PROSPECTUS

This Base Prospectus comprises a base prospectus for the purposes of Article 8 of the Prospectus Regulation. Each of the Issuer and the Company accepts responsibility for the information contained in this Base Prospectus and any applicable Final Terms or Series Prospectus in relation to the Notes issued by it. To the best of the knowledge of each of the Issuer and the Company, the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

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

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

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – If the Final Terms in respect of any Notes include a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (EEA). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or (ii) a customer within the meaning of the Directive 2016/97/EU (the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II product governance / target market – The Final Terms in respect of any Notes will include a legend entitled “MiFID II product governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

Benchmarks Regulation - Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/2011 (the **Benchmarks Regulation**). If any such reference rate does constitute such a benchmark, the Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (**ESMA**) pursuant to Article 36 (*Register of administrators and benchmarks*) of the Benchmarks Regulation. Transitional provisions in the Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the Final Terms. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the relevant Final Terms to reflect any change in the registration status of the administrator.

Amounts payable on the Notes may be calculated by reference to one of LIBOR or EURIBOR, as specified in the relevant Final Terms. As at the date of this Base Prospectus, the administrator of LIBOR, ICE Benchmark Administration Limited, is included in ESMA's register of administrators under Article 36 of the Benchmarks Regulation. As at the date of this Base Prospectus, the administrator of EURIBOR, the European Money Markets Institute, is not included in ESMA's register of administrators under Article 36 of the Benchmarks Regulation.

As far as the Company is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that the European Money Markets Institute (as administrator of EURIBOR), is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence).

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

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

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

This Base Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Company, the Group, the Trustee, the Arranger or the Dealers that any recipient of this Base Prospectus or any financial statements should purchase the Notes. None of the Issuer, the Company, the Group, the Arranger, the Dealers or the Trustee or any of their respective affiliates or agents makes any representation about the legality of the purchase of the Notes by an investor under applicable investment or similar laws. Each prospective investor is advised to consult its own counsel and business adviser as to legal, tax, business, financial and related matters concerning the purchase of the Notes. The contents of this Base Prospectus are not to be construed as legal, business or tax advice.

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

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

In connection with the offering of Notes of any Series, the Arranger, the Dealers and any of their affiliates each acting as investors for their own account may take up Notes and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references in this document to the Notes being offered, placed or repurchased should be read as including any offering, placement or repurchase of securities to the Dealers and any of their affiliates acting as investors for their own account. The Dealers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

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

The Issuer is a *société anonyme* incorporated for an unlimited duration under the laws of the Grand Duchy of Luxembourg (**Luxembourg**). The Issuer is not a subsidiary of the Company. The registered office of the Issuer is located at 14, rue Edward Steichen, L-2540 Luxembourg and its telephone number is +352422229. The Issuer is registered with the Registre de Commerce et des Sociétés à Luxembourg (the Register of Commerce and Companies in Luxembourg) under number B116975. For further information on the Issuer, see “*The Issuer*”.

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

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

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

THE NOTES MAY NOT BE A SUITABLE INVESTMENT FOR ALL INVESTORS

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

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

AVAILABLE INFORMATION

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

FORWARD-LOOKING STATEMENTS

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

ENFORCEMENT OF JUDGMENTS

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

Judgments rendered by a court in any jurisdiction outside the Russian Federation may not be enforced by courts in the Russian Federation unless there is (i) an international treaty in effect providing for the recognition and enforcement of judgments in civil cases between the Russian Federation and the jurisdiction where such judgment is rendered, and/or (ii) a federal law of the Russian Federation providing for the recognition and enforcement of foreign court judgments.

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

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

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

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

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Market and Other Statistical Data

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

- *CDU TEK*. Federal State Unitary Enterprise “Central Dispatching Department of Fuel and Energy Complex”.
- *IMC Group Consulting Ltd*. IMC Group Consulting Ltd (*IMC*) is an internationally recognised consultancy group that offers a broad spectrum of services in the environmental, mining, minerals, engineering and energy industries worldwide. IMC’s headquarters are in Icon Business Centers, New Lake Drive, Sherwood Park, Nottingham, NG15 0DT, United Kingdom. The staff of IMC consists of engineers, accountants, economists and geologists with extensive experience in the metals and mining industries.
- *IMC Montan Ltd*. IMC Montan Ltd (*IMC Montan*), which is part of IMC, is a mining consulting company with experience of assignments in nearly every type of mineral. IMC Montan works closely with many well-known companies in Russia and other CIS countries, as well as major banks and financing institutions operating in the mining sector.
- *Rosstat*. The Federal State Statistics Service of the Russian Federation.
- *Rasmin*. Rasmin is a publisher of an informational bulletin on the Russian coking coal market.
- *RudProm*. RudProm is an agency that collates statistics about iron ore producers in the former Soviet Union.
- *SRK Consulting*. SRK Consulting (UK) Ltd (*SRK Consulting*) provides a range of consulting services to the resource industry. SRK Consulting’s business address is 5th Floor, Churchill House, 17 Churchill Way, Cardiff CF10 2HH, United Kingdom. SRK Consulting employs over 70 full-time technical specialists providing experienced support for all aspects of the natural resource industry. SRK Consulting is part of the SRK Group that employs over 1,600 professional staff in 49 offices in 22 countries, offering expertise in a wide range of engineering disciplines.

- *Worldsteel*. The World Steel Association (**Worldsteel**) is one of the largest industry associations in the world, representing approximately 180 steel producers, national and regional steel industry associations, and steel research institutes. Worldsteel produces annual reports on the global steel industry.

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

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

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

Financial Information

The Group's audited consolidated financial statements as at and for the years ended 31 December 2018, 2017 and 2016 included in this Base Prospectus beginning on page F-19 and ending on page F-74, together with the notes thereto (the **Annual Financial Statements**) were prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (**IASB**), in effect at the time of preparing the Annual Financial Statements (**IFRS**).

The Group's unaudited consolidated interim condensed financial statements as at 30 June 2019 and for the six months ended 30 June 2019 and 2018 included in this Base Prospectus beginning on page F-2 and ending on page F-18 together with the notes thereto (the **Interim Financial Statements** and together with the Annual Financial Statements, the **Financial Statements**) were prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* as issued by IASB, in effect at the time of preparing these consolidated financial statements.

The Issuer's audited financial statements as at and for the years ended 31 December 2018 and 2017 included in this Base Prospectus beginning on page F-75 and ending on page F-127, together with the notes thereto (the **Issuer's Financial Statements**) were prepared in accordance with Luxembourg Law and Generally Accepted Accounting Principles ("**Luxembourg GAAP**"), in effect at the time of preparing these financial statements.

In this Base Prospectus:

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

Alternative Performance Measures (APMs)

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

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

(collectively, the *APMs*).

Adjusted EBITDA disclosed in this Base Prospectus is calculated differently from the reporting requirements of the SEC for EBITDA and equals to the Group's EBITDA in the Financial Statements.

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

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

Some of these limitations are as follows:

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

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

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

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

Mining Reserves

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

Operating Data

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

Certain Defined Terms

In this Base Prospectus:

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

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

Rounding

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

SUPPLEMENTAL BASE PROSPECTUS

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

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

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

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OVERVIEW

OVERVIEW OF THE GROUP

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

The Group is a vertically-integrated steel and steel-related mining company that sells high quality metal and mining products to customers across the world. In 2018, the Group's total output of crude steel was 12.0 million tonnes. The Group operates a full production cycle which includes iron ore, coal, scrap collection, steel mills and rolled product plants, downstream production and distribution businesses. The Group's primary production facilities are located in Russia. With a focus on high value-added products in attractive niche markets, sales of which represented 46 percent of the Group's total metal sales volume for 2018, the Group's vision is to become a leader in the global steel industry, maximise total shareholder return and be the first choice for customers, employees and partners. The Group's principal financial target is annual Adjusted EBITDA growth of 10 to 15 percent net of macroeconomic factors which it aims to achieve by focusing its capital expenditure programme on increasing Adjusted EBITDA generation, cost cutting, further synergies from vertical integration and superior customer service.

As at 31 December 2018, the Group comprised two business divisions: Severstal Russian Steel and Severstal Resources.

Severstal Russian Steel. In 2018, Severstal Russian Steel produced 16.8 percent of total Russian crude steel production, based on data from Worldsteel. According to calculations by the Group's management based on publicly released data, Severstal Russian Steel was the third largest producer of crude steel products in Russia by volume of production inside the Russian Federation in 2018. Severstal Russian Steel's revenue accounted for 90.1 percent of the Group's total revenues in 2018. Severstal Russian Steel is comprised of the following:

- **Cherepovets Steel Mill.** One of the world's largest stand-alone integrated steelworks by capacity, Cherepovets Steel Mill produced 11.13 million tonnes of crude steel in 2018. It produces a wide range of flat and long-rolled products, including hot and cold-rolled flat products, galvanised and colour-coated products and long-steel applications. Rolling Mill 5000, one of the Cherepovets Steel Mill's facilities, located in Kolpino, near Saint-Petersburg, produces thick plates for large diameter pipes, ship and bridge building and other industries.
- **Izhora Pipe Mill.** The Izhora pipe mill located in Kolpino specialises in manufacturing large diameter pipes from plate produced at the nearby Kolpino Rolling Mill 5000. It has a production capacity of up to 600,000 tonnes of pipes per year. These pipes are mainly used in oil and gas pipeline projects.
- **Mini-Mill Balakovo.** The Balakovo mini-mill is a new generation mini-mill focused on the production of long products for the construction industry. It has an annual production capacity of one million tonnes of rolled products. In July 2019, the Group sold its 100 percent stake in the Balakovo mini-mill to a third party. See "*Recent Developments*".
- **Severstal-Metiz.** Severstal-Metiz manufactures more than 55,000 product types, including low-carbon and high-carbon wire rods, nails, cold-drawn steel, steel shapes, railway fasteners, steel fibre, steel wire ropes, wire strands, steel meshes and fasteners. Severstal-Metiz comprises several subsidiaries located at the Cherepovets site in north-west Russia, the Orel site in central Russia and the Volgograd site in the Povolzhie region.
- **Downstream production assets.** The Group has various downstream production assets, including:

TPZ-Sheksna, which is designed to annually produce up to 290,000 tonnes of electric-welded pipes of various diameters, thicknesses and lengths for the construction industry, as well as square and rectangular sections with different cross-sections. The plant uses semi-finished steel products made at Cherepovets Steel Mill.

Severstal-Gonvarri-Kaluga Steel Centre, which is a joint venture between the Group and Gonvarri. It provides a wide range of longitudinal and transverse cutting services for rolled metal and blanking for further processing. It has a designed capacity of 170 million tonnes of rolled metal products per year, which are produced for the automotive, electrical and machinery industries;

Gestamp-Severstal-Kaluga Stamping Facility, which is a joint venture between the Group and Gestamp. The facility produces a full range of rolled steel products from coils to car components for international car manufacturers. It has an annual output of 13 million stamped parts and has the potential to increase output;

Severstal-SMC-Vsevolozhsk Services Centre, which is a joint venture between the Group and Mitsui. The centre provides services of longitudinal and transverse cutting of rolled metal and blanking for further stamping. In 2010, the joint venture was the first facility in Russia and the CIS countries to install a production line for welding blanks for the automotive industry. This has enabled the Group to become the first Russian metallurgical company to enter the market for ultralight steel auto bodies to cater for demand from auto producers carrying out component assembling in Russia and the CIS. The centre's capacity is 150,000 tonnes per year;

Gestamp-Severstal-Vsevolozhsk, which is a joint venture between the Group and Gestamp. It produces car components for international car manufacturers. Its annual output is approximately press and assembly 600,000 parts with the potential to increase up to two million parts;

Rutgers Severtar, which is a joint venture between the Group and Rutgers (RAIN), based at the Cherepovets Steel Mill plant that produces vacuum pitches, technical oils and naphthalene with an annual output at the facility of 300,000 tonnes; and

- *Trading companies.* Severstal Russian Steel sells its products domestically to regional and national distributors, directly to end-users, and through AO Severstal Distribution. AO Severstal Distribution has a wide network of metal centres throughout the country. Severstal Russian Steel conducts export sales principally through its subsidiaries Severstal Export GmbH, SIA Severstal Distribution and ZAO Severstal Distribution.

Severstal Resources. Severstal Resources comprises iron ore production and coal production. Severstal Resources' revenue accounted for 9.9 percent of the Group's total revenues in 2018.

- The Group's iron ore business consists of three iron ore extracting complexes: Karelsky Okatysh, which produces iron ore pellets, Olcon, which produces iron ore concentrate, and the Yakovlevskiy mine, which produces high grade iron ore with iron content in excess of 60 percent. Karelsky Okatysh, located in the Karelia Republic, had an annual iron ore output of 36.7 million tonnes in 2018 and estimated JORC iron ore reserves and resources of approximately 236.3 million tonnes and 831.3 million tonnes, respectively, as at 1 January 2019. The Group expects iron ore output at Karelsky Okatysh to increase to 38.5 million tonnes in 2021 and remain at approximately the same level until 2031. Olcon, located in the Murmansk region of Russia, had an annual iron ore output of 14.9 million tonnes in 2018 and estimated JORC iron ore reserves and resources of approximately 175.5 million tonnes and 542.3 million tonnes, respectively, as at 1 January 2019. The Group expects Olcon to operate until 2038 with its ore output remaining at approximately the same level until 2028 (but with increased iron ore concentrate production of up to 4.4 million tonnes per year compared with current annual production of 4.2 million tonnes). The Yakovlevskiy mine is located 40 km north of Belgorod. Iron ore output at the Yakovlevskiy mine in 2017 amounted to 0.9 million tonnes and increased to 1.2 million tonnes in 2018. In 2019, the Group plans to increase the iron ore output at the Yakovlevskiy mine from 1.2 to 2.2 million tonnes. Estimated JORC iron ore reserves and resources were approximately 66.3 million tonnes and 213.16 million tonnes, respectively, as at 1 January 2019.
- The Group's coal business consists of Vorkutaugol and two greenfield projects: Tsentralny field and Usinskoye-1 field. Vorkutaugol, located in the Komi Republic, produces coking and steam coal and had ROM coal output of 9.6 million tonnes in 2018 and estimated coal reserves of approximately 135.2 million tonnes as at 1 January 2019. Vorkutaugol comprises four longwall mines, an open pit mine and two washing plants. Tsentralny field is a greenfield project located in the Tyva Republic and, as at 1 January 2019, had total resources approximating 807.8 million tonnes of coking coal of A, B, C1 and C2 categories, according to the Russian Classification. Usinskoye-1 field is a greenfield project located in the Republic of Komi near the existing Vorkutaugol operation, with estimated resources of 537.3 million tonnes of coking coal of A, B and C1 categories, according to the Russian Classification, as at 1 January 2019. The Group plans to continue implementing measures aimed at increasing the operational efficiency of its mines which the Group expects will drive increases in production output. See "*Industry—Mining Industry—Russian Methodologies for Reserve and Resource Reporting*".

Please refer to page 152 of this Base Prospectus for Severstal Resources' sales volumes by product.

In 2018, Severstal Resources was the second largest producer of iron ore pellets and one of the leading producers of high quality hard coking coal in Russia, according to RudProm and Rasmin. Severstal Resources has the capacity to satisfy 120 percent of Severstal Russian Steel's iron ore and approximately 60 percent of its coking coal requirements. This forms the basis of the Group's balanced and vertically-integrated business model, with a focus on high value-added products, such as the export of high quality iron ore pellets and hard coking coal concentrate. The Group estimates that, as at 1 January 2019, it had iron ore reserves and resources of approximately 478.1 million tonnes and 6,276.76 million tonnes, respectively, based on reports issued by IMC Montan dated February 2013 and IMC dated June 2006, in each case, prepared in accordance with JORC reporting standards (for assets located in Russia) and a report issued by SRK

Consulting dated September 2012 prepared under the guidelines of Samrec (for the Putu Range deposit, Liberia) and coal reserves of approximately 135.2 million tonnes, based on reporting conducted by the Group in accordance with the Russian Classification.

COMPETITIVE STRENGTHS

The Group has developed a variety of competitive strengths, which it believes provide it with a greater resilience to the cyclical nature of the steel industry than some of its competitors and a basis on which to build its position as a global metals and mining company. The Group's distinct business model is focused on global cost leadership through efficient vertical integration, prudent investment and focus on customer care. Consequently, the Group remains one of the global leaders by profitability margins and returns on investment. Financial resilience remains a top priority and the Group aims to maintain a strong balance sheet and comfortable leverage, which can provide a strong cushion against market volatility. According to the Group's estimates based on information from public sources, the Group's share in the domestic market (excluding large diameter pipes) accounted for 16.1 percent and 16.7 percent in 2017 and 2018, respectively, and its share in the domestic market (excluding large diameter pipes and long products) was 20 percent and 21.6 percent in 2017 and 2018, respectively.

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

The Group is a vertically-integrated steel producer with production assets concentrated in Russia and a global sales presence. Its facilities span the full production cycle from iron ore and coal mining operations to steel mills and rolled product plants as well as downstream production and distribution businesses. The Group's mining operations, conducted by Severstal Resources, provide supplies of iron ore and coal products to its production facilities in Russia while also supplying these raw materials to third parties. The Group has its own scrap collection and processing facilities.

Severstal Resources is one of the largest producers of hard coking coal and iron ore pellets in Russia. Severstal Russian Steel's operations with respect to iron ore are fully self-sufficient, as Severstal Resources' overall production volumes of iron ore are able to cover approximately 120 percent of the overall consumption volumes of Severstal Russian Steel, without taking into account the chemical features of the particular iron ore mix required. With respect to coal, Severstal Resources' capacities are able to satisfy approximately 60 percent of Severstal Russian Steel's demand for coking coal. Severstal Russian Steel sources a portion of its iron ore and coking coal from third party suppliers for a number of reasons, including when it may be necessary or economically viable to cover the Group's requirements for iron ore and coking with specific chemical features, to take advantage of favourable prices, as well as in cases of disruptions in the mining operations of Severstal Resources. In 2018, Severstal Russian Steel's steel operations procured approximately 70 percent of its iron ore, concentrate and pellets and 60 percent of its coal requirements from Severstal Resources (69 percent and 60 percent in 2017, respectively), purchasing its remaining requirements from third-party sources.

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

The Group also covers a significant part of its electricity requirements from internal sources. In 2018, the share of internally generated power in the overall consumption of the Group amounted to 77.9 percent.

Global Cost Competitiveness

Globally, Russia is one of the lowest cost regions for steel production in the world, and the Group occupies one of the most favourable positions on the global hot-rolled coil cost curve, according to World Steel Dynamics. For example, the Group's slab cash costs amounted to approximately US\$197 per tonne in the second quarter of 2019 on an integrated basis, compared with approximately US\$233 per tonne in the second quarter of 2018. With its largest production facilities located in northwest Russia, the Group benefits from relatively low-cost supplies of electricity and natural gas, as well as low transportation fees as a result of its proximity to major steel consuming markets in the central European part of Russia and the ports of the St. Petersburg region.

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

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

Experienced Management Team

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

Severstal Business System

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

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

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

Strong Corporate Governance

The Group seeks to adhere to international corporate governance standards. The Group benefits from a culture of independence on its Board of Directors as a result of both a diverse, multinational membership and the independence of half of its board (according to UK standards of independence). In addition, the Group has established committees of its Board of Directors in accordance with the UK Combined Code on Corporate Governance and has implemented other measures aimed at promoting transparency and good corporate governance. These measures include implementing internal control procedures and internal audit functions, publishing quarterly financial statements prepared in accordance

with IAS 34, publishing regular production updates and requiring the approval of two-thirds of the Board of Directors for acquisitions with a value in excess of US\$500 million and any transaction with a value of more than 10 percent of the book value of the Company's assets. In addition, all transactions with affiliates are approved by the Board of Directors. To ensure that the Group's operations comply with the requirements of applicable anti-bribery legislation and to mitigate bribery and corruption risks, the Group has adopted an Anti-corruption Policy which forms the centrepiece of the global anti-corruption programme implemented by the Group and which is updated on a regular basis (the new edition of the policy was approved by the Board of Directors of the Company in February 2019). In 2018, the Group received excellence award from ISS Quality Score for corporate governance excellence. As of August 2019, ISS Quality Score assessment of Severstal's corporate governance was "1" (standing for the lowest risk).

Robust Liquidity and Sustainable Leverage

As a result of the Group's strong financial performance, including achieving Adjusted EBITDA margins of 36.6 percent and 33.7 percent in 2018 and six months ended 30 June 2019, respectively, the Group has a sustainable leverage (net debt/Adjusted EBITDA ratio was 0.5 as at 30 June 2019), operating profit margins of 31.6 percent and 28.0 percent in 2018 and six months ended 30 June 2019, respectively, and a robust liquidity position (US\$345 million of cash and cash equivalent and unused committed credit lines of US\$1.2 billion as at 30 June 2019). Even though the Group represents less than 1 percent of the global steel industry in terms of production volumes, it has been the leader within the global steel industry in terms of profitability for the past six consecutive quarters. Moody's upgraded the Company's credit rating to Baa3 in January 2018 and to Baa2 in February 2019 with stable outlook. Fitch upgraded the Company's credit rating to BBB with stable outlook in April 2019. Financial resilience remains a top priority for the Group and provides a strong cushion against market volatility.

STRATEGY

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

In order to successfully implement the above strategy, the Group is focused on the following strategic priorities:

Superior Customer Experience

The Group's management believes that best-in-class customer care will enable the Group to attract and retain customers in a volatile macro-economic environment.

The Group's unique customer proposition rests on three pillars, being product customisation, downstream opportunities and new market business models. Product customisation is a structured stage-gate process focusing on value and market release timing of a product and includes five key product categories with more than 1,400 customisation initiatives in the pipeline. Implementing downstream opportunities allows the Group to increase the value of its products and services by focusing on key steel consuming industries and benefiting from closer positioning to end-customers. Furthermore, the Group aims to implement new market business models that involve identifying areas of opportunity across the entire value chain with a view to creating unique solutions in collaboration with the Group's customers.

In order to ensure that the Group delivers a superior customer experience, the Group focuses on three key areas, being service quality, product quality and supply discipline.

Service Quality

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

The Group's management believes in significant sales growth potential for downstream products and has therefore made the transition from production planning to customer-oriented Supply Chain Management (*SCM*). Such transition involved an implementation of *SCM* modelling taking into account customer requirements and ensuring transparent order tracking, and enhancing the Group's automated planning system and customer information systems. This has further enhanced the Group's online store. The online store, which was launched in 2017, has enabled the Group to considerably enhance customer outreach and feedback capabilities. As a result, the Group is able to better anticipate changing market demand and efficiently deliver product innovations that meet its customers' changing requirements.

Product Quality

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

Supply Discipline

The Group will seek to further improve its supply discipline and increase the proportion of product deliveries that are made on-time and in-full. To this end, the Group will integrate and develop the IT-systems to oversee and coordinate its supply chain.

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

Cost Leadership

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

The Group believes that a low-cost operating structure can be achieved by a combination of prudent capital expenditure on production facilities, cost control measures, energy efficiency improvements, integration of its raw materials business with steel production and labour productivity gains, the main contributions of which are expected to come from the continuous improvement, purchasing optimisation and cost control and other initiatives included in the Severstal Business System. In particular, the Group intends to continue to invest in modernisation and maintenance projects which are expected to make the Group's assets more cost efficient and expand the number and scope of the initiatives already introduced through the Severstal Business System. See "*—Implement Prudent Investment Policy*". The Group has a strong track record of delivering operational improvements that have enabled it to become one of the lowest cost steel producers in the world according to World Steel Dynamics. The unrivalled efficiency of the Group's business is underpinned by a vertically-integrated business model with high quality, modern upstream and downstream facilities.

With the aim of enhancing its operational, technological and business efficiency, the Group invests, and plans to continue investing, in the construction and modernisation of existing production and mining facilities and the development of its supply chain system. The Group believes that such investments will enable it to maintain and increase its cost advantage over its competitors. The Group endeavours to successfully implement advanced technologies in the key areas of its business and operations and has already introduced a number of improvement programmes and expanded its existing Business System to cover new areas of the Group's operations.

Implement Prudent Investment Policy

The Group intends to continue to implement a prudent investment policy, under which investments will continue to be primarily focused on the key areas of the Group's updated strategy – superior customer experience, cost leadership and embracing new opportunities, and aimed at further strengthening its financial performance, maximising value creation and enhancing shareholder returns. Cutting-edge technology will allow the Company to produce more high-value added and innovative products and solutions, improve customer care and reduce its environmental impact.

The Group expects to invest approximately US\$1.45 billion across its business in 2019. The planned investments are preliminary estimates and amounts are subject to adjustments dependent on foreign exchange rate changes. The majority of the Company's expenditure in 2019 will be in Roubles.

Severstal Russian Steel

The Group plans to invest approximately US\$981 million into its Russian Steel division in 2019, of which US\$697 million will be committed to development projects. The most significant projects in 2019 will be the construction of the new Blast Furnace No. 3 (expected to be launched in 2020), coking battery No. 11 (expected to be launched in 2022 to replace batteries No. 8 and No. 9) and the flat steel production development programme aimed at improving the Group's product mix. Cutting-edge technology is aimed at allowing the Group to produce more high-value added and innovative products and solutions, improve customer care and reduce its environmental impact.

Severstal Russian Steel will invest US\$284 million in maintenance projects in 2019. The Group will commit US\$88 million of investment capital to digital and IT projects focused on further improving operational excellence and enhancing product quality and customer service.

Severstal Resources

The Group plans to invest approximately US\$469 million in its Severstal Resources division in 2019, of which US\$395 million is planned to be invested in asset development. One of the main investment areas within Severstal Resources is the development of the Vorkutaugol mines and the Yakovlevskiy mine volume restoration. The Group plans to invest in the Yakovlevskiy mine approximately US\$126 million in 2019. The Group will also continue to focus on safety and ecology in 2019 and boost its investment in these areas, including the implementation of a new multi-functional safety system at the Vorkutaugol mines, improvements to stripping works, maintenance of the Group's coal and iron ore operations as well as health and safety improvement projects.

New Opportunities

The Group plans to embrace new opportunities by looking beyond its traditional business to ensure that the Group remains innovative and at the forefront of the industry. Furthermore, the Group endeavours to maintain its operational leadership by actively identifying new early-stage opportunities and developing technological solutions that will add further value to its business model.

The creation of Group Ventures, the Group's venture capital unit, in 2018 was a significant milestone in the implementation of the Group's strategy. Group Ventures focuses on technologies that are ready for rapid implementation in the steel making industry. The Group's management believes that this is the first institutionalised venture investment initiative of its kind in the steel industry globally. Group Ventures invests in venture capital funds with the aim of gaining access to a unique range of technological and business projects, including steel making and associated construction, machinery manufacturing and energy projects. Furthermore, Group Ventures supports the venture projects that it has invested in, providing them with access to the Group's in-house expertise, facilities for trialling pilot products and funding. As such, Group Ventures enables the Group to benefit directly from early access to new technologies, which should contribute to further cost efficiencies and the development of unique products.

Advanced Corporate Culture

The Group aims to maintain a corporate culture that unites its talented and ambitious workforce. The Group believes that maintaining and further developing a strong corporate culture will enable it to accomplish its new strategy, without compromising the core values of quality, collaboration and innovation.

The Group endeavours to develop its advanced corporate culture by focusing on creating an environment in which employees: (i) strive to understand the needs of the business and solve its problems at a pace faster than the Group's competitors; (ii) are fully engaged to produce the best results and are able to develop their talents in various aspects of the Group's business; (iii) engage with partners to increase product value and satisfy customer needs (iv) are incentivised to work as a team towards minimising the environmental impact and creating a sustainable business. The Group believes

that these strategic priorities drive operational and organisational excellence, promote a safety-conscious culture and collegiate working environment and improve customer satisfaction.

Develop and Incorporate Advanced Information Technology

The Group believes that recent developments in information technology and analytics, such as the “internet of things”, machine learning, neural networks and the use of “big data”, will offer significant opportunities to improve the productivity and efficiency of all areas of the Group’s business and operations. To that end, the Group is actively developing its expertise in data engineering, machine learning and advanced analytics. In particular, the Group created one of the largest industrial data repositories in Russia for the storage and processing of large amounts of data. In addition, the Group developed and successfully implemented data science products in areas such as predictive maintenance, digital assistants to production machine operators and advanced analytics instruments for technologists.

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

- maintaining each project’s internal rate of return above 20 percent thereby achieving “value creative” capital expenditure;
- maintaining a net debt to Adjusted EBITDA ratio below 1.5x;
- maintaining high profitability (with an Adjusted EBITDA margin of more than 20 percent through the cycle) and achieving Adjusted EBITDA growth of 10-15 percent net of macro-economic factors;
- maintaining positive free cash flow throughout the cycle; and
- dividend payout equivalent to 100 percent of free cash flow, provided that net debt to Adjusted EBITDA ratio is below 1.0x; if net debt to Adjusted EBITDA ratio is below 0.5x, dividend payout of above 100 percent of equivalent of free cash flow; and if net debt to Adjusted EBITDA ratio is above 1.0x, dividend payout equivalent to 50 percent of free cash flow.

RISK FACTORS

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

USE OF PROCEEDS

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

RECENT DEVELOPMENTS

Since 30 June 2019, the following significant developments have occurred:

In July 2019, the Group sold its 100 percent stake in AO Severstal LPM Balakovo to a third party for a total consideration of US\$215 million.

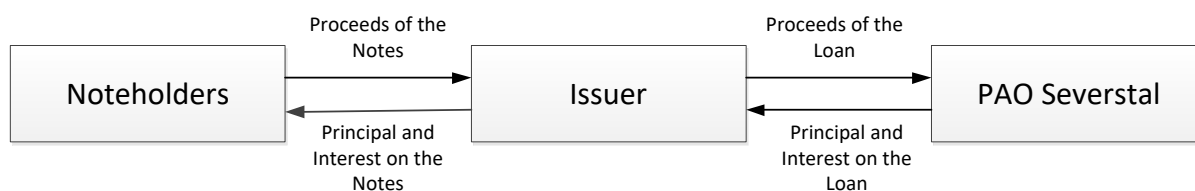
OVERVIEW OF THE PROGRAMME

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

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

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

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



Notes to Be Issued Under the Programme

Issuer	Steel Capital S.A.
Legal Entity Identifier	22210003LN8LHUW6LJ83
Company (as Borrower)	PAO Severstal with its registered office and business headquarters at Ul. Mira 30, 162608 Cherepovets, Russia.
Legal Entity Identifier	2138000KDPTV6K4ON053
Description	Programme for the Issuance of Loan Participation Notes pursuant to which the Issuer may issue Notes from time to time.
Offering	The Notes and the corresponding Loans have not been, and will not be, registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S). The Notes may be offered and sold (i) within the United States to QIBs, as defined in Rule 144A, that are also QPs, as defined in Section 2(a)(51) of the Investment Company Act, in reliance on the exemption from registration provided by Rule 144A and (ii) to persons who are not US persons (as defined in Regulation S) in offshore transactions in reliance on Regulation S. The Issuer has not been and will not be registered under the Investment Company Act. Prospective purchasers are hereby notified that sellers of the Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A and the Issuer is relying on an exemption from the Investment Company Act provided by Section 3(c)(7) thereof. Each purchaser of Notes will be deemed, by its acceptance of such Notes, to have made certain representations and agreements intended to restrict transfers of the Notes as described under “ <i>Selling and Transfer Restrictions</i> ”. No holder or beneficial owner of the Notes may transfer the Notes except to a transferee who can make the same deemed representations and agreements as set out in “ <i>Selling and Transfer Restrictions</i> ” on behalf of itself and each account for which it is purchasing. Any transfer in breach of the transfer restrictions set out in “ <i>Selling and Transfer Restrictions</i> ” will be void ab initio and will not operate to transfer any rights to the transferee. For a description of these and certain further restrictions, see “ <i>Subscription and Sale</i> ” and “ <i>Selling and Transfer Restrictions</i> ”.
Programme Size	Up to US\$4,500,000,000 (or its equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. The Issuer, with the consent of the Company, may increase the amount of the Programme in accordance with the Dealer Agreement (as defined in “ <i>Subscription and Sale</i> ”). In this respect, for the purpose of calculating the aggregate principal amount of Notes outstanding, the premium of Notes issued at a premium shall be added to their principal amount.
Arranger	Citigroup Global Markets Limited
Permanent Dealer	Citigroup Global Markets Limited
Dealers	Pursuant to the terms of the Dealer Agreement, the Issuer, on the Company’s instructions, may from time to time terminate the appointment of any Dealer under the Programme. The Issuer, on the Company’s instructions, may also from time to time appoint additional Dealers either in respect of one or more Series of Notes or in respect of the whole Programme. References in this Base Prospectus to “Permanent Dealers” are to the persons listed above as Permanent Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to “Dealers” are to all Permanent Dealers and all persons appointed as dealers in respect of one or more Series of Notes.
Trustee	Citibank, N.A., London Branch.
Principal Paying and Transfer Agent	Citibank, N.A., London Branch, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another principal paying and transfer agent is appointed in respect of that Series. References in this Base Prospectus to “Principal Paying and Transfer Agent” are to Citibank, N.A., London Branch or such alternative principal paying agent or agents, as the case may be.
Registrar	Citigroup Global Markets Europe AG, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that an alternative registrar is appointed in respect of that Series. References in this Base Prospectus to “Registrar” are to Citigroup Global Markets Europe AG or such

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

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

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

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

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

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

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

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

Listing and Admission to Trading..... Application will be made, where specified in the relevant Final Terms or Series

Rating	<p>Prospectus, as the case may be, to Euronext Dublin for the Series of Notes to be admitted to the Official List and trading on the Regulated Market or such other exchange as shall be specified in the relevant Final Terms or Series Prospectus.</p> <p>Series of Notes issued under this Programme may be rated or unrated. The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms or Series Prospectus, and if such Series of Notes is rated, it will be rated by Standard & Poor's, Fitch and/or Moody's, as indicated in such applicable Final Terms or Series Prospectus. A rating is not a recommendation to sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating.</p> <p>In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not by a credit rating agency established in the European Community and registered under the CRA Regulation unless this is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted application for registration in accordance with the CRA Regulation and such registration is not refused or (ii) the rating provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA registered under the CRA Regulation or (iii) the rating is provided by a credit rating agency not established in the EEA is certified under the CRA Regulation. For the purposes of the credit ratings referred to in this Base Prospectus and in any applicable Final Terms or Series Prospectus, each of Standard & Poor's, Fitch and Moody's is established in the European Union and is registered under the CRA Regulation. As such, each of Standard & Poor's, Fitch and Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. Please also refer to "<i>Risk Factors—Ratings of the Notes</i>".</p> <p>Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Company could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.</p>
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with them, will be governed by English law. The provisions of articles 470-3 to 470-19 of the Luxembourg law of August 10, 1915 on commercial companies (as amended) are excluded.
Selling Restrictions	United States, United Kingdom and Russia and any other jurisdiction relevant to any Series. See " <i>Subscription and Sale</i> ".
ERISA Considerations	A Series of Notes issued under the Programme may be regarded for purposes of the United States Employee Retirement Income Security Act of 1974 (<i>ERISA</i>) as equity interests in a separate entity whose sole asset is the Loan. Accordingly, the Notes should not be acquired by any "benefit plan investor" within the meaning of Section 3(42) of ERISA. Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made certain representations as to its status under ERISA and the US Tax Code. Potential purchasers should read the sections entitled " <i>Certain ERISA Considerations</i> " and " <i>Selling and Transfer Restrictions</i> ".
Risk Factors	An investment in the Notes involves a high degree of risk. Prospective investors should have regard to the factors described in the section entitled " <i>Risk Factors</i> " in this Base Prospectus.
The Loan Corresponding to Each Series of Notes	
Lender	Steel Capital S.A.
Borrower	PAO Severstal.
Security and Ranking	None of the Loans will be secured by any collateral. Obligations under the Loan will rank at least <i>pari passu</i> with all other unsecured and unsubordinated financial indebtedness of the Company.

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

OVERVIEW FINANCIAL INFORMATION AND OPERATING RESULTS OF THE GROUP

The following tables set out, in summary form, the consolidated statement of financial position, the income statement and other information relating to the Group. Such information has been derived from the Financial Statements of the Group prepared in accordance with IFRS and IAS 34, as appropriate. The audit and review reports of JSC KPMG relating to the Financial Statements of the Group (the *Reports of KPMG*) appear elsewhere in this Base Prospectus. With respect to the Interim Financial Statements, included herein, the independent auditor has reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein, states that they did not audit and they do not express an opinion on those Interim Financial Statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. The financial information presented below should be read in conjunction with the Financial Statements, the Reports of KPMG and “*Operating and Financial Review*”.

CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars, except as otherwise stated)				
Revenue					
Revenue - third parties	8,436	7,726	5,812	4,130	4,360
Revenue - related parties	144	122	104	78	72
	8,580	7,848	5,916	4,208	4,432
Cost of sales	(4,918)	(4,735)	(3,573)	(2,573)	(2,579)
Gross profit	3,662	3,113	2,343	1,635	1,853
General and administrative expenses	(306)	(286)	(279)	(183)	(157)
Distribution expenses	(578)	(598)	(462)	(261)	(304)
Other taxes and contributions	(69)	(71)	(54)	(27)	(33)
Share of associates' and joint ventures' gain	14	10	14	11	8
Loss on disposal of property, plant and equipment and intangible assets	(23)	(3)	(52)	(6)	(19)
Net other operating income/(expenses)	7	(3)	7	11	3
Profit from operations	2,707	2,162	1,517	1,180	1,351
Reversal of impairment/(impairment) of non-current assets	68	(3)	(135)	-	2
Gain from a bargain purchase	-	135	-	-	-
Net other non-operating (expenses)/income	(50)	(421)	12	(24)	(22)
Profit before financing and taxation	2,725	1,873	1,394	1,156	1,331
Finance income	14	49	63	3	12
Finance costs	(113)	(158)	(157)	(62)	(61)
Gain/(loss) on remeasurement and disposal of financial instruments	58	(45)	(66)	(51)	14
Foreign exchange (loss)/gain	(165)	45	483	101	(44)
Profit before income tax	2,519	1,764	1,717	1,147	1,252
Income tax expense	(468)	(409)	(97)	(244)	(234)
Profit for the period	2,051	1,355	1,620	903	1,018
Attributable to:					
shareholders of PAO Severstal	2,051	1,356	1,621	903	1,018
non-controlling interests	-	(1)	(1)	-	-
Basic weighted average number of shares outstanding during the period (millions of shares)	817.1	811.7	810.6	823.7	814.3
Basic earnings per share (US dollars)	2.51	1.67	2.00	1.10	1.25
Diluted weighted average number of shares outstanding during the period (millions of shares)	847.7	842.1	810.6	849.1	846.7
Diluted earnings per share (US dollars)	2.47	1.64	2.00	1.09	1.24

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			As at 30 June
	2018	2017	2016	2019
	(Amounts expressed in millions of US dollars, except as otherwise stated)			
Assets				
Current assets:				
Cash and cash equivalents	228	1,031	1,154	345
Short-term financial investments	7	12	19	3
Trade accounts receivable	554	598	485	658
Accounts receivable from related parties	20	16	22	26
Inventories	1,087	1,058	867	1,190
VAT recoverable	66	124	78	68
Income tax recoverable	5	7	14	7
Other current assets	105	106	87	147
Assets held for sale	-	-	82	265
Total current assets	2,072	2,952	2,808	2,709
Non-current assets:				
Long-term financial investments	8	217	231	13
Investments in associates and joint ventures	76	65	55	89
Property, plant and equipment	3,469	3,701	3,135	3,937
Intangible assets	212	241	221	253
Deferred tax assets	27	24	27	43
Other non-current assets	10	9	6	12
Total non-current assets	3,802	4,257	3,675	4,347
Total assets	5,874	7,209	6,483	7,056
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable	545	549	491	595
Accounts payable to related parties	21	18	15	17
Short-term debt finance	110	586	673	255
Income taxes payable	11	40	21	27
Other taxes and social security payable	107	113	95	161
Dividends payable	6	6	6	6
Other current liabilities	323	358	457	408
Liabilities related to assets held for sale	-	-	38	59
Total current liabilities	1,123	1,670	1,796	1,528
Non-current liabilities:				
Long-term debt finance	1,345	1,507	1,340	1,559
Deferred tax liabilities	295	311	115	336
Retirement benefit liabilities	56	78	67	64
Other non-current liabilities	176	245	124	314
Total non-current liabilities	1,872	2,141	1,646	2,273
Equity:				
Share capital	2,753	2,753	2,753	2,753
Treasury shares	(133)	(206)	(236)	(107)
Additional capital	308	308	296	308
Translation reserve	(2,345)	(1,679)	(2,246)	(2,041)
Retained earnings	2,274	2,195	2,450	2,320
Other reserves	8	12	9	8
Total equity attributable to shareholders of PAO Severstal	2,865	3,383	3,026	3,241
Non-controlling interests	14	15	15	14
Total equity	2,879	3,398	3,041	3,255
Total equity and liabilities	5,874	7,209	6,483	7,056

SUMMARY CASH FLOW DATA

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars)				
Net cash from operating activities	2,254	1,914	1,477	1,117	1,163
Net cash used in investing activities	(466)	(580)	(663)	(465)	(93)
Net cash used in financing activities	(2,557)	(1,487)	(1,329)	(546)	(728)

ALTERNATIVE PERFORMANCE MEASURES

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars, except as otherwise stated)				
Adjusted EBITDA ⁽¹⁾	3,142	2,577	1,911	1,416	1,580
Net interest expense ⁽²⁾	91	103	92	59	44
Total debt finance ⁽³⁾	1,455	2,093	2,013	1,814	1,529
Net debt ⁽⁴⁾	1,227	1,062	859	1,469	153
Certain ratios					
Adjusted EBITDA/Interest expense ⁽⁵⁾	30.2	17.1	12.3	22.8	28.2
Adjusted EBITDA/Net interest expense ⁽⁶⁾	34.5	25.0	20.8	24.0	35.9
Net debt/ Adjusted EBITDA ⁽⁷⁾	0.4	0.4	0.4	0.5 ⁽¹¹⁾	0.1 ⁽¹¹⁾
Total debt finance/ Adjusted EBITDA ⁽⁸⁾	0.5	0.8	1.1	0.6 ⁽¹²⁾	0.5 ⁽¹²⁾
Adjusted EBITDA margin ⁽⁹⁾	36.6%	32.8%	32.3%	33.7%	35.6%
Adjusted EBITDA by reporting segments ⁽¹⁾					
Severstal Russian Steel	2,167	1,761	1,543	792	1,165
Severstal Resources	1,016	812	397	711	420
Adjusted EBITDA margin by reporting segments ⁽¹⁰⁾					
Severstal Russian Steel	27.8%	24.5%	28.4%	19.2%	28.7%
Severstal Resources	53.2%	47.0%	34.4%	61.4%	47.9%

Notes:

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

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

- (2) Net interest expense consists of interest expense and interest income.
- (3) Total debt finance is a measure of indebtedness and borrowing capacity which is equal to short-term and long-term debt finance.
- (4) Net debt is a measure of indebtedness and borrowing capacity which is equal to the total debt finance less cash and cash equivalents.
- (5) Adjusted EBITDA/Interest expense is a measure of the Group's ability to meet its interest expenses which is equal to Adjusted EBITDA divided by the interest expense.
- (6) Adjusted EBITDA/Net interest expense is a measure of the Group's ability to meet its net interest expenses which is equal to Adjusted EBITDA divided by the net interest expense.
- (7) Net debt/Adjusted EBITDA is a measure of financial leverage to demonstrate the Group's ability to repay its debt obligations which is equal to the net debt divided by Adjusted EBITDA.
- (8) Total debt finance/Adjusted EBITDA is a measure of financial leverage to demonstrate the Group's ability to repay its debt obligations which is equal to the total debt finance divided by Adjusted EBITDA.
- (9) Adjusted EBITDA margin is a measure of operating profitability which is equal to Adjusted EBITDA divided by total revenues.
- (10) Adjusted EBITDA margin by reporting segment is a measure of operating profitability for such segment which is equal to Adjusted EBITDA divided by revenues for such segment.
- (11) Net debt/Adjusted EBITDA is a measure of financial leverage to demonstrate the Group's ability to repay its debt obligations which is equal to the net debt divided by annualised Adjusted EBITDA for the twelve months ended 30 June.
- (12) Total debt/Adjusted EBITDA is a measure of financial leverage to demonstrate the Group's ability to repay its debt obligations which is equal to the total debt divided by annualised Adjusted EBITDA for the twelve months ended 30 June.

Adjusted EBITDA Reconciliation⁽¹⁾

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars)				
Profit for the period	2,051	1,355	1,620	903	1,018
Add:					
Income tax expense	468	409	97	244	234
Foreign exchange loss/(gain)	165	(45)	(483)	(101)	44
(Gain)/loss on remeasurement and disposal of financial instruments	(58)	45	66	51	(14)
Finance costs	113	158	157	62	61
Finance income	(14)	(49)	(63)	(3)	(12)
Net other non-operating expenses/(income)	50	421	(12)	24	22
Gain from a bargain purchase	-	(135)	-	-	-
Reversal of (impairment)/impairment of non-current assets	(68)	3	135	-	(2)
Depreciation and amortisation of productive assets	405	403	342	229	205
Loss on disposal of property, plant and equipment and intangible assets	23	3	52	6	19
Share in associates' and joint-ventures' depreciation and amortisation and non-operating (income)/expenses	7	9	-	1	5
Adjusted EBITDA	3,142	2,577	1,911	1,416	1,580

Notes:

- (1) Adjusted EBITDA disclosed in this Base Prospectus is calculated differently from the reporting requirements of the SEC for EBITDA and equals to the Group's EBITDA in the Financial Statements.

Adjusted EBITDA by reporting segments reconciliation

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars)				
Profit from operations	1,877	1,482	1,311	637	1,013
Add:					
Depreciation and amortisation of productive assets	268	268	227	150	135
Loss on disposal of property, plant and equipment and intangible assets	16	2	5	4	14
Share in associates' and joint-ventures' depreciation and amortisation and non-operating (income)/expenses	6	9	-	1	3
Adjusted EBITDA	2,167	1,761	1,543	792	1,165

Severstal Resources

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars)				
Profit from operations	872	677	235	630	345
Add:					
Depreciation and amortisation of productive assets	137	134	115	79	70
Loss on disposal of property, plant and equipment and intangible assets	7	1	47	2	5
Adjusted EBITDA	1,016	812	397	711	420

Net Interest Expense reconciliation

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars)				
Interest expense	(104)	(151)	(155)	(62)	(56)
Less:					
Interest income	13	48	63	3	12
Net interest expense	(91)	(103)	(92)	(59)	(44)

Total Debt Finance reconciliation

	As at 31 December			As at 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars)				
Short-term debt finance	110	586	673	255	188
Plus:					
Long-term debt finance	1,345	1,507	1,340	1,559	1,341
Total debt finance	1,455	2,093	2,013	1,814	1,529

Net Debt reconciliation

	As at 31 December			As at 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars)				
Total debt finance	1,455	2,093	2,013	1,814	1,529
Less:					
Cash and cash equivalents	228	1,031	1,154	345	1,376
Net debt	1,227	1,062	859	1,469	153

Adjusted EBITDA/Interest expense reconciliation

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars, except as otherwise stated)				
Adjusted EBITDA	3,142	2,577	1,911	1,416	1,580
Divide by:					
Interest expense	104	151	155	62	56
Adjusted EBITDA/Interest expense	30.2	17.1	12.3	22.8	28.2

Adjusted EBITDA/Net interest expense reconciliation

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars, except as otherwise stated)				
Adjusted EBITDA	3,142	2,577	1,911	1,416	1,580
<i>Divide by:</i>					
Net interest expense	91	103	92	59	44
Adjusted EBITDA/Net interest expense	34.5	25.0	20.8	24.0	35.9

Net debt/Adjusted EBITDA reconciliation

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars, except as otherwise stated)				
Net debt	1,227	1,062	859	1,469	153
<i>Divide by:</i>					
Adjusted EBITDA	3,142	2,577	1,911	2,978	2,950
Net debt/Adjusted EBITDA	0.4	0.4	0.4	0.5	0.1

Total debt finance/Adjusted EBITDA reconciliation

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars, except as otherwise stated)				
Total debt finance	1,455	2,093	2,013	1,814	1,529
<i>Divide by:</i>					
Adjusted EBITDA	3,142	2,577	1,911	2,978	2,950
Total debt finance/Adjusted EBITDA	0.5	0.8	1.1	0.6	0.5

Adjusted EBITDA margin reconciliation

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars, except as otherwise stated)				
Adjusted EBITDA	3,142	2,577	1,911	1,416	1,580
<i>Divide by:</i>					
Total revenues	8,580	7,848	5,916	4,208	4,432
Adjusted EBITDA margin	36.6%	32.8%	32.3%	33.7%	35.6%

Adjusted EBITDA margin by reporting segments reconciliation

<i>Severstal Russian Steel</i>	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars, except as otherwise stated)				
Adjusted EBITDA by reporting segment	2,167	1,761	1,543	792	1,165
<i>Divide by:</i>					
Segment revenues	7,803	7,182	5,426	4,117	4,061
Adjusted EBITDA margin by reporting segment	27.8%	24.5%	28.4%	19.2%	28.7%

<i>Severstal Resources</i>	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars, except as otherwise stated)				
Adjusted EBITDA by reporting segment	1,016	812	397	711	420
<i>Divide by:</i>					
Segment revenues	1,908	1,727	1,154	1,158	877
Adjusted EBITDA margin by reporting segment	53.2%	47.0%	34.4%	61.4%	47.9%

OPERATING RESULTS

The following tables set out, in summary form, the operating results of the Group for the years ended 31 December 2018, 2017 and 2016 and for the six months ended 30 June 2019 and 2018. The information presented below should be read in conjunction with “*Business*”.

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

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(thousand tonnes)				
Output volumes					
Crude steel	12,039	11,651	11,630	6,101	6,034
Sales volumes by products					
Semi-finished products	695	519	724	190	441
Rolled products	8,760	8,579	8,121	4,644	4,408
Hot-rolled coil	3,896	3,950	4,080	2,142	1,932
Hot-rolled plate	852	805	692	458	424
Cold-rolled coil	1,286	1,324	964	517	710
Galvanised and metallic coated coil	835	654	560	491	416
Long products	1,500	1,443	1,439	793	754
Colour coated coil	391	403	386	243	172
Downstream products	1,765	1,862	1,870	857	882
Metalware products	562	615	641	268	274
Large diameter pipes	440	416	389	203	205
Other tubes, pipes, formed shapes	763	831	840	386	403
Total steel products	11,220	10,959	10,715	5,691	5,731

(1) Includes intersegment sales.

Sales volumes by products—Severstal Resources⁽¹⁾

Sales volumes by products	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(thousand tonnes)				
Coking coal concentrate	3,374	3,294	4,147	1,989	1,378
Steam coal	1,312	1,574	2,040	655	665
Iron ore pellets	10,997	11,133	10,842	5,731	5,500
Iron ore concentrate	5,510	4,251	4,103	2,729	2,656

(1) Includes intersegment sales.

RISK FACTORS

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

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

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

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

The Group derived 60 percent of its total revenues from sales to customers in Russia in 2018. Therefore, the Group is vulnerable to economic conditions in Russia.

Domestic steel demand depends on the state of the Russian economy. The Russian economy is vulnerable to external and internal shocks and has experienced significantly fluctuating growth rates over the last two decades, including significant declines in industrial production and investments. Oil prices have been volatile in recent years with a steep decline in 2014 which was followed by a decrease of investments in fixed assets, construction and industrial production in Russia. Although oil prices have since recovered and were relatively stable in 2017 and 2018, no assurance can be given that the prices will not decrease significantly in the future. Any decline in oil prices could lead to a significant fall in domestic demand in Russia.

The current economic recovery in Russia is assessed as steady although it is lower than global growth. According to Rosstat, in 2018, Russia's GDP growth rate increased to 2.3 percent from 1.6 percent growth in 2017. Industrial production levels showed positive signs, increasing by 1.6 percent in 2017 and 2.3 percent in 2018. In the first half of 2019, industrial output increased by 2.6 percent compared with the same period in 2018. Although, according to the International Monetary Fund, Russian GDP is expected to increase by 1.2 percent in 2019 and 1.9 percent in 2020, there can be no assurance that the Russian economy will grow at such pace or that there will be no declines. In particular, in the first quarter of 2019, Russian GDP growth slowed to 0.5 percent, due to the wholesale trade decline resulting from the increase in value added tax from 18 percent to 20 percent. Real household incomes have been declining for several years, thus undermining domestic demand conditions.

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

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

The Group's mining operations include open-pit and underground mining, both of which involve significant hazards and risks. Hazards associated with the Group's open-pit mining operations include flooding of the open pit, collapses of the open-pit wall, accidents related to the operation of large open-pit mining and rock transportation equipment, accidents related to the preparation and ignition of large scale open-pit blasting operations, production disruptions due to weather and hazards related to the disposal of mineralised wastewater, such as groundwater and waterway contamination.

Hazards associated with the Group's underground mining operations include underground fires and explosions, including those caused by flammable gas, cave-ins or ground falls, shifts in tectonic plates, discharges of gases and toxic chemicals, flooding, sinkhole formation and ground subsidence and other accidents and conditions resulting from drilling and removing and processing material from an underground mine. These hazards may result, and have in the past resulted, in significant injury and death to the Group's employees and damage to equipment or other property, including a temporary or permanent loss of mining assets, production delays, increased production costs, and increased capital expenditures to repair or replace equipment or property, as well as claims from affected employees and environmental and other authorities for any alleged breaches of applicable laws or regulations.

In particular, on 11 February 2013, there was an accident involving an explosion at the Vorkutinskaya mine that resulted in 19 fatalities. Further, on 25 February 2016, a series of methane explosions at Vorkutaugol's Severnaya mine resulted in the deaths of 30 miners and a further methane explosion occurred on 28 February 2016 during the rescue operation, causing the death of five rescue workers and one miner. The mining operations at Severnaya mine have been suspended since the accident and Severnaya mine has been sealed off to prevent further underground fires and explosions in the mine. The decision to seal off the mine was taken by a commission of Vorkutaugol representatives and Russian authorities and the mine is currently non-operational. Consequently, the Group's self-sufficiency in coking coal was reduced from 70 percent in 2016 to 60 percent in 2018. The Group intends to extract the Severnaya mine's ore through the adjacent Komsomolskaya mine starting from 2024. Criminal proceedings were initiated by Russian authorities to establish any criminal wrongdoing in connection with the accidents at the Vorkutinskaya and Severnaya mines; the criminal proceedings in relation to Severnaya mine are ongoing, whereas those relating to Vorkutinskaya mine were discharged due to the expiration of the statutory limitation period. Although the Group has employed safety procedures at all of its mines and strives to ensure that its safety procedures meet the highest standards, there can be no assurance that another safety incident will not occur in the future.

Steel making operations also involve significant hazards including liquid metal or slag spillage, fire, explosions of combustible gases as well as risks of accidents during hoisting operations, works at height, maintenance and repair works and potential foot traffic accidents. Although the Group continuously monitors and invests in safety performance, there can be no assurance that significant safety incidents will not occur in the future.

The Group as a whole has experienced significant accidents in the past, including major accidents that have resulted in fatalities and disruptions to operations. During the period between 2016 and 2018, the Group experienced 310 work-related lost time injuries at its production facilities, 149 of which occurred in 2016, 80 in 2017 and 81 in 2018, including two fatalities. In the six months ended 30 June 2019, 31 incidents occurred at the Group's production facilities.

The Group's lost time injury frequency rate (**LTIFR**), which is a ratio of the number of injuries to man-hours worked multiplied by one million, was 1.77, 0.96 and 0.95 for the years ended 31 December 2016, 2017 and 2018, respectively. In the six months ended 30 June 2019, the Group's LTIFR was 0.71.

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

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

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

Some of the Group's products which it exports to foreign markets (including the EU, the Group's principal export market) are subject to various trade barriers. Within the last few years the EU imposed a number of anti-dumping duties, some of which are applied to the Group's steel products. In particular, a 34 percent anti-dumping duty and a EUR17.6 per tonne anti-dumping duty were imposed against the Group's cold-rolled steel products and the Group's hot-rolled steel products, respectively. In addition, as a part of response to anti-dumping duties imposed by the US the EU introduced traditional safeguard measures against a wide range of metal products in the form of tariff quotas and a 25 percent surplus duty on the volumes exceeding quotas. See "*Regulatory Matters—Anti-dumping and safeguard proceedings*". These measures also affect the Group's exports into the EU. Currently, the following US anti-dumping measures apply to the Group's hot-rolled products: a 53.8 percent anti-dumping duty on hot-rolled plates and a 184.56 percent anti-dumping duty on hot-rolled coils and sheets. The new turn of protectionism in the global steel market began in the last year with the US President's decision to impose additional 25 percent duties on steel and aluminium products imported into the US on the grounds of national security. There is a risk that WTO members will continue to place more reliance on the

national security exemption to introduce protectionist measures and this creates further uncertainty and instability in the application of the WTO rules.

In addition, other countries have introduced or are considering introducing anti-dumping measures against the Group's products: (i) Mexico applies anti-dumping duties ranging from 15 to 36.8 percent on hot-rolled and cold-rolled steel products from Russia; (ii) Thailand has imposed anti-dumping duties ranging from 24.2 to 35.17 percent and safeguard measures ranging from 21.13 to 41.64 percent on hot-rolled steel products; (iii) India has imposed anti-dumping duties on hot-rolled coils and sheets; (iv) Vietnam imposed safeguard measures on long steel goods, semi-finished products and coated steel; (v) Indonesia applies anti-dumping measures on hot-rolled products; (vi) Morocco has safeguard measures on wire rods, reinforcing bars and cold-rolled coils and is now conducting the safeguard investigation on hot-rolled coils; (vii) Canada launched a safeguard investigation on certain steel products in 2018 and on 3 April 2019, the Canadian International Trade Tribunal (*CITT*) issued a report recommending that the government introduces quotas and duties for hot-rolled plates and stainless steel wire (no recommendations were made for other products, such as concrete reinforcing bar, energy tubular products, hot-rolled sheet, pre-painted steel and wire rod); (viii) in May 2019 Pakistan launched an anti-dumping investigation against cold-rolled coils from Russia and Canada; (ix) Egypt imposed preliminary safeguard measures on semi-finished products and reinforcing bars in April 2019; (x) the Cooperation Council for the Arab States of the Gulf applies safeguard duties on PPGI (coated steel products); and (xi) Ukraine applies anti-dumping duties on rebars, wire rod and galvanised coils.

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

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

The Company is beneficially controlled by Mr. Alexey Mordashov (the **Majority Shareholder**), who, as at 30 June 2019, controlled indirectly 77.02 percent of the Company's shares. See "*Principal Shareholders*". As a result, the Majority Shareholder has the ability to exert significant influence over certain actions requiring shareholder approval, including, but not limited to, increasing or decreasing the authorised share capital of the Company (and disapplying pre-emptive rights), the election of directors, declaration of dividends, the appointment of management and other policy decisions. While transactions with the Majority Shareholder and his affiliates can benefit the Company, the interests of the Majority Shareholder could at times conflict with the interests of Noteholders. Although the Group has in the past sought and continues to conclude related party transactions on an arm's length basis, conflicts of interest may arise between the Group, its affiliates and the Majority Shareholder or his affiliates, resulting in the conclusion of transactions on terms not determined by market forces. See "*Management*" and "*Related Party Transactions*". Any such conflict of interest could adversely affect the Group's business, financial condition and results of operations, future prospects and the value of the Notes.

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

Global economic growth is slowing down. In 2019, the global economy is expected to grow by 3.3 percent compared with 3.6 percent in 2018 and 3.8 percent in 2017, according to the International Monetary Fund. The global economy has been experiencing unusually long economic cycles. The US economy has been growing without any recessions for more than 10 years. Consumer inflation is not accelerating despite low unemployment, thus allowing central banks to keep interest rates low. Low inflation is explained by an increase in labour productivity due to technological progress and the globalisation of value chains. There is a risk of a possible cyclical downturn in the Chinese economy and other developing markets and a stagnation of the European and US economies, which would result in a global economic downturn and impact the steel industry and other industries.

The global economic environment is subject to a number of uncertainties, including mounting government deficits, discontinuation of certain stimulus programmes, potential inflation or deflation, continuing high levels of unemployment, political tensions over global trade of goods, labour and capital mobility, terrorism and concerns over the stability of the monetary and political union in the EU. Financial markets and the supply of credit are likely to continue to be impacted by sovereign debt concerns, the possibility of further credit rating downgrades of, or defaults on, such sovereign debt, as well as concerns about a slowdown in growth in certain economies. Brexit is another source of instability in the markets as there remains significant uncertainty about the future relationship between the United Kingdom and the EU. The announcement of Brexit caused and Brexit is expected to continue to cause, political uncertainty, significant volatility in global stock markets and currency exchange rate fluctuations. Although the negotiating process is ongoing, there is a

growing risk that the United Kingdom and the EU may fail to reach a deal on a withdrawal agreement, in which case there may be no transition period during which the United Kingdom leaves the EU which may lead to further volatility. Furthermore, there is a possibility of trade barriers resulting from the United Kingdom leaving the EU which may affect the macroeconomic environment in Europe. See “—An increase in existing trade barriers or the imposition of new trade barriers in the Group’s principal export markets could cause a significant decrease in the demand for its products in those markets.” The referendum has also given rise to calls for the governments of other EU member states to consider withdrawal. In certain parts of the EU, candidates from opposition parties are gaining popularity. In addition, policy actions taken by the US presidential administration may result in turbulence in the financial markets and lead to greater uncertainty regarding the status of trade relations between the US and some of its largest trade partners. Such developments could also lead to an increase of the already high level of protectionism globally, including in the steel industry. This could lead to the introduction of higher anti-dumping tariffs, stricter countervailing measures and increased policing of the US steel import market. The worsening of such trade relations, in particular between the US and China, could result in negative repercussions in these countries and have a knock-on effect on global trade and the economic environment. There is a high degree of uncertainty for the global economy regarding the results of trade negotiations between the US and China. Any announcement of new trade or other economic protectionist measures has a significant impact on global commodity markets and may lead to negative consequences for the Group’s key markets.

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

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

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

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

In 2019, the global steel industry experienced an increase in the price of iron ore due to supply disruptions, caused by a number of events, including industrial accidents and climatic events, all of which contributed to a deficit in the iron ore market, falling port inventories in China and increasing iron ore prices. In addition, weakening steel demand did not allow steel producers to transfer all of these increased costs onto their customers, which led to significant contraction in steel margins for globally traded products. The relatively low spread between steel prices and raw material prices has so far prevented further reduction in steel prices. Since high raw material costs tend to support steel prices, a recovery in iron ore supplies could put pressure on the price of steel.

The demand for steel products and global steel production capacity have been strongly influenced by the developing world, particularly China, as well as India and other emerging markets. The Chinese steel industry demonstrates high production levels due to increasingly effective capacities and the construction of new steel mills to replace closed ones. This trend creates an overproduction risk in China that could be triggered by a weakening in domestic steel consumption. For example, in the second quarter of 2019 demand for steel in China decelerated which led to the creation of surplus steel inventories held by traders. There is a risk of further demand slowdown in China due to escalation of the trade conflict with the US, internal demand saturation in the residential housing market and other factors. Any or all of these events may lead to an increase in steel exports from China and, consequently, a downward pressure on global steel prices. Long-term growth of scrap collection in China is stimulating a shift towards higher usage of scrap in the steelmaking process. This shift could reduce global demand for iron ore and coking coal as well as market prices for these raw materials and could negatively affect global steel prices as production costs will fall. Moreover, there is no assurance that the Chinese steel industry will continue to reduce steelmaking capacities going forward as was the case in the recent past. Currently, new steelmaking capacities are being built in China using a capacity swap programme. The majority of new capacities are located in coastal regions that are located in proximity to export markets. If the new

capacities will favour the export market over local demand, this could lead to an increase in supply in the global market and a fall in steel prices.

The trade war between China and the US has a number of significant implications for the Chinese economy, its domestic and global steel industries. Although the Chinese government has introduced a number of stimulus measures aimed at supporting domestic steel demand, including decreasing value-added tax, infrastructure investments, local government bonds programme and monetary easing, a further escalation of the trade war could lead to foreign investors exiting China and/or relocating their production assets to other countries, which could result in a loss of export markets for Chinese goods. Furthermore, a prolonged trade conflict could trigger an economic downturn in the Chinese economy and a fall in domestic demand, in particular for residential housing due to low consumer confidence, all of which could further decrease the local demand for steel. In addition, the US economy is also exposed to the adverse effects of a trade war which could lead to higher consumer inflation and a decrease in economic growth.

As a vertically-integrated producer, the Group's performance may be adversely affected by future declines in both raw material and steel prices, which in the global market may fluctuate in line with stock replenishment cycles in China, and which may be intensified by cyclical and seasonal peaks and troughs in the Chinese construction industry. Raw material prices are also affected by the exchange rates of the Australian Dollar, Brazilian Real and Canadian Dollar to the US dollar. Any depreciation of these currencies is likely to cause a decrease in production costs attributable to raw materials. Declines in raw materials prices and the resulting declines in steel prices due to the factors described above could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

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

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

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

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

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

In the event of equipment failure or damage to its facilities, the Group may experience loss of revenues or customers due to material plant shutdowns or periods of reduced production and may require large capital expenditures to repair or replace faulty machinery or to repair damaged facilities, and if the equipment failure or damage to facilities extends to injuries to employees or has an environmental impact, other costs or liabilities may arise out of those circumstances. The Group maintains property and business interruption insurance customary for businesses in the steel industry, nonetheless, any loss of revenues or customers or large unexpected capital expenditures resulting from equipment failure or other

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Russian railway system is subject to risks of disruption as a result of the declining physical condition of the facilities, a shortage of railcars, the limited capacity of border stations and load shedding, including those due to poorly maintained railcars and train collisions. In particular, the rolling stock of Russian Railways is generally in a poor state of repair. While the Group owns and leases railcars, and rents additional railcars, such assets are sufficient for only a portion of the Group's total transportation requirements. There is a risk of reduction of investment programmes for updating the rolling stock of Russian Railways, which could lead to a shortage of available working rolling stock, a disruption in

transportation of the Group's raw materials and products and increased costs of rail transport. There can be no assurance that the age and insufficient funding and maintenance of a substantial part of the Russian railway network and other infrastructure operated by Russian Railways will not in the future lead to material disruptions of the Group's business or increase the Group's costs of doing business.

In addition, the Russian Government sets rail tariffs and may further increase these tariffs, as it has done in the past. In 2018, Russian railway tariffs for freight increased by 5.4 percent, which exceeded consumer inflation in that year, and by a further 3.5 percent in the first month of 2019. In addition, there is a charge for the use of freight wagons which is highly volatile depending on the availability of wagons in the Russian market. Past and future increases in railway tariffs for freight have resulted and will continue to result in significant increases in the Group's transportation costs. Both the privatisation of Russian Railways and its cost of upgrading its rolling stock and other facilities could further contribute to increased tariffs.

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

New or more stringent environmental laws and regulations or stricter enforcement of existing environmental laws and regulations may have a significant negative effect on the Group's operating results

The Group operates in an industry which affects the environment and is subject to increasingly stringent regulatory requirements. Steelmaking and mining facilities cause environmental impact, including generation, emission, discharge of pollutants, greenhouse gases, as well as storage and disposal of waste and other hazardous materials. In particular, pollutant emissions contain benzopyrene, nitrogen and sulphur oxides and phenols. Wastewater contains sulphates, copper, nickel and zinc. Removed wastes contain chrome copper, nickel and zinc.

Pollution risks and any associated cleaning costs are often impossible to assess until audits of compliance with environmental standards have been performed. To manage such risks, the Group utilises its Environment Protection Policy according to which environmental protection is one of the Group's main priorities at all stages of production: from coal and ore mining, coke production, smelting of iron and steel to manufacturing high-technology products. Pursuant to the Environment Protection Policy the Group complies with prescribed environmental requirements and requires the same from third-party contractors that operate on its facilities. Furthermore, the Environment Protection Policy requires the Group to plan any future projects in accordance with the policy, prevent and minimise environmental impact, conduct an analysis of the Group's environmental performance and monitor biodiversity. Despite the Group's efforts to fully comply with the Environment Protection Policy, there can be no assurance that risks discussed above and related costs will not occur in the future or that the Group will not incur any future liabilities relating to environmental damage and remediation. There is a general tendency towards introducing stricter environmental regulations both in Russia and other parts of the world, leading to additional requirements in this field from time to time, for instance in relation to emissions reduction, pollution removal, remediation of disturbed land and other requirements. For example, the Federal Law No. 195-FZ "On Implementation of Experiment on Pollution Emission Quotation and Introduction of Amendments to Separate Legal Acts of the Russian Federation in Part of Reduction of Hazardous Air Pollution" of 26 July 2019 introduces a quotation system in relation to air pollutant emissions for a period from 2020 to 2024 in 12 Russian cities, including, Novokuznetsk, Chelyabinsk and Cherepovets. See "*Regulatory Matters—Environmental Considerations*". The introduction of a quotation system may have an adverse impact on the Group's operations. Additionally, Russia is a signatory to the Paris Agreement and the government officials have indicated Russia's intent to ratify it by the end of 2019. Costs associated with obligations arising in connection with the Paris Agreement are expected to apply from 2020 and the quotation system specified above could have a material adverse effect on the Group's business, financial condition and results of operations.

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

The Group's compliance with environmental laws and regulations requires a commitment of significant financial resources. These laws and regulations may furthermore allow governmental authorities and private parties to bring lawsuits based upon damages to property and injury to persons resulting from environmental incidents and other impacts of the Group's past and current operations, and could lead to the imposition of substantial fines, penalties, other civil or criminal sanctions, the curtailment or cessation of operations, orders to pay compensation, orders to remedy the effects of violations and/or orders to take preventative steps against possible future violations.

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

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

In 2017 and 2018, the Rouble experienced depreciation against a number of major currencies, including the US dollar and Euro, due to a substantial decrease in oil prices, slowing growth and contraction of Russia's GDP, the imposition of economic sanctions and capital outflows. The volatility of the Rouble slightly decreased against world currencies compared with the period 2015 to 2016, but remained in the range RUB 55.85 to RUB 60.75 per US\$1.00 in 2017 and from RUB55.67 to RUB69.97 per US\$1.00 in 2018. The Rouble / EUR exchange rate ranged in 2017 from RUB 59.75 to RUB 71.95 per EUR1.00 and in 2018 from RUB67.88 to RUB81.39 per EUR1.00. In 2019, the exchange rate of Rouble to the US dollar and EUR stabilised, but at certain times continued to be volatile and amounted to RUB63.08 for US\$1.00 and RUB71.82 per EUR1.00 on 30 June 2019.

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

In addition, the Group is exposed to translational and transactional foreign currency exchange rate risks. Translational foreign currency exchange rate risks are the result of translating assets and liabilities denominated in currencies other than US dollars into US dollar amounts for financial reporting purposes. Transactional foreign currency exchange rate risks arise as a result of payments that the Group makes or receives that involve foreign currency exchange. Currently, the Group's international operations are balanced with most of their revenues, borrowings and expenses denominated in the same currency. The Group's Russian operations have revenues denominated predominantly in Roubles, EUR and US dollars, with meaningful fluctuations year on year. Expenses are mostly in Roubles and borrowings are mostly in US dollars and, to a lesser extent, in Roubles. As the Group reports its financial results in US dollars and must frequently exchange or translate foreign currency into Roubles or Roubles into foreign currency, fluctuations in foreign currency exchange rates could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

Failures of the Group's IT systems or third-party intrusions into such systems could adversely affect its business

The Group's business and operations may be negatively affected by failures of the Group's key IT systems and equipment, unauthorised access to confidential information or a disruption of activities during the introduction of a new IT system. IT systems are vulnerable to a number of problems, such as software or hardware malfunctions, malicious hacking, cyber terrorism, physical damage to vital IT centres and computer virus infection. These factors may result in a lack of information or potential information inaccuracies that could cause disruptions in the Group's decision-making process, as well as deterioration in the quality of the Group's operational and financial reporting and the overall manageability of the Group. Although all systems supporting and representing the Group's critical business processes contemplate advanced Disaster Recovery Plans (**DRP**) that, in case of a system crash, automatically migrate to backup and restarts hardware and prevents sensitive data loss, there can be no full assurance that the Group's IT systems will not fail or data will not be lost.

The Group's ability to operate its business depends on its ability to protect computer systems and databases from the intrusion of third parties who may attempt to gain access to the Group's computer systems, networks or databases through the internet or otherwise. Although the Group has measures in place to ensure the cybersecurity of its computer systems and believes that its computer systems, networks and databases are well protected from unauthorised access, given the potential technical and financial resources of intruders, full assurance cannot be given that its computer systems, networks and databases will not suffer from such attacks in the future. A breach of the Group's cybersecurity

systems might adversely affect the Group's ability to operate its business and materially adversely affect the Group's business, results of operations, financial condition and prospects.

Weaknesses in the tax systems and legislation of the Russian Federation in which most of the companies of the Group operate create an uncertain environment for its business activity and could subject the Group to additional material tax liabilities

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

As at 31 December 2018, the actual and potential contingent claims for taxes, fines and penalties made by the Russian tax authorities in respect of certain Group entities amounted to US\$1 million. Management of the Group does not agree with the tax authorities' claims and believes that the Group has complied with the existing legislation in all material respects. The management of the Group is unable to assess the ultimate outcome of the claims and the outflow of financial resources to settle such claims, if any. The Group's management believes that it has made adequate provisions for other probable tax claims. See Note 32 of the Annual Financial Statements on pages F-73-74 for further information. As at 30 June 2019, the actual and potential contingent claims for taxes, fines and penalties made by the Russian tax authorities in respect of certain Group entities amounted to US\$1 million.

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

Although the Group believes its labour relations with its employees are good, there can be no assurance that a work slowdown or a work stoppage will not occur at any of the Group's operating units. At most of the Group's business units, there are collective bargaining agreements in place with labour unions. Although the Group aims to maintain good labour relations with its employees, any potential work stoppages, disputes with employee unions or other labour related developments or disputes, including renegotiation of collective bargaining agreements, may cause a decrease in the Group's production levels and adverse publicity and/or an increase in costs, which could have a material adverse effect on the Group's business, results of operations and financial condition and the value of the Notes.

The Group relies on a number of suppliers for its raw materials and any significant change in prices or supply of raw materials may cause the Group's financial results to vary, which could have a material adverse effect on its results of operations

The Group requires substantial amounts of raw materials in the steel production process, in particular coal and iron ore. Severstal Resources is one of the largest producers of hard coking coal and iron ore pellets in Russia. However, Severstal Russian Steel sources a portion of its iron ore and coking coal from third-party suppliers for a number of reasons, including when it may be necessary or economically viable to cover the Group's requirements for iron ore and coking with specific chemical features, to take advantage of favourable prices, as well as in cases of disruptions in the mining operations of Severstal Resources. Furthermore, the Group is dependent on certain types of coking coal which are vital for efficient coke making and prices for coking coal may rise due to a domestic deficit or global price tendencies. In 2018, Severstal Russian Steel's steel operations procured approximately 70 percent of its iron ore, concentrate and pellets and 60 percent of its coal requirements from Severstal Resources (69 percent and 60 percent in 2017, respectively), purchasing its remaining requirements from third-party sources.

A disruption in mining operations at Severstal Resources' facilities that causes production volumes to fall may force Severstal Russian Steel to seek alternative sources of iron ore or coal which could in turn negatively affect the cost synergies available from the Group's vertical integration. For example, as a result of a number of incidents at the Severnaya mine, the Group's self-sufficiency in coking coal was reduced from 70 percent in 2017 to 60 percent in 2018. Despite the Group's efforts to ensure the stability of mining operations, there can be no assurance that disruptions will not occur in the future that could lead to a further reduction in raw material self-sufficiency.

In addition, some domestic concentrate suppliers, due to their size and monopolistic capabilities, are able to exert influence on pricing and market movements which could decrease the economic efficiency of external iron ore purchases and sales by the Group. Furthermore, there are other raw materials such as refractories, graphite electrodes and ferro

alloys which have a significant share in the Group's production costs and their prices are very volatile. These raw materials have experienced significant price growth in 2017 and 2018 mainly driven by the changes in supply and demand balance in China. Although recently the prices for these materials have been declining, there can be no assurance that there will not be any further price spikes which could lead to an increase in the Group's production costs.

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

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

Energy costs make up a significant portion of the Group's cost of production. In 2018, energy costs amounted to 25.5 percent of the costs of sale of Severstal Resources and 8.1 percent of the costs of sale of Severstal Russian Steel. The Group's Russian operations obtain most of their natural gas needs from PAO Novatek (*Novatek*), Russia's largest privately-owned natural gas producer, and to a lesser extent from the subsidiaries of PAO Gazprom (*Gazprom*), a government controlled entity and the dominant producer and monopoly transporter of natural gas within Russia. Domestic natural gas prices are regulated by the Russian Government and have been rising in recent years in line with a restructuring plan for the Russian gas sector aimed at achieving a comparable level of gas prices in the domestic and international markets. The Group sources its electricity from its own power stations and from a regional energy company that procures electricity from the wholesale electricity market. In 2018, wholesale electricity prices in Russia increased by approximately 5.0 percent. Based on the forecasts of the Ministry of Economic Development of the Russian Federation, in 2019, electricity and gas prices are to increase by 6.9 percent and 3.1 percent, respectively.

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

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

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

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

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

Although the Group believes that, with respect to each of its production facilities, it maintains insurance at levels generally in line with the relevant local market standards, some of its business divisions do not have comprehensive business interruption insurance and most of the Group's business divisions do not maintain environmental liability insurance. In particular, Severstal Russian Steel maintains only limited levels of insurance against business interruption, but does not have insurance against third-party liabilities for property or environmental damage. The Group would

therefore suffer significant losses in the event of damage to or destruction of any of its principal operating assets in Russia or in the event that any claim is brought against the Group relating to personal injury, death or property damage caused by the Group's operations in Russia. In addition, no assurance can be given that the Group will be able to maintain existing insurance or obtain additional insurance coverage at commercially reasonable rates, which could lead to future shortfalls between the Group's liability and its insurance coverage. Any such liability shortfalls could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

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

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

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

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

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

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

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

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

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

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

The Group has engaged in transactions with certain of its shareholders, including the Majority Shareholder, directors and executive officers and companies controlled by them or in which they or the Group own an interest (see “*Related Party Transactions*”). The Group believes that these related party transactions have been and will continue to be concluded at arm’s length. However, there can be no assurance that the terms on which these related party transactions are conducted have not and will not differ significantly from the terms on which third-party transactions have been and are conducted. The practice of related party transactions may result in transactions conducted on terms less favourable to the Group than would otherwise have been negotiated with third parties and could have a material adverse effect on the Group’s business, financial condition, results of operations, future prospects and the value of the Notes.

In addition, the Company and other entities of the Group have engaged in large value transactions which under applicable Russian law are categorised as “major transactions” and which require approval by the board of directors or, depending on the size of the relevant transaction, by the shareholders of the company that is entering into such transaction. The Group believes that those “major transactions” which the Group entities enter into are properly authorised. However, there can be no assurance that all procedural requirements have been complied with in connection with the approval of such transactions. A “major transaction” which has not been properly authorised may be challenged by a company or any of its shareholders.

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

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

RISK FACTORS RELATING TO RUSSIA

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

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

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

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

In the past such conflicts occurred between Russia and its neighbours. For example, in August 2008, Russia and Georgia were involved in an armed conflict involving South Ossetia and Abkhazia. Furthermore, differing views on the Georgia conflict, the ongoing armed conflict in Eastern Ukraine, have had an impact on the relationship between the Russian Federation, the EU, the United States and certain former Soviet Union countries and, if prolonged, could adversely affect business relationships among these countries and adversely affect the Russian economy.

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

If existing conflicts remain unresolved, or new disturbances or hostilities arise, the Group may be unable to access capital, or access capital on terms reasonably acceptable to it, which may have a material adverse effect on the Group’s business, financial condition, results of operations, future prospects and the value of the Notes.

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

The political and economic situation in Russia has been negatively affected by the global financial crisis, the economic sanctions imposed by the United States and the EU and the recent economic recession in Russia. Any significant further increases in political instability, a struggle over the direction of future reforms, or a reversal of the reform process, could lead to another deterioration in Russia’s investment climate that might constrain the Group’s ability to obtain financing in the international capital markets, limit its sales in Russia or otherwise have a material adverse effect on the Group’s business, results of operations, financial condition, its ability to service its payment obligations under the Loan Agreements and as a consequence the Issuer’s ability to make payments under or the value of the Notes.

Russian law contains provisions on liabilities for tax law violations, including criminal. With application of criminal liability provisions in the past, Russian authorities have taken measures against some Russian companies, their executive officers and their shareholders on tax evasion and related charges. In some cases, such measures have resulted in the imposition of prison sentences for individuals and significant claims for unpaid taxes. Any similar actions by governmental authorities could lead to further negative effect on investor confidence in Russia’s business and legal environment, which could have a material adverse effect on the Group’s ability to raise equity and debt capital in the international markets, as well as the Group’s business, results of operations, financial condition, its ability to service its payment obligations under the Loan Agreement and as a consequence the Issuer’s ability to make payments under the Notes or the value of the Notes.

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

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

Following these events, a number of countries imposed various sanctions against Russia and refused to recognise the referendum in Crimea, and the subsequent accession of Crimea and Sevastopol to the Russian Federation, as legal. The United States and the EU (as well as other states, such as Canada, Switzerland, Australia and Japan) have imposed sanctions on a number of Russian and Ukrainian persons and entities, including current and former officials and individuals, companies, banks and businessmen, with the consequences that entities and individuals in the US and EU cannot do business with them or provide funds or economic resources to them, with assets in the relevant sanctioning jurisdictions subject to seizure and the individuals to visa bans. In addition, the US and EU have applied “sectoral” sanctions. These sanctions have imposed restrictions on the ability of several Russian leading banks to access capital markets or otherwise obtain funding from persons in the US and EU. Similar sanctions have been imposed on leading companies in the oil and gas sector and on defence companies. Moreover, the EU and US prohibited the provision, exportation, or re-exportation, directly or indirectly, of goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation and that involve certain companies in the Russian energy sector. The current sanctions regime is a result of multiple extensions by the US and EU in the term and scope of sanctions, with the latest significant extension taking place on 6 April 2018, when OFAC added 38 Russian business persons, officials and entities, some of which are entities with securities listed on the London Stock Exchange, the Hong Kong Stock Exchange and/or the Moscow Stock Exchange. PJSC Power Machines was included in the list of Specially Designated Nationals and Blocked

Persons (*SDNs*) by the US Department of the Treasury, Office of Foreign Assets Control (*OFAC*) on 26 January 2018. Based on the most recent publicly available information dating back to 2018, the Group believes that the Majority Shareholder controls PJSC Power Machines. Like many major Russian companies the Group may from time to time engage with entities that are subject to sanctions and it estimates that such dealings are not material in the context of the overall business of the Group. The US executive order implementing sectoral sanctions also permits sanctions to be applied against companies in the metals and mining sectors. It is currently unclear how long these sanctions will remain in place and whether new sanctions may be imposed. Furthermore, in December 2016 and more recently in December 2018, the US introduced sanctions against Russia's intelligence services, the Main Intelligence Agency (GRU) and the Federal Security Service (FSB), as well as other entities and individuals associated with GRU in connection with certain allegations of tampering with the political process in the United States by those entities. On 27 January 2019, the sanctions previously imposed on EN+ Group plc, United Company RUSAL plc and JSC EuroSibEnergO were lifted following negotiations between OFAC and the above companies and changes in their shareholder structure.

In addition, on 2 August 2017, the US President signed into law the Countering America's Adversaries Through Sanctions Act (the *CAATSA*) that includes additional sanctions that may be introduced against Russian entities. The *CAATSA*, *inter alia*, a) codifies the existing sanctions against Russia established by former President Obama's executive orders, reduces the permitted terms of financing under the existing sectoral sanctions and restricts supplies of equipment and services for new deepwater, Arctic offshore, or shale projects anywhere in the world in which a Russian sanctioned entity holds a 33 percent or higher interest; b) gives the US Treasury Secretary the power to impose sanctions against state-owned companies in Russia in the railways, metals, and mining sectors; c) requires the US President, subject to the ability to claim a national interest waiver, to impose certain secondary sanctions that were discretionary under existing US sanctions legislation (including, but not limited to, secondary sanctions for investing in or supporting special Russian crude oil projects and the facilitation of transactions on behalf of Russian *SDNs*); d) allows the US President to introduce secondary sanctions on foreign persons (including those that invest in the construction or servicing of Russian energy export pipelines); and e) requires the US President, subject to the ability to claim a national interest waiver, to impose asset-blocking and travel sanctions, including certain secondary sanctions, on any person who knowingly engages in significant activities that undermine the cybersecurity of any person or government, including a democratic institution, on behalf of the Russian government. In addition, the *CAATSA* requires the US administration to submit various reports to the US Congress. In late January 2018, several such reports had been published, including a report under Section 241 of the *CAATSA* that identified certain Russian individuals, including the Majority Shareholder, as well as a report under Section 242 of the *CAATSA* on the effects of expanding the sanctions to include sovereign debt and derivative products. The identification of any individuals or entities in such reports does not automatically lead to the imposition of new sanctions and it is not possible to predict whether any such identification could have a material adverse effect on the Russian economy or the Group.

In August 2018, the US State Department imposed new sanctions on Russia under the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (the *CBW Act*). The initial set of sanctions under the *CBW Act* includes, among other things, the termination of sales of any defence articles and services and a prohibition on the export to Russia of certain national security-sensitive goods and technology. In November 2018, the US Department of State declared its intention to impose further sanctions in accordance with the *CBW Act*, including, among other things, a prohibition on US banks to provide financing to the Russian sovereign, extensive bans on exports and imports involving Russia and the possible suspension of aviation rights into the United States. On 2 August 2019, OFAC proceeded to issue a directive that prohibited US banks from participating in the primary market for non-Rouble denominated bonds issued by the Russian sovereign and also prohibited US banks from lending non-Rouble denominated funds to the Russian sovereign.

Several pieces of legislation directed at amplifying US sanctions against the Russian Federation have been introduced in the US Congress and are currently under consideration. The current initiatives, if enacted, could affect, among other things, the Russian sovereign debt, Russian energy projects and the Russian energy and financial sectors. It is currently unclear at which point, if at all, any of these bills could be signed into law and what would be the scope of any new sanctions that may be imposed pursuant to such law.

Some Group entities, as well as the Issuer, are EU persons and are therefore required to comply with the EU sanctions, including not conducting business with any sanctioned persons. None of the proceeds of the issue of any Notes will be used (i) to fund activities of, or business with or involving, persons that are subject to sanctions introduced by the US and the EU, (ii) in any other manner that will result in a violation by any person (including any person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of sanctions introduced by the US and the EU or (iii) to finance or facilitate any activity specified or referenced in section 224, 225, 227, 228, 232, 233 or 234 of the *CAATSA* as a basis for the imposition of sanctions or penalties on any person pursuant to the *CAATSA* as a result of such person engaging in such activity. Other Group entities, including the Borrower, are neither US persons nor EU persons, and therefore are restricted in dealings with sanctioned persons only to the extent those dealings are subject to US and/or EU jurisdiction, such as through the involvement of US and/or EU persons or entities, business conducted on the territory of the US or EU, clearing in US dollars, or some other nexus to the relevant jurisdiction. However, there can be no assurance that compliance issues under applicable US and/or EU regulation, measures or similar laws and regulations will not arise with respect to the Group or its personnel. Non-compliance with applicable sanctions could result in,

among other things, the inability of the relevant Group entities to contract with the US and/or EU governments or their agencies, civil or criminal liability of such entities and/or their personnel under US and/or EU law, the imposition of significant fines and negative publicity and reputational damage. In addition, should the Group's dealings with sanctioned counterparties become material, the Group's ability to transact with US or EU persons could be affected, even though such dealings would comply with applicable law. As a result, the ability of members of the Group to raise funding from international financial institutions or the international capital markets could be restricted.

The sanctions imposed by the US and the EU in connection with the Ukraine crisis so far have had an adverse effect on the Russian economy, to which the Group is exposed significantly, prompting downgrades of the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access international capital markets. The governments of the US and certain EU member states, as well as certain EU officials have indicated that they may consider additional sanctions should tensions in Ukraine continue. In March 2019, the EU and the US sanctioned a number of Russian individuals and entities over a stand-off with Ukraine in the Azov Sea that took place in November 2018. Tensions between Russia and EU and the US have further increased recently as a result of the conflict in Syria, and there can be no assurance that the governments of the EU and US or other countries will not impose further sanctions on Russia related to the Syrian conflict.

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

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

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

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

- volatility and/or significant declines in GDP;
- high levels of inflation or hyperinflation;
- increases in, or high, interest rates;
- an unstable currency and instability in the local currency market;
- high state debt relative to gross domestic product;
- weak banking system providing limited liquidity to Russian enterprises;

- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- the use of fraudulent bankruptcy actions in order to take unlawful possession of property;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- tax evasion;
- the “black” and “grey” market economies;
- budget deficits;
- capital flight;
- corruption and the penetration of organised crime into the economy;
- sudden price declines in the natural resource sector;
- dependence of the economy on exports of commodities;
- significant declines and volatility in the stock market;
- significant increases in unemployment and underemployment;
- the impoverishment of a large portion of the Russian population; and
- a decreasing population and labour force.

Russia produces and exports large quantities of crude oil, natural gas and other mineral resources, which makes the Russian economy particularly vulnerable to world markets’ prices of commodities. The price of oil has been particularly volatile in recent years significantly decreasing in the second half of 2014 from US\$112.36 per barrel of Brent Crude oil on 30 June 2014 to US\$55.27 per barrel on 31 December 2014 and continued to decrease in 2015 reaching US\$37.28 per barrel on 31 December 2015. Although Brent Crude oil prices recovered to US\$55 per barrel as of 31 December 2016 and was relatively stable in 2017 and 2018, no assurance can be given that the prices will not decrease significantly in the future. Any significant disruptions of major exploration and development projects in the Russian oil and gas sector as a result of technological failures, restrictions on obtaining necessary technologies or services from foreign suppliers as a result of sanctions or insufficient funding may result in decreased productivity, reductions in output of such commodities and ultimately lead to lower federal budget revenues. These developments could have a material adverse effect on the Russian Government’s ability to provide financial support to Russian companies, and could have a material adverse effect on the Group’s business, financial condition, results of operations and prospects.

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

Inflation in Russia could increase the Group’s costs

The Russian economy has experienced relatively high rates of inflation in 2014-2016. According to Rosstat, the inflation rate was 11.4 percent in 2014, 12.9 percent in 2015 and 5.4 percent in 2016. Consumer inflation slowed down to 2.5 percent in 2017 and increased to 4.3 percent in 2018 due to the Rouble’s depreciation. A number of the Group’s costs relating to its Russian operations, such as wage costs, maintenance costs, construction costs and utilities costs, are sensitive to rises in general price levels in Russia and, as a result, the Group has in the past experienced inflation-driven increases in some of its production costs. However, due to competitive pressures, the Group may not be able to raise prices sufficiently to preserve operating margins.

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

Instability of global financial markets could affect the Russian economy

Russia's economy was adversely affected by the global financial and economic crisis and could be adversely affected by market downturns and economic crises or slowdowns elsewhere in the world in the future. In particular, the disruptions in the global financial markets have had a severe impact on the liquidity of Russian entities, the availability of credit and the terms and cost of domestic and external funding for Russian entities. This could adversely influence the level of customer demand for various goods and services, including those provided by the Group. These developments, as well as adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment, or a decline in oil, gas or other commodities prices (such as, for example, steel or precious metals) could slow or disrupt the Russian economy and adversely affect the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

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

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

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

Russia's banking and other financial systems are not well developed or regulated compared with more developed countries. There are currently a limited number of creditworthy Russian banks, most of which are headquartered in Moscow. Although the CBR has the mandate and authority to suspend banking licences of insolvent banks, many insolvent banks still operate. Over the last several years, the CBR has undertaken a "cleanup" campaign aimed at removing fraudulent, failing or undercapitalised financial institutions from the banking sector in order to make it more robust, stable and transparent in the event of any potential systemic shocks. As part of this campaign, the CBR revoked banking licences or introduced financial rehabilitation for a large number of banks which the CBR believed were undermining the sustainability and reliability of the sector. Recessionary trends in the Russian economy and stricter enforcement action by the CBR affected a number of notable Russian banks, such as Bank Otkritie, B&N Bank, Promsvyazbank, Moscow Industrial Bank, MDM Bank, Master-Bank, ROST-Bank, Trust-Bank, InvestTradeBank, Probusinessbank, Russian Capital Bank, Bank Peresvet and Prominvestbank, that were either acquired, liquidated or taken over for financial rehabilitation by other Russian banks or directly by the Deposit Insurance Agency or the CBR. As at 1 August 2019, 18 Russian banks were subject to ongoing rehabilitation measures imposed by the CBR or the Deposit Insurance Agency.

Liquidity constraints which emerged in the Russian banking sector in 2013 were aggravated by the restricted access for many Russian banks to the EU and US capital markets as a result of sanctions imposed by the EU and US in relation to the events in Ukraine. The second half of 2014 was marked by the continuous depreciation of the Rouble against foreign currencies, especially Euro and US Dollar, with the most acute stage of depreciation falling on December 2014. In order to strengthen the Rouble, the CBR increased the key interest rate from 10.5 percent to 17.0 percent in December 2014, which resulted in substantial short-term volatility and liquidity shortages on domestic financial and interbank markets. Consequently, funding costs have increased throughout the entire Russian financial system and have put substantial strain on Russian banks' ability to manage interest rate risks, raise financing and prudently allocate available liquidity. The resulting higher interest rates have also negatively affected the banking sector's profitability, as well as led to a deterioration in the creditworthiness of Russian consumer and corporates. The CBR proceeded to gradually reduce its key interest rate, for instance to 7.25 percent in March 2018. After a gradual reduction in the CBR key rate, the cost and availability of financing for Russian companies gradually improved, however an increase in the tax burden and inflation in 2018 forced the CBR to take preventive measures, including increasing the key rate to 7.50 percent in September 2018 and further to 7.75 percent in December 2018. In June and July 2019, the key rate was again lowered to 7.5 percent and 7.25 percent, respectively. Although liquidity in the Russian banking sector improved, there can be no assurance that further increases will not occur.

The Group maintains significant cash deposits and cash balances with 85 percent of the Group's cash and cash equivalents held on deposit and accounts with major state-owned Russian banks as at 30 June 2019. The Group's business and financial position could be adversely affected by any further deterioration and increased instability of the Russian banking sector. The revocation of the licenses or insolvency of any major banks in which the Group maintains its

accounts and uses for settlement operations could result in losses for the Group. Furthermore, any funding shortages or other banking disruptions experienced by the Group's major bank partners could have a material adverse effect on its ability to execute planned developments or to obtain the financing required for the Group's operations, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

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

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

Among the risks of the current Russian legal system are:

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

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

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

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

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

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

Russia's real property law is subject to uncertainty and inconsistency

The legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real estate to the same extent as is common in some of the more

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

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

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

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

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

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

The Federal Law No. 135-FZ "On Protection of Competition" dated 26 July 2006, which came into force on 26 October 2006, (the **Competition Law**) generally prohibits any concerted action, agreement or coordination of business activity that results or may result in, among other things, (a) price fixing, discounts, extra charges or margins; (b) coordination of auction bids; (c) partition of a commodity market by territory, volume of sales or purchases, types of goods, customers or suppliers; (d) refusal to enter into contracts with buyers (customers) for reasons other than economic or technological reasons; (e) imposing unfavourable contractual terms; (f) fixing disparate prices for the same goods, for reasons other than economic or technological reasons; (g) creation of barriers to entering or exiting a market; and (h) restriction of competition in any other way. There is no established court practice on what concerted actions or coordination of business activity is and courts interpret these concepts inconsistently. As a result, there is significant uncertainty as to what actions may be viewed as violation of the Competition Law. In a number of precedents, Russian courts found concerted actions where market participants acted in a similar way within the same period of time, although, arguably, there have been legitimate economic reasons for such behaviour and the behaviour was not aimed at restriction of competition. Therefore, there is a risk that the Group can be found in violation of the Competition Law if its market behaviour, vis-à-vis its customers or suppliers is viewed as being similar to behaviour of the Group's competitors and perceived by the FAS as a purported restriction of competition. Such broad interpretations of the Competition Law may result in the FAS imposing substantial limitations on the Group's activities, may limit operational flexibility and may result in civil, administrative and even criminal liability.

Furthermore, the Group has expanded its operations through the acquisition of companies that are incorporated and operating in Russia or assets that are located in Russia, such as the mining companies that currently comprise Severstal Resources. Some of these acquisitions are, or were, subject to the prior approval or subsequent notification requirements

of the FAS, or its predecessor agencies. Certain portions of these requirements are vaguely worded and there can be no assurance that the Group will be able to comply fully or that the FAS will not challenge the Group's past compliance, which could result in administrative sanctions, required divestitures or limitations on operations.

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

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

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

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

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

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

A significant part of the Group's assets is located in, and operations are connected with, Russia. Therefore, the weaknesses in the Russian tax system could adversely affect the Group.

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

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

Although Russia's tax climate and the quality of the Russian tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the Russian tax system. A large number of changes have been introduced to various chapters of the Russian Tax Code since its adoption. Since 2018, the Russian authorities have discussed an initiative aimed at levying excess profit taxes on companies operating in the metals and mining and chemical industries. Although, as of the date of this Base Prospectus, the Russian authorities refused to consider this initiative further, it is possible that the Russian Government may revert to it in the future and impose additional, arbitrary and/or onerous taxes, levies, fines and interest penalties in the future, which could adversely affect the business of the Group, financial condition or results of its operations. Russia's inefficient tax collection system increases the likelihood of such events. Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some sections of the Russian Tax Code relating to the above-mentioned taxes are comparatively new, the interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax laws and regulations may exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and tax risks and leading to the inconsistent enforcement of these tax laws and regulations in practice. In some instances, the Russian tax authorities have applied new interpretations of tax laws and regulations retroactively. During the past several years the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax audits of companies operating in various industries. The Russian tax system is therefore impeded by the fact that it still relies heavily on the judgments of local tax officials

which could take different approaches in different years. Private clarifications to specific taxpayers' queries with respect to particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities. Therefore there can be no assurance that the Russian tax authorities will not take a position contrary to the one set out in private clarification letters issued by the Russian Ministry of Finance to cases with similar circumstances.

In the absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may be inconsistent or contradictory. It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged in the future, subject to the applicable statutory limitation period, which may have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the trading price of the Notes. There can be no assurance that the Russian legislation and regulations will not be altered, in whole or in part, in such a way that the arrangements described in this Base Prospectus would be subject to a tax treatment different from the treatment described herein, whether retroactively or otherwise, or would be affected adversely in some other way.

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

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

The Russian transfer pricing legislation, which is currently in effect, allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs). Due to a number of uncertainties in the interpretation of the current Russian transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge the Group's prices and make adjustments, which could affect the Group's tax position unless the Group is able to justify the use of market prices with respect to "controlled" transactions supported by the appropriate transfer pricing documentation. The imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on the Group's tax position, business, results of operations and financial condition.

The concept of a consolidated taxpayer (a **Tax Group**) was incorporated in the Russian Tax Code and became effective from 1 January 2012. These rules introduce consolidated tax reporting that enables the consolidation of the financial results of Russian companies for profits tax purposes which form one group. The Tax Group's corporate income tax base should be based on income and expenses of its participants. The consolidated profits cannot be reduced by tax losses accumulated by the participants of the Tax Group prior to its establishment. Moreover, intragroup transactions are to be included in the consolidated tax base and are arguably not subject to transfer pricing control. There are several requirements which should be met for consolidated group creation, including thresholds established for the level of revenue and the amount of corporate income tax payable by the Tax Group. The Group has created the consolidated group of taxpayers, consisting of the Group's Russian entities, with Severstal being the responsible member. There is no assurance that the consolidated taxpayer regime will not be changed in future. If the application of the consolidated group of taxpayers regime is subsequently challenged by the Russian tax authorities or minority shareholders of Severstal or its consolidated tax subsidiaries, this may result in the increase of tax burden of the Group and have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

These changing conditions create tax risks in Russia that are more significant than those typically found in jurisdictions with more developed tax systems and complicate tax planning and related business decisions of the Group. In addition, there can be no assurance that the current tax rates will not be increased, that new taxes will not be introduced or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the

future which may affect the Group's overall tax efficiency and may result in significant additional tax liabilities. In addition, the Group is subject to periodic tax audits that may result in additional tax assessments both in respect of the current and prior tax periods. The Group's tax burden may become greater than the estimated amount that it has paid or accrued on its balance sheet. There also can be no assurance that the Russian Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. In general, it is expected that Russian tax legislation will progressively become more sophisticated. The Group cannot provide investors with any assurance that additional Russian tax exposures will not arise. Such additional tax exposures could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, and the value of the Notes.

In addition, the Russian Federation introduced measures aimed at combating tax evasion through the use of low tax jurisdictions and aggressive tax planning structures, including by introducing the *Anti-Offshore Law*. The amendments introduced in the Russian Tax Code included controlled foreign companies (*CFC*) legislation, the concept of the tax residency of foreign legal entities as well as the beneficial ownership status. Under "controlled foreign companies" rules undistributed profits of certain foreign organisations as well as foreign structures without legal personality (such as funds, partnerships, trusts etc.), owned and/or controlled by Russian tax residents (legal entities and individuals) should be subject to taxation in Russia provided that certain criteria are met.

The beneficial ownership concept, which is broadly in line with the concept developed by the Organisation for Economic Co-operation and Development (the *OECD*) states that a double tax treaty relief should be available to foreign legal entities provided they have the actual right to receive income (i.e., they qualify as the "beneficial owner of income").

The introduction and further development of the above-mentioned rules and concepts and some other tax anti-avoidance initiatives imposes additional administrative burden on the Group. Further, the Group may be subject to additional tax liabilities as a result of the application of such rules which could have a material adverse effect on the Group's business, financial condition, results of operations and the value of the Notes.

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

In 2017 specific anti-avoidance rules were introduced by Article 54.1 of the Russian Tax Code. A similar "unjustified tax benefit" concept introduced by the Plenum of the Supreme Arbitration Court of the Russian Federation in its Decree No. 53 (*Decree No. 53*) has been in existence for more than 10 years in Russian tax law. The unjustified tax benefit concept has been widely used by the Russian tax authorities to challenge the tax position of Russian taxpayers, inter alia, with respect to the application of double tax treaty benefits. However, the Ministry of Finance of the Russian Federation in its recent letter stated that the concepts expressed in Decree No. 53 and evolved in the relevant court practice should not be applied by the Russian tax authorities in the course of tax audits following the enactment of new specific anti-avoidance rules. The new anti-avoidance rules (a) establish the framework within which taxpayers may enjoy tax benefits and (b) prohibit any wilful misconduct resulting in a non-payment or underpayment of taxes by misrepresenting information on commercial events and objects of taxation. In addition to that general prohibition, taxpayers may reduce their tax base and/or payable amount of tax if they can document that (i) tax avoidance is not the primary purpose of a transaction and (ii) the contractual obligation is performed directly by the party named in the contract or by a person to whom such obligation has been transferred by contract or by law. The new rules apply retrospectively to all periods that may be subject to tax audits. Due to the fact that the court practice related to the application of the new rules is still limited and underdeveloped, it is not possible to predict the exact effect which such rules may have on taxpayers, including the Russian companies of the Group.

Historically, the Group and the main Russian entities of the Group have been paying significant amounts of taxes due to the scale of their operations. This fact together with the above factors, coupled with the potential for state budget deficits, raise the risk of the imposition of additional taxes, levies, fines and interest penalties on the Group. The introduction of new taxes or levies or the introduction of amendments to current taxation rules may have a substantial impact on the overall amount of tax liabilities of the respective entities of the Group. Although the Group undertakes measures aimed at minimising tax risks and the approach to management of tax liabilities and tax risks within the Group has been conservative, there is no assurance that the Russian entities of the Group would not be required to make substantially larger tax payments in the future, which may affect the financial results of the Group. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing it and its Russian subsidiaries to significant additional taxes, levies, fines and interest penalties and enforcement measures, and could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

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

The Group operates in various jurisdictions and includes companies incorporated outside of Russia. The Russian tax legislation on taxation of foreign companies in Russia or operations of Russian companies abroad is not comprehensive and there is no stable practice of its application. It is also subject to frequent changes.

In particular, the Russian Tax Code contains a concept of a permanent establishment in Russia as a means for taxing foreign legal entities which carry out regular entrepreneurial activities in Russia falling beyond preparatory and auxiliary activities. However, the practical application of the concept of a permanent establishment under Russian law is not well developed and foreign companies having even limited operations in Russia, which would not normally satisfy the conditions for creating a permanent establishment under international rules, may be at a risk of being treated as having a permanent establishment in Russia and be liable to Russian taxation and also have obligations to withhold Russian taxes from payments to foreign individuals and legal entities as a tax agent. There were precedents where the Russian tax authorities sought to challenge the Russian tax status of foreign companies and some of their attempts were successful.

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

It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities and/or courts to their interpretation and application, the Group may become subject to additional taxation in Russia in respect of its operations outside of Russia. Under the concept of tax residency of foreign legal entities, foreign legal entities could be deemed Russian tax residents if it follows from the provisions of the applicable double tax treaty or their place of management is located in Russia under the Russian Tax Code (if no double tax treaty applies). In addition, the execution of various routine functions in Russia for the benefit of a foreign legal entity may under certain circumstances lead to the recognition of such foreign legal entity as a Russian tax resident. If a foreign legal entity is recognised as a Russian tax resident, it would become liable to taxation by Russian profits tax in a manner similar to the taxation of Russian companies (based on its worldwide income), including the obligation to withhold Russian taxes from payments to foreign individuals and legal entities, and potentially all other taxes (including VAT, social tax etc.).

The Group cannot rule out that as a result of the implementation of the above-mentioned concepts, their further development as well as the changes in the approach of the Russian tax authorities and/or the courts to the interpretation and application of such concepts and rules, the non-taxable status of some or all foreign companies of the Group in Russia may be challenged and such foreign companies may become subject to additional taxation in Russia which could have a material adverse effect on the business, prospects, financial condition and results of operations of the Group.

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

In general, interest payments on borrowed funds made by a Russian legal entity or an organisation to a non-Russian legal entity or organisation having no registered presence and/or no permanent establishment or no tax residency in Russia are subject to Russian withholding tax at the rate of 20 percent (or such other tax rate as could be effective as of the date of payment) which could be reduced or eliminated under the terms of an applicable double tax treaty subject to compliance with the respective treaty clearance formalities by the foreign recipient of interest income in a timely manner and provided that the foreign interest income recipient can qualify as the person having the actual right to income as defined in the Russian tax legislation.

The concept of beneficial ownership has been introduced in the Russian Tax Code by the Anti-Offshore Law. In accordance with Russian tax law, beneficial owner is defined as the person (foreign structure without legal entity) who based on direct or indirect participation in an organisation (Russian or foreign), control over the organisation (Russian or foreign) or due to other reasons has the right to use and dispose of the relevant income for his/her own benefit. Functions undertaken and risks borne by such person are taken into account when determining the beneficial ownership status. A person cannot be regarded as a beneficial owner if he/she (1) has limited authorities to use or dispose of the income, (2) acts as an intermediary and undertakes no additional functions or accepts no risks, (3) is obliged to pass the income to a third party.

Generally, no Russian withholding tax obligations should arise on interest on the loan provided to the Russian borrower in connection with the issuance of the notes by a foreign entity (the ***Eurobond structure***) by virtue of the special exemption envisaged by the Russian Tax Code. Specifically, the Russian Tax Code provides, among other things, that

Russian borrowers should be fully released from the obligation to withhold income tax from interest and other payments on debt obligations made to foreign entities provided that certain conditions are met throughout the term of the respective debt obligation and the notes. Therefore, the Russian borrower should be released from the obligation to withhold Russian income tax from interest and other payments made to non-Russian entities provided that the respective conditions are met throughout the term of the respective Loan and the Notes of the respective Series. See “*Taxation—Russian Federation*” for more information about the specific conditions and certain practical issues that might arise in connection with such compliance.

Importantly, the Russian Tax Code does not provide a similar exemption from Russian withholding tax to non-Russian recipients of interest income. However, there is currently no requirement and mechanism in the Russian tax legislation for non-Russian recipients of interest income being the legal entities and organisations to self-assess and pay the tax on the Russian-source income to the Russian tax authorities in case the tax was not withheld at source. There can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not change their position on the matter in connection with Eurobond structures or would not make attempts to collect the tax from the non-Russian recipients of interest income, including the Issuer or the Noteholders.

If interest and/or any other amounts due under any Loan become payable to the Trustee pursuant to the Trust Deed, there is some residual uncertainty whether the Trustee can qualify for the “entity authorised to receive interest income payable on the issued bonds” and hence whether the release from the obligation to withhold income tax from interest and other payments on any Loan would be available to the Company under the Russian Tax Code. See “*Taxation—Russian Federation*”. It is not expected that under such circumstances the Trustee will, or will be able to, claim a Russian withholding tax exemption or reduction under any applicable double tax treaty due to the nature of its functions. In addition, while some Noteholders that are persons not residing in Russia for tax purposes may be eligible for the exemption from or the reduction in Russian withholding tax or personal income tax, as applicable, under double tax treaties entered into between their countries of tax residence and the Russian Federation, where such treaties exist and to the extent they are applicable, there can be no assurance that the respective treaty relief will be available to them due to difficulties related to the advance tax relief. See “*Taxation—Russian Federation*”.

In addition, on 7 June, 2017, 68 jurisdictions, including Russia, signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the **MLI**). A number of jurisdictions have expressed their intention to sign the MLI. For some jurisdictions the MLI has already entered into force. For Russia the MLI enters into force on 1 October 2019. The MLI sets out additional requirements for the application of the double taxation treaty benefits, including in relation to the reduced withholding tax rates. It is expected that changes to specific bilateral treaties would come into effect after the parties to the treaties have deposited their instruments of ratification, acceptance or approval of the MLI, subject to an additional phase-in period. These MLI-related changes, when implemented, may affect negatively the availability of certain double taxation treaty benefits to Non-Resident Noteholders.

If interest payments and/or other amounts due under any Loan become subject to Russian withholding tax (as a result of which the Issuer or the Trustee will reduce interest payable under the corresponding Series of the Notes by the amount of such withholding taxes), the Company will be obliged (subject to certain conditions) under the terms of the relevant Loan Agreement to increase the amounts payable or to make such additional payments, respectively (“gross up”) as may be necessary to ensure that the net amount of payments received by the Issuer or Trustee will not be less than the amounts it would have received in the absence of such withholding. There is a risk that gross-up for withholding tax will not take place insofar as Russian law is concerned and that payments the Company makes under any Loan will be reduced by the amount of Russian income tax withheld by the Company at the rate of 20 percent (or such other rate as may be in force at the time of payment) or, potentially, with respect to Non-Resident Noteholders – Individuals (as defined under “*Taxation—Russian Federation—Taxation of the Notes—General*”) Russian personal income tax at the rate of 30 percent (or such other rate as may be in force at the time of payment). See “*Taxation—Russian Federation*”.

Sale or other disposal of the Notes in Russia by a Non-Resident Noteholder may become subject to Russian income tax reducing the value of the Notes

Where proceeds from the sale or other disposal of the Notes (including proceeds attributable to accrued and unpaid interest on the Notes) are deemed to be received from a source within Russia by a Non-Resident Noteholder Individual, Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of such sale or other disposal) will apply to the gross amount of the sales or other disposal proceeds realised upon such sale or other disposal of the Notes decreased by any available costs (including the acquisition costs of the Notes and other expenses relating to the acquisition, holding and sale or other disposal of the Notes), provided that the duly executed documentation supporting cost deductions is made available to the person obliged to calculate and withhold Russian personal income tax (tax agent) in a timely manner. If no documentation supporting the cost deduction is provided to the tax agent, Russian personal income tax will be determined based on the gross amount of sales or other disposal proceeds. Russian personal income tax base should be determined in Roubles. For this purpose, sales or other disposal proceeds and deductible costs should be converted into Roubles based on the exchange rate of the Central Bank of Russia as of the date when the costs were incurred and sales or other disposal proceeds were received. This may result in taxable income

occurring for Russian personal income tax purposes even though there may be no gain or a capital loss in the currency in which the Notes are traded.

Although technically Russian personal income tax rate may be reduced or eliminated under provisions of an applicable double tax treaty concluded between Russia and the country of tax residency of a particular Non-Resident Noteholder Individual, subject to timely compliance by that Non-Resident Noteholder Individual with the respective treaty clearance formalities, in practice such Non-Resident Noteholder Individual may not be able to obtain the advance treaty relief in relation to sales or disposal proceeds and/or accrued interest income, as may be relevant, received from a source within Russia. Obtaining a refund of Russian personal income taxes that were excessively withheld in relation to this income can be difficult, or impossible in some cases. Further, even though the Russian Tax Code requires only a Russian professional asset manager or broker acting in a similar capacity to withhold the tax from payment to an individual associated with the sale or other disposition of securities, there is no guarantee that other Russian companies or foreign companies operating in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax.

Generally, there should be no Russian tax on gains from the sale or other disposition of the Notes imposed on a Non-Resident Noteholder Legal Entity. There is, however, some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the Notes (i.e., debt obligations) where proceeds from the sale or other disposition of the Notes are received from a source within Russia by a Non-Resident Noteholder Legal Entity. The uncertainty is driven by isolated instances in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the Eurobonds. Although the Ministry of Finance of the Russian Federation in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest on the Eurobonds paid to a non-Russian organisation should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having a registered tax presence in Russia which purchases the Notes from the Non-Resident Noteholder Legal Entity or acts as an intermediary for other persons may seek to assess Russian withholding tax at the rate of 20 percent (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds of the Notes.

While some Non-Resident Noteholders may be eligible for an exemption from or a reduction in Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice.

The imposition or the possibility of imposition of this withholding tax as applicable under such circumstances could adversely affect the value of the Notes. Please see “*Taxation*”.

RISK FACTORS RELATING TO THE NOTES

Risk Factors Relating to the Issuer

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

Insolvency laws

The Issuer has its “centre of main interests” (within the meaning of the Regulation (EU) 2015/848 of 20 May 2015 on insolvency proceedings (recast)) and its “central administration” (within the meaning of the Luxembourg law of 10 August 1915, on commercial companies, as amended (the ***Companies Act 1915***)) in Luxembourg. Accordingly, insolvency proceedings with respect to the Issuer may proceed under, and be governed by, the Luxembourg insolvency laws. The insolvency laws of Luxembourg may not be as favourable to investors’ interests as those of other jurisdictions with which investors may be familiar and may limit the ability of holders of the Notes to enforce their rights in respect of the Notes. Insolvency proceedings may have a material adverse effect on the Issuer’s business, assets and obligations. The following is a brief description of certain aspects of insolvency laws in Luxembourg.

Under Luxembourg law, the following types of proceedings (altogether referred to as “insolvency proceedings”) may be opened against an entity having its “centre of main interests” in Luxembourg or an establishment within the meaning of the Regulation (EU) 2015/848 of 20 May 2015 (recast) (in relation to secondary proceedings):

- bankruptcy proceedings (faillite), the opening of which may be requested by the relevant Luxembourg company or by any of its creditors. Following such a request, the courts having jurisdiction may open bankruptcy proceedings, if that Luxembourg company (a) is in default of payment (cessation des paiements) and (b) has lost its commercial creditworthiness (ébranlement de crédit). If a court finds that these conditions are satisfied, it may also open bankruptcy proceedings, absent a request made by such Luxembourg company or a creditor. The main effect of such proceedings is the suspension of all measures of enforcement against the Luxembourg company, except, subject to certain limited exceptions, for secured creditors and the payment of creditors in accordance with their rank upon the realisation of assets;

- controlled management proceedings (gestion contrôlée), the opening of which may only be requested by the relevant Luxembourg company and not by its creditors; and
- composition proceedings (concordat préventif de la faillite), which may be requested only by the relevant Luxembourg company (having received prior consent of a majority of its creditors representing three quarters of all uncontested claims or claims admitted provisionally) and not by its creditors. The court's decision to admit a company to the composition proceedings triggers a provisional stay on enforcement of claims by creditors.

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

The liability of the Issuer as issuer of the Notes will, in the event of a liquidation of the entity following bankruptcy or judicial liquidation proceedings, rank after the cost of liquidation (including any debt incurred for the purpose of such liquidation) and those debts of the Issuer that are entitled to priority under Luxembourg law. Preferential debts under Luxembourg law for instance include, among others:

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

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

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

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

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

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

Transactions that may be challenged or set aside

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

- pursuant to Article 445 of the Luxembourg Code of Commerce (Code de commerce), specified transactions (such as, in particular, the payment of debts which have not fallen due, whether payment is made in cash or by way of assignment, sale, set-off or by any other means; the payment of debts which have fallen due by any means other than in cash or by bill of exchange; the sale of assets without consideration or with substantially inadequate consideration) entered into during the suspect period (or the 10 days preceding it) must be set aside or declared null and void, if so requested by the insolvency receiver;
- pursuant to Article 446 of the Luxembourg Code of Commerce, payments made for matured debts as well as other transactions concluded for consideration during the suspect period are subject to cancellation by the court upon proceedings instituted by the insolvency receiver if they were concluded with the knowledge of the bankrupt party's cessation of payments; and
- in the case of bankruptcy, Article 448 of the Luxembourg Code of Commerce and article 1167 of the Luxembourg Civil Code (action paulienne or actio pauliana) gives the insolvency receiver (acting on behalf of the creditors) the right to challenge any fraudulent payments and transactions, including the granting of security with an intent to defraud, made prior to the bankruptcy, without any time limit. The conditions governing the actio pauliana are the following: (i) the creditor must prove that the act he challenges actually caused him some harm; (ii) the creditor must prove the fraudulent intent of his debtor, which may be inferred; and (iii) the creditor's claim must precede the transaction challenged for fraud.

The transactions potentially subject to avoidance also include those entered into by the Issuer in connection with the issue of the Notes.

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

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

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

Risk Factors Relating to the Notes and the Trading Market

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

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

The obligations of the Company under each Loan Agreement are structurally subordinated to the existing obligations of the Company's subsidiaries. In addition, subject to certain limitations set out in the Loan Agreements, the Company and its subsidiaries may be able to incur substantial additional debt in the future, including debt that may be secured or structurally senior to the debt under each Loan. Any such additional debt incurred by the Company's subsidiaries would be structurally senior to the obligations of the Company under each Loan Agreement. As at 30 June 2019, the Group had US\$1.8 billion of total debt finance. Secured indebtedness of the Company or any of its subsidiaries may also rank effectively senior to the obligations of the Company under each Loan Agreement. The incurrence of such additional indebtedness by the Company or its subsidiaries could have an adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Notes.

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

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

Noteholders' recourse against the Issuer is limited

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

Noteholders have no direct recourse against the Company

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

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

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

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

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

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

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

The Group may prepay the loans under the Loan Agreements

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

There is no active trading market for the Notes

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

Floating Rate Notes

Reference rates and indices, including interest rate benchmarks, such as the London Interbank Offered Rate (**LIBOR**), which are used to determine the amounts payable under financial instruments or the value of such financial instruments (**Benchmarks**), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation could have a material adverse effect on any Notes referencing or linked to such Benchmark.

Under the Facility Agreement, if for any reason the LIBOR rate should become unavailable, the interest rate applicable to any Floating Rate Loan linked to the LIBOR benchmark will be determined by the Calculation Agent by averaging quotes obtained from reference banks, if available, or, if only one or no such quotes are available, by averaging rates for deposits in the specified currency obtained from reference banks, if any, or, if no such rates are available, by using the last available LIBOR rate, as described Clause 4.3.3(ii) (*Rate of Interest for Floating Rate Loans*). As a result, if the Calculation Agent is unable to obtain such quotes and rates and no amendment is made to the Facility Agreement, such Floating Rate Loans will become fixed rate loans utilising the last available LIBOR rate determined under Clause 4.3.3(ii). Additionally, absent any future amendment to the Facility Agreement, such Floating Rate Loans will continue to pay interest at the fallback fixed rate even if a replacement index is subsequently established for LIBOR for use in connection with other securities or for other purposes. Uncertainty as to the continuation of LIBOR, the availability of quotes from reference banks to allow for the continuation of the floating rate on any Loans, and the rate that would be applicable if LIBOR is discontinued may adversely affect the trading market and the value of the Loans. At this time, it is not possible to predict what the effect of these developments will be or what the impact on the value of the Loans and consequently, the Notes will be. More generally, any of the above changes or any other consequential changes to LIBOR, EURIBOR or any other Benchmark as a result of international, national, or other proposals for reform or other initiatives or investigations, or any further uncertainty in relation to the timing and manner of implementation of such changes, could have a material adverse effect on the value of and return on any Notes based on or linked to a Benchmark.

Ratings of the Notes

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

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

Outstanding Eurobonds of Russia are rated “Baa3” by Moody’s, “BBB-” by Standard & Poor’s and “BBB” by Fitch. Series of Notes issued under this Programme may be rated or unrated. The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms or Series Prospectus, and if such Series of Notes is rated, it will be rated by Standard & Poor’s, Fitch and/or Moody’s, as indicated in such applicable Final Terms or Series Prospectus. During the course of 2014, international rating agencies Standard & Poor’s and Moody’s downgraded their foreign currency sovereign debt rating for the Russian Federation below “investment grade”. Since then, the sovereign debt rating of the Russian Federation has several times been under review by the rating agencies. On 8 February 2019, Moody’s affirmed its sovereign debt rating for the Russian Federation at “Baa3” and revised its outlook from positive to stable. On 23 February 2018, Standard & Poor’s affirmed its sovereign debt rating for the Russian Federation at “BBB-” and revised its outlook from positive to stable. On 9 August 2019, Fitch upgraded its sovereign debt rating for the Russian Federation to “BBB”. A change in the credit rating of one or more other Russian corporate borrowers could also adversely affect the trading price of the Notes.

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

Legal investment considerations may restrict certain investments

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

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

Except in limited circumstances, the Notes will be issued only in global form with interests therein held through the facilities of Euroclear, Clearstream, Luxembourg and/or DTC. Ownership of beneficial interests in the Notes is shown on, and the transfer of that ownership is effected only through, records maintained by Euroclear, Clearstream, Luxembourg and/or DTC or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear, Clearstream, Luxembourg and/or DTC can only act on behalf of their participants, which, in turn, act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear, Clearstream, Luxembourg and/or DTC systems may be impaired.

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

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

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

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

USE OF PROCEEDS

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

EXCHANGE RATE INFORMATION

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

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

Year ended 31 December	RUB per US\$1.00			
	High	Low	Period average ⁽¹⁾	Period end
2013	33.47	29.93	31.85	32.73
2014	67.79	32.66	38.40	56.26
2015	72.88	49.18	60.92	72.88
2016	83.59	60.27	67.02	60.66
2017	60.75	55.85	58.35	57.60
2018	69.97	55.67	62.70	69.47
2019				
Six months ended 30 June 2019.....	69.47	62.52	65.33	63.08
July 2019	63.87	62.81	63.20	63.38
August 2019.....	66.78	63.42	65.53	66.49

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

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

CAPITALISATION

The following table sets out on a consolidated basis the Group's cash and cash equivalents, short-term debt finance and capitalisation as at 30 June 2019. Prospective investors should read this table in conjunction with “*Selected Consolidated Financial Information*”, “*Operating and Financial Review*” and the Financial Statements which are included in this Base Prospectus beginning on page F-2.

	As at 30 June 2019
	Actual
	(US\$ millions)
Cash and cash equivalents	345
Short-term debt finance	255
Long-term debt finance	1,559
Equity	
Share capital	2,753
Treasury shares	(107)
Additional capital	308
Translation reserve	(2,041)
Retained earnings	2,320
Other reserves	8
Total equity attributable to shareholders of PAO Severstal	3,241
Non-controlling interests	14
Total equity	3,255
Total equity and long-term debt finance (capitalisation)	4,814

There has been no material change in the Group's total capitalisation since 30 June 2019.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set out, in summary form, the consolidated statement of financial position, the income statement and other information relating to the Group. Such information has been derived from the Financial Statements of the Group prepared in accordance with IFRS and IAS 34, as appropriate. The Reports of KPMG appear elsewhere in this Base Prospectus. With respect to the Interim Financial Statements, included herein, the independent auditor has reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein, states that they did not audit and they do not express an opinion on those Interim Financial Statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. The financial information presented below should be read in conjunction with the Financial Statements, the Reports of KPMG and “*Operating and Financial Review*”.

CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars, except as otherwise stated)				
Revenue					
Revenue – third parties	8,436	7,726	5,812	4,130	4,360
Revenue – related parties	144	122	104	78	72
	8,580	7,848	5,916	4,208	4,432
Cost of sales	(4,918)	(4,735)	(3,573)	(2,573)	(2,579)
Gross profit	3,662	3,113	2,343	1,635	1,853
General and administrative expenses	(306)	(286)	(279)	(183)	(157)
Distribution expenses	(578)	(598)	(462)	(261)	(304)
Other taxes and contributions	(69)	(71)	(54)	(27)	(33)
Share of associates' and joint ventures' gain	14	10	14	11	8
Loss on disposal of property, plant and equipment and intangible assets	(23)	(3)	(52)	(6)	(19)
Net other operating income/(expenses)	7	(3)	7	11	3
Profit from operations	2,707	2,162	1,517	1,180	1,351
Reversal of impairment/(impairment) of non-current assets	68	(3)	(135)	-	2
Gain from a bargain purchase	-	135	-	-	-
Net other non-operating (expenses)/income	(50)	(421)	12	(24)	(22)
Profit before financing and taxation	2,725	1,873	1,394	1,156	1,331
Finance income	14	49	63	3	12
Finance costs	(113)	(158)	(157)	(62)	(61)
Gain/(loss) on remeasurement and disposal of financial instruments	58	(45)	(66)	(51)	14
Foreign exchange (loss)/gain	(165)	45	483	101	(44)
Profit before income tax	2,519	1,764	1,717	1,147	1,252
Income tax expense	(468)	(409)	(97)	(244)	(234)
Profit for the period	2,051	1,355	1,620	903	1,018
Attributable to:					
shareholders of PAO Severstal	2,051	1,356	1,621	903	1,018
non-controlling interests	-	(1)	(1)	-	-
Basic weighted average number of shares outstanding during the period (millions of shares)	817.1	811.7	810.6	823.7	814.3
Basic earnings per share (US dollars)	2.51	1.67	2.00	1.10	1.25
Diluted weighted average number of shares outstanding during the period (millions of shares)	847.7	842.1	810.6	849.1	846.7
Diluted earnings per share (US dollars)	2.47	1.64	2.00	1.09	1.24

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			As at 30 June
	2018	2017	2016	2019
(Amounts expressed in millions of US dollars, except as otherwise stated)				
Assets				
Current assets:				
Cash and cash equivalents	228	1,031	1,154	345
Short-term financial investments	7	12	19	3
Trade accounts receivable	554	598	485	658
Accounts receivable from related parties	20	16	22	26
Inventories	1,087	1,058	867	1,190
VAT recoverable	66	124	78	68
Income tax recoverable	5	7	14	7
Other current assets	105	106	87	147
Assets held for sale	-	-	82	265
Total current assets	2,072	2,952	2,808	2,709
Non-current assets:				
Long-term financial investments	8	217	231	13
Investments in associates and joint ventures	76	65	55	89
Property, plant and equipment	3,469	3,701	3,135	3,937
Intangible assets	212	241	221	253
Deferred tax assets	27	24	27	43
Other non-current assets	10	9	6	12
Total non-current assets	3,802	4,257	3,675	4,347
Total assets	5,874	7,209	6,483	7,056
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable	545	549	491	595
Accounts payable to related parties	21	18	15	17
Short-term debt finance	110	586	673	255
Income taxes payable	11	40	21	27
Other taxes and social security payable	107	113	95	161
Dividends payable	6	6	6	6
Other current liabilities	323	358	457	408
Liabilities related to assets held for sale	-	-	38	59
Total current liabilities	1,123	1,670	1,796	1,528
Non-current liabilities:				
Long-term debt finance	1,345	1,507	1,340	1,559
Deferred tax liabilities	295	311	115	336
Retirement benefit liabilities	56	78	67	64
Other non-current liabilities	176	245	124	314
Total non-current liabilities	1,872	2,141	1,646	2,273
Equity:				
Share capital	2,753	2,753	2,753	2,753
Treasury shares	(133)	(206)	(236)	(107)
Additional capital	308	308	296	308
Translation reserve	(2,345)	(1,679)	(2,246)	(2,041)
Retained earnings	2,274	2,195	2,450	2,320
Other reserves	8	12	9	8
Total equity attributable to shareholders of PAO Severstal	2,865	3,383	3,026	3,241
Non-controlling interests	14	15	15	14
Total equity	2,879	3,398	3,041	3,255
Total equity and liabilities	5,874	7,209	6,483	7,056

SUMMARY CASH FLOW DATA

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(Amounts expressed in millions of US dollars)				
Net cash from operating activities	2,254	1,914	1,477	1,117	1,163
Net cash used in investing activities	(466)	(580)	(663)	(465)	(93)
Net cash used in financing activities	(2,557)	(1,487)	(1,329)	(546)	(728)

OPERATING AND FINANCIAL REVIEW

The following is a discussion of the Group's financial condition and results of operations as at and for the six months ended 30 June 2019 and 2018, and as at and for the years ended 31 December 2018, 2017 and 2016, and of the material factors that the Group believes are likely to affect its financial condition and results of operations. You should read this section in conjunction with the Financial Statements included in this Base Prospectus beginning on page F-2. The Financial Statements have been prepared in accordance with IFRS.

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

Overview of the Group

The Group is a vertically-integrated steel and steel-related mining company that sells high quality metal and mining products to customers across the world. In 2018, the Group's total output of crude steel was 12.0 million tonnes. The Group operates a full production cycle which includes iron ore, coal, scrap collection, steel mills and rolled product plants, downstream production and distribution businesses. The Group's primary production facilities are located in Russia. With a focus on high value-added products in attractive niche markets, sales of which represented 46 percent of the Group's total metal sales volume for 2018, the Group's vision is to become a leader in the global steel industry, maximise total shareholder return and be the first choice for customers, employees and partners. The Group's principal financial target is annual Adjusted EBITDA growth of 10 to 15 percent net of macroeconomic factors which it aims to achieve by focusing its capital expenditure programme on increasing Adjusted EBITDA generation, cost cutting, further synergies from vertical integration and superior customer service.

THE GROUP'S FINANCIAL STATEMENTS AND SCOPE OF CONSOLIDATION

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

The list of the Group's significant subsidiaries, associates and joint ventures with effective ownership interests as at 31 December 2018, 2017 and 2016 is included in the Annual Financial Statements.

Segment Reporting for the Years Ended 31 December 2018, 2017, 2016 and for the Six Months Ended 30 June 2019 and 2018

As at 30 June 2019, the Group had two reportable segments, in accordance with IFRS 8 "Operating Segments" for the purposes of the Financial Statements: Severstal Resources segment and Severstal Russian Steel segment.

The discussion relating to the years ended 31 December 2018, 2017, 2016 and six months ended 30 June 2019 and 2018 follows the reporting segment structure consistent with the Financial Statements.

Severstal Resources segment

The Severstal Resources segment's operations include: iron ore production and coal production. Severstal Resources forms the basis of the Group's balanced and vertically-integrated business model. Severstal Resources' overall production volumes are able to satisfy all of the iron ore requirements and approximately 60 percent of coking coal requirements of Severstal Russian Steel, without taking into account the chemical features of the particular iron ore or coal mix required.

Severstal Russian Steel segment

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

KEY FACTORS AFFECTING THE GROUP'S FINANCIAL RESULTS

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

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

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

The demand for steel products and global steel production capacity have been strongly influenced by the developing world, particularly China, as well as India and other emerging markets. Further, for the year ended 31 December 2018, 60 percent of the Group's total revenue came from sales to Russian customers. As the result, any significant declines in the Russian economy, depreciation of the Rouble and any deterioration of other economic conditions have an adverse effect on the Group's financial results.

In 2018, the economies around the world grew. In 2018 Russia's GDP growth rate accelerated to 2.3 percent compared with 1.6 percent in 2017. As a result, the Group's revenues in 2018 increased reflecting the economic growth in markets such as Russia, the EU and China. The combination of increasing global steel demand and capacity restrictions in China has resulted in increased global average steel prices in 2018 compared with 2017. In 2018, Russia's steel demand increased by 0.7 percent. The above developments had a positive effect on the Group's revenues in 2018.

In 2018, Russian steel domestic and export prices followed the dynamics of Chinese steel product benchmarks. Severstal Russian Steel's average selling prices were higher in 2018 compared with 2017 mainly due to better market conditions in the first half of 2018. The Chinese steel industry demonstrates high production levels due to increasingly effective capacities and the construction of new steel mills to replace closed ones. This trend creates an overproduction risk in China that could be triggered by a weakening in domestic steel consumption. For example, in the second quarter of 2019 demand for steel in China decelerated which led to the creation of surplus steel inventories held by traders. There is a risk of further demand slowdown in China due to escalation of the trade conflict with the US, internal demand saturation in the residential housing market and other factors.

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

	Year ended 31 December		
	2016	2017	2018
Russia			
GDP growth/(decline) ⁽¹⁾	0.3%	1.6%	2.3%
Percent change in consumer price index ⁽¹⁾	5.4	2.5	4.3

Source:

(1) Russian Federal State Statistics Service.

Exchange rate movements

The majority of the Group's operations are based in Russia and certain production entities are located in Europe. The functional currency is determined separately for each of the Group's entities. The functional currency of the major part of the Group's entities is the Russian Rouble, except for entities located in Latvia and Poland, other entities and currencies are not material to the Group.

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

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

In 2016, the Rouble/US\$ exchange rate was very volatile reaching RUB60.66 as at 31 December 2016 but strengthened by 16.8 percent from 31 December 2015. In 2017, the Rouble appreciated against the US dollar by 5.0 percent from RUB60.66 per US\$1.00 as at 31 December 2016 to RUB57.60 per US\$1.00 as at 31 December 2017. In 2018, the Rouble/US\$ exchange rate was volatile, reaching RUB69.47 as at 31 December 2018 and depreciated by 20.6 percent from 31 December 2017. In 2018 and in the six months of 2019, the Rouble/US\$ exchange rate was volatile, reaching RUB63.08 as at 30 June 2019 and RUB69.47 per US\$1.00 as at 31 December 2018.

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

Costs

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

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

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

The Group's Russian operations obtain most of their natural gas needs from Novatek, Russia's largest privately-owned natural gas producer, and to a lesser extent from the subsidiaries of Gazprom, a government controlled entity and the dominant producer and monopoly transporter of natural gas within Russia. The Group sources its electricity from its own power stations and from a regional energy company that procures electricity from the wholesale electricity market. In recent years the natural gas and electricity tariffs in Russia have been increasing, and the Group does not expect this trend to change. Severstal Russian Steel's electricity, gas (including natural gas) and other energy costs accounted for 8.1 percent of Severstal Russian Steel's cost of sales in the year ended 31 December 2018 and 7 percent in the six months ended 30 June 2019. Severstal Resources' electricity, gasoline and other energy costs accounted for 25.5 percent of Severstal Resources' cost of sales in the year ended 31 December 2018, and 22.7 percent in the six months ended 30 June 2019. The rates of increase may be higher than the rates at which the Group is able to increase its steel prices. In addition, competition in the railway transport industry in Russia is limited and the Group is, in part, dependent on the monopoly railway service provider for delivery of both raw materials and products. The Russian monopoly railway service providers regularly increase tariffs for their services at a rate that may be higher than the rate at which the Group is able to increase the price of its steel products.

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

RECENT DEVELOPMENTS

Since 30 June 2019, the following significant developments have occurred:

In July 2019, the Group sold its 100 percent stake in AO Severstal LPM Balakovo to a third party for a total consideration of US\$215 million.

OPERATIONAL OUTLOOK

Since 30 June 2019, the Group has continued to perform generally in line with management's expectations.

According to the World Bank, global GDP growth is estimated to reach 3.2 percent in 2019 compared with 3.6 percent in 2018, which reflects a deceleration in developed countries and some emerging economies. According to Worldsteel, steel consumption is expected to increase insignificantly in 2019, driven mainly by China and other Asian developing

countries. The International Monetary Fund's latest economic outlook for Russia projects real GDP to increase by 1.2 percent in 2019.

Average steel prices are expected to decrease in 2019 compared with the average level in 2018 mainly due to a weakening demand in developing Asia, excluding China, and increasing new steel capacities. The global steelmaking utilisation rate is expected to be close to 80 percent in 2019 representing a stable level compared with 2018.

According to Worldsteel, Russian steel consumption is expected to increase in 2019 by approximately 1 percent driven by construction activity. Domestic steel prices in 2019 are expected to be supported by increasing demand. The Group's capital expenditures continue to be generally in line with the Group's capital expenditure programme.

DESCRIPTION OF THE GROUP'S INCOME STATEMENT LINE ITEMS

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

Revenue

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

Cost of sales

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

Gross profit

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

General and administrative expenses

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

Distribution expenses

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

Other taxes and contributions

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

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

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

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

The Financial Statements include the Group's share of the total recognised gains and losses of associates and joint ventures accounted for on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the carrying amount of the associate and joint venture, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate and joint venture. Where a Group

entity transacts with an associate and joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate or joint venture; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

Net other operating income/(expenses)

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

Profit from operations

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

Impairment of non-current assets

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

Net other non-operating income/(expenses)

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

Profit before financing and taxation

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

Finance income and costs

Finance income includes interest income and dividend income (except for dividends from investments in associates and joint ventures).

Interest income

Interest income is recognised in the income statement on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Finance costs include interest expense and other finance costs.

Interest expense

Interest expense is recognised in the income statement as it accrues, taking into account the effective yield on the liability.

Other finance costs

Other finance costs include costs incurred for bank operating services and other related charges.

Gain/(loss) on remeasurement and disposal of financial instruments

Gain/(loss) on remeasurement and disposal of financial instruments comprises impairment, realised and unrealised gains on financial instruments, remeasurement of financial assets "at fair value through profit or loss" (FVTPL) and financial liabilities at FVTPL.

Foreign exchange gain/(loss)

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

Profit/(loss) before income tax

Profit/(loss) before income tax is profit before financing and taxation adjusted by finance income and costs, gain/(loss) on remeasurement and disposal of financial instruments, and foreign exchange gain/(loss).

Income tax (expense)/benefit

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

Profit/(loss) for the period

Profit/(loss) for the period is profit/(loss) before income tax less income tax (expense)/benefit.

RESULTS OF OPERATIONS

For the six months ended 30 June 2018 and 2019

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

The following table sets out the Group's unaudited consolidated interim condensed income statements for the six months ended 30 June 2018 and 2019:

	Six months ended 30 June		Period on period change	Period on period percent change
	2018	2019		
	(US\$ millions)			
Revenue				
Revenue – third parties	4,360	4,130	(230)	(5)%
Revenue – related parties	72	78	6	8%
	4,432	4,208	(224)	(5)%
Cost of sales	(2,579)	(2,573)	6	-
Gross profit	1,853	1,635	(218)	(12)%
General and administrative expenses	(157)	(183)	(26)	17%
Distribution expenses	(304)	(261)	43	(14)%
Other taxes and contributions	(33)	(27)	6	(18)%
Share of associates' and joint ventures' gain	8	11	3	38%
Loss on disposal of property, plant and equipment and intangible assets	(19)	(6)	13	(68)%
Net other operating income	3	11	8	-
Profit from operations	1,351	1,180	(171)	(13)%
Reversal of impairment of non-current assets	2	-	(2)	(100)%
Net other non-operating expenses	(22)	(24)	(2)	9%
Profit before financing and taxation	1,331	1,156	(175)	(13)%
Finance income	12	3	(9)	(75)%
Finance costs	(61)	(62)	(1)	2%
Gain/(loss) on disposal and remeasurement of financial instruments	14	(51)	(65)	-
Foreign exchange (loss)/gain, net	(44)	101	145	-
Profit before income tax	1,252	1,147	(105)	(8)%
Income tax expense	(234)	(244)	(10)	4%
Profit for the period	1,018	903	(115)	(11)%

Revenue

The Group's consolidated revenue decreased by US\$224 million, or 5 percent, from US\$4,432 million in the six months ended 30 June 2018 to US\$4,208 million in the six months ended 30 June 2019. This change was due to a US\$281 million and a US\$56 million increase in revenue of the Severstal Resources segment and the Severstal Russian Steel segment, respectively, which was offset by a US\$561 million increase in intersegment revenue. Changes in the prices of the Group's various products were generally consistent with the prevailing market trends.

The Group's revenue from related parties increased by US\$6 million, or 8 percent, from US\$72 million in the six months ended 30 June 2018 to US\$78 million in the six months ended 30 June 2019. The Group's revenue from related parties comprised 2 percent of the Group's total revenue both in the six months ended 30 June 2018 and in the six months ended 30 June 2019. The increase in revenue from related parties was mostly due to an increase in revenue from Rutgers Severtar LLC by US\$7 million and was within the normal course of business and consistent with the prevailing market trends.

Revenue by product

The following table sets out the Group's consolidated revenue by product for the six months ended 30 June 2018 and 2019:

	Six months ended 30 June		Period on period change	Period on period percent change
	2018	2019		
	(US\$ millions)			
Hot-rolled strip and plate	1,414	1,376	(38)	(3)%
Cold-rolled sheet.....	448	315	(133)	(30)%
Long products	362	360	(2)	(1)%
Galvanised and other metallic coated sheet	316	353	37	12%
Pellets and iron ore	305	382	77	25%
Shipping and handling	295	246	(49)	(17)%
Metalware products	273	257	(16)	(6)%
Other tubes and pipes, formed shapes.....	248	223	(25)	(10)%
Large diameter pipes.....	243	207	(36)	(15)%
Semi-finished products	204	82	(122)	(60)%
Colour-coated sheet	160	216	56	35%
Coal and coking coal concentrate	35	59	24	69%
Scrap.....	3	2	(1)	(33)%
Others	126	130	4	3%
Revenue	4,432	4,208	(224)	(5)%

Revenue by delivery destination

The following table sets out the Group's consolidated revenue by delivery destination for the six months ended 30 June 2018 and 2019:

	Six months ended 30 June		Period on period change	Period on period percent change
	2018	2019		
	(US\$ millions)			
Russian Federation	2,540	2,873	333	13%
Europe	1,214	919	(295)	(24)%
CIS.....	241	234	(7)	(3)%
The Middle East.....	182	51	(131)	(72)%
North America	115	34	(81)	(70)%
Africa.....	83	41	(42)	(51)%
Central and South America.....	31	55	24	77%
China and Central Asia.....	26	1	(25)	(96)%
Revenue	4,432	4,208	(224)	(5)%

Revenue by segment

The following table sets out the Group's consolidated revenue by segment for the six months ended 30 June 2018 and 2019:

	Six months ended 30 June		Period on period change	Period on period percent change
	2018	2019		
	(US\$ millions)			
Severstal Resources	877	1,158	281	32%
Severstal Russian Steel	4,061	4,117	56	1%
Intersegment transactions	(506)	(1,067)	(561)	111%
Revenue	4,432	4,208	(224)	(5)%

Severstal Resources segment

The Severstal Resources segment's revenue increased by US\$281 million, or 32 percent, from US\$877 million in the six months ended 30 June 2018 to US\$1,158 million in the six months ended 30 June 2019. Included in these amounts are intersegment revenue to the Severstal Russian Steel segment of US\$468 million in the six months ended 30 June 2018 and US\$1,030 million in the six months ended 30 June 2019. Excluding intersegment revenue, revenue of the Severstal Resources segment decreased by US\$281 million, or 69 percent, from US\$409 million in the six months ended 30 June 2018 to US\$128 million in the six months ended 30 June 2019.

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

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

Pellets and iron ore. Revenue from pellets and iron ore sales decreased by US\$257 million, or 84 percent, from US\$305 million in the six months ended 30 June 2018 to US\$48 million in the six months ended 30 June 2019. This decrease was mostly caused by a decrease in sales by volume.

Severstal Russian Steel segment

The Severstal Russian Steel segment's revenue increased by US\$56 million, or 1 percent, from US\$4,061 million in the six months ended 30 June 2018 to US\$4,117 million in the six months ended 30 June 2019. Included in the above amounts are intersegment revenue of US\$38 million in the six months ended 30 June 2018 and US\$37 million in the six months ended 30 June 2019. Excluding intersegment revenue, revenue of the Severstal Russian Steel segment increased by US\$57 million, or 1 percent, from US\$4,023 million in the six months ended 30 June 2018 to US\$4,080 million in the six months ended 30 June 2019.

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

Colour-coated sheet. Revenue from colour-coated sheet sales increased by US\$56 million, or 35 percent, from US\$160 million in the six months ended 30 June 2018 to US\$216 million in the six months ended 30 June 2019. This increase was due to an increase in sales by volume, which was partially offset by a decrease in the average price per tonne in US dollar terms.

Cold-rolled sheet. Revenue from cold-rolled sheet sales decreased by US\$133 million, or 30 percent, from US\$448 million in the six months ended 30 June 2018 to US\$315 million in the six months ended 30 June 2019. This decrease was due to a decrease in sales by volume and due to a decrease in the average price per tonne in US dollar terms.

Semi-finished products. Revenue from semi-finished products sales decreased by US\$122 million, or 60 percent, from US\$204 million in the six months ended 30 June 2018 to US\$82 million in the six months ended 30 June 2019. This decrease was primarily due to a decrease in sales by volume.

Hot-rolled strip and plate. Revenue from hot-rolled strip and plate sales decreased by US\$38 million, or 3 percent, from US\$1,414 million in the six months ended 30 June 2018 to US\$1,376 million in the six months ended 30 June 2019. This decrease was primarily due to a decrease in the average price per tonne in US dollar terms, which was partially offset by an increase in sales by volume.

Large diameter pipes. Revenue from large diameter pipes sales decreased by US\$36 million, or 15 percent, from US\$243 million in the six months ended 30 June 2018 to US\$207 million in the six months ended 30 June 2019. This decrease was primarily due to a decrease in the average price per tonne in US dollar terms.

Pellets and iron ore. Revenue from pellets and iron ore sales increased by US\$334 million, from US\$nil in the six months ended 30 June 2018 to US\$334 million in the six months ended 30 June 2019. This increase was caused by an increase in sales by volume.

Revenue by delivery destination

A decrease of revenue by delivery destination to Europe, the Middle East, North America and Africa in the six months ended 30 June 2019, compared with the six months ended 30 June 2018, was partially offset by an increase of revenue to Russia. These changes were mainly due to the market-driven changes of demand and the respective reallocation of sales from one region to another.

Cost of sales

The Group's cost of sales decreased by US\$6 million, from US\$2,579 million in the six months ended 30 June 2018 to US\$2,573 million in the six months ended 30 June 2019. This change was due to a US\$419 million and a US\$52 million increase in cost of sales of the Severstal Russian Steel segment and in the Severstal Resources segment, respectively, which was partially offset by a US\$477 million increase in intersegment transactions.

Cost of sales by segment

The following table sets out the Group's consolidated cost of sales by segment for the six months ended 30 June 2018 and 2019:

	Six months ended 30 June		Period on period change	Period on period percent change
	2018	2019		
	(US\$ millions)			
Severstal Resources segment	(409)	(461)	(52)	13%
Severstal Russian Steel segment	(2,647)	(3,066)	(419)	16%
Intersegment transactions	477	954	477	100%
Cost of sales	(2,579)	(2,573)	6	-

Severstal Resources segment

The Severstal Resources segment's cost of sales increased by US\$52 million, or 13 percent, from US\$409 million in the six months ended 30 June 2018 to US\$461 million in the six months ended 30 June 2019. The increase was primarily due to a US\$14 million increase in repair services expenses, a US\$9 million increase in depreciation expenses, a US\$6 million increase in labour costs and related tax expenses and a US\$24 million decrease in work-in-progress and finished goods balances.

Repair services expenses. The increase in repair services expenses of US\$14 million was in line with revenue increase by volumes.

Depreciation expenses. The increase in depreciation expenses of US\$9 million was primarily due to the commissioning of the new drilling production equipment in Olcon and LLC Metal-group (Yakovlevskiy mine).

Labour costs and related tax expenses. The increase in labour costs and related tax expenses of US\$6 million was due to an increase in the average salaries in US dollar terms.

Finished goods and work in progress. The decrease in finished goods and work-in-progress balances of US\$24 million was in line with sales increase.

Severstal Russian Steel segment

The Severstal Russian Steel segment's cost of sales increased by US\$419 million, or 16 percent, from US\$2,647 million in the six months ended 30 June 2018 to US\$3,066 million in the six months ended 30 June 2019. The increase was primarily due to a US\$595 million increase in raw materials expenses, which was partially offset by a US\$180 million increase in finished goods and work-in-progress balances.

Materials expenses. The increase in raw materials expenses of US\$595 million was due to an increase in prices of coking coal, iron ore used in steelmaking process in US dollar terms and due to an increase in production.

Finished goods and work in progress. The increase in finished goods and work-in-progress balances of US\$180 million was in line with the increase in production volume.

Profit from operations

Compared with the prior period, the Group's profit from operations decreased by US\$171 million, or 13 percent, from US\$1,351 million in the six months ended 30 June 2018 to US\$1,180 million in the six months ended 30 June 2019. The decrease was due to a US\$218 million decrease in gross profit, which was partially offset by a US\$47 million decrease in net operating expenses.

The following table sets out the Group's consolidated net operating expenses for the six months ended 30 June 2018 and 2019:

	Six months ended 30 June		Period on period change	Period on period percent change
	2018	2019		
	(US\$ millions)			
General and administrative expenses	(157)	(183)	(26)	17%
Distribution expenses.....	(304)	(261)	43	(14)%
Other taxes and contributions	(33)	(27)	6	(18)%
Share of associates' and joint ventures' gain	8	11	3	38%
Loss on disposal of property, plant and equipment and intangible assets	(19)	(6)	13	(68)%
Net other operating income.....	3	11	8	-
Net operating expenses	(502)	(455)	47	(9)%

Severstal Resources segment

The Severstal Resources segment's profit from operations increased by US\$285 million, or 83 percent, from US\$345 million in the six months ended 30 June 2018 to US\$630 million in the six months ended 30 June 2019. The increase in profit from operations was due to a US\$229 million increase in gross profit, as a result of the factors described above, and due to a US\$56 million decrease in net operating expenses.

The decrease in the Severstal Resources segment's net operating expenses was primarily due to a US\$53 million decrease in distribution expenses, mostly driven by a decrease in export shipments.

Severstal Russian Steel segment

The Severstal Russian Steel segment's profit from operations decreased by US\$376 million, or 37 percent, from US\$1,013 million in the six months ended 30 June 2018 to US\$637 million in the six months ended 30 June 2019. The decrease in profit from operations was due to a US\$363 million decrease in gross profit, as a result of the factors described above, and due to a US\$13 million increase in net operating expenses.

The increase in the Severstal Russian Steel segment's net operating expenses was primarily due to a US\$30 million increase in general and administrative expenses, mostly driven by an increase of labour costs and related tax expenses, depreciation and amortisation expenses, which were partially offset by a US\$10 million decrease in loss on disposal of property, plant and equipment and intangible assets.

Profit before financing and taxation

Compared with the prior period, the Group's profit before financing and taxation decreased by US\$175 million, or 13 percent, from US\$1,331 million in the six months ended 30 June 2018 to US\$1,156 million in the six months ended 30 June 2019. The decrease was due to a US\$171 million decrease in profit from operations and a US\$4 million increase in net non-operating expenses. The decrease in profit from operations was due to the factors described above.

Profit before income tax

Compared with the prior period, the Group's profit before income tax decreased by US\$105 million, or 8 percent, from US\$1,252 million in the six months ended 30 June 2018 to US\$1,147 million in the six months ended 30 June 2019. The decrease was due to a US\$175 million decrease in profit before financing and taxation, which was partially offset by a US\$70 million decrease in net financing expenses. The decrease in profit before financing and taxation was due to the factors described above.

Net financing expenses

Net financing expenses decreased by US\$70 million, or 89 percent, from US\$79 million in the six months ended 30 June 2018 to US\$9 million in the six months ended 30 June 2019.

The following table sets out the Group's consolidated net financing expenses for the six months ended 30 June 2018 and 2019:

	Six months ended 30 June		Period on period change	Period on period percent change
	2018	2019 (US\$ millions)		
Finance income.....	12	3	(9)	(75)%
Finance costs	(61)	(62)	(1)	2%
Gain/(loss) on disposal and remeasurement of financial instruments	14	(51)	(65)	-
Foreign exchange (loss)/gain, net	(44)	101	145	-
Net financing expenses	(79)	(9)	70	(89)%

Gain/(loss) on disposal and remeasurement of financial instruments

In the six months ended 30 June 2019, the Group had loss on disposal and remeasurement of financial instruments of US\$51 million, compared with gain on disposal and remeasurement of financial instruments of US\$14 million in the six months ended 30 June 2018. This change was primarily due to the remeasurement to fair value of the Group's guaranteed convertible bonds in the six months ended 30 June 2019.

Foreign exchange (loss)/gain

In the six months ended 30 June 2019, the Group had foreign exchange gain of US\$101 million, compared with a foreign exchange loss of US\$44 million in the six months ended 30 June 2018. The change was mainly due to the effect of Rouble appreciation against the US dollar in the six months ended 30 June 2019 compared with the depreciation of Rouble against the US dollar in the six months ended 30 June 2018.

Profit for the period

The Group's profit decreased by US\$115 million, or 11 percent, from US\$1,018 million in the six months ended 30 June 2018 to US\$903 million in the six months ended 30 June 2019. The decrease was due to a US\$105 million decrease in profit before income tax and a US\$10 million increase in income tax expense. The decrease in profit before income tax was primarily due to the factors described above.

For the years ended 31 December 2017 and 2018

The following discussion is based on, and should be read in conjunction with, the Group's Annual Financial Statements, included in this Base Prospectus beginning on page F-19.

The following table sets out the Group's consolidated income statements for the years ended 2017 and 2018:

	Year ended 31 December		Year on year change	Year on year percent change
	2017	2018 (US\$ millions)		
Revenue				
Revenue – third parties	7,726	8,436	710	9%
Revenue – related parties	122	144	22	18%
	7,848	8,580	732	9%
Cost of sales	(4,735)	(4,918)	(183)	4%
Gross profit	3,113	3,662	549	18%
General and administrative expenses	(286)	(306)	(20)	7%
Distribution expenses	(598)	(578)	20	(3)%
Other taxes and contributions	(71)	(69)	2	(3)%
Share of associates' and joint ventures' gain	10	14	4	40%
Loss on disposal of property, plant and equipment and intangible assets	(3)	(23)	(20)	-
Net other operating (expenses)/income	(3)	7	10	-
Profit from operations	2,162	2,707	545	25%
	(3)	68	71	-
(Impairment)/reversal of impairment of non-current assets .				
Gain from a bargain purchase	135	-	(135)	(100)%
Net other non-operating expenses	(421)	(50)	371	(88)%
Profit before financing and taxation	1,873	2,725	852	45%
Finance income	49	14	(35)	(71)%
Finance costs	(158)	(113)	45	(28)%
(Loss)/gain on remeasurement and disposal of financial instruments	(45)	58	103	-
Foreign exchange gain/(loss)	45	(165)	(210)	-
Profit before income tax	1,764	2,519	755	43%
Income tax expense	(409)	(468)	(59)	14%
Profit for the period	1,355	2,051	696	51%

Revenue

The Group's consolidated revenue increased by US\$732 million, or 9 percent, from US\$7,848 million in the year ended 31 December 2017 to US\$8,580 million in the year ended 31 December 2018. This increase was due to a US\$621 million increase in revenue of the Severstal Russian Steel segment and a US\$181 million increase in revenue of the Severstal Resources segment. The increase in revenue was partially offset by a US\$70 million increase in intersegment revenue. Changes in the prices of the Group's various products were generally consistent with the prevailing market trends.

The Group's revenue from related parties increased by US\$22 million, or 18 percent, from US\$122 million in the year ended 31 December 2017 to US\$144 million in the year ended 31 December 2018. The increase in revenue from related parties was due to an increase in revenue from Rutgers Severtar LLC by US\$10 million and other related parties and was within the normal course of business and consistent with the prevailing market trends.

Revenue by product

The following table sets out the Group's consolidated revenue by product for the years ended 31 December 2017 and 2018:

Revenue by product

	Year ended 31 December		Year on year change	Year on year percent change
	2017	2018 (US\$ millions)		
Hot-rolled strip and plate	2,458	2,756	298	12%
Cold-rolled sheet.....	783	802	19	2%
Long products	600	701	101	17%
Large diameter pipes.....	570	477	(93)	(16)%
Metalware products	549	542	(7)	(1)%
Shipping and handling	541	543	2	-
Pellets and iron ore	517	627	110	21%
Other tubes and pipes, formed shapes.....	474	456	(18)	(4)%
Galvanised and other metallic coated sheet	470	629	159	34%
Colour-coated sheet	353	364	11	3%
Semi-finished products	219	321	102	47%
Coal and coking coal concentrate	60	93	33	55%
Scrap	6	6	-	-
Others	248	263	15	6%
Revenue	7,848	8,580	732	9%

Revenue by delivery destination

The following table sets out the Group's consolidated revenue by delivery destination for the years ended 31 December 2017 and 2018:

	Year ended 31 December		Year on year change	Year on year percent change
	2017	2018 (US\$ millions)		
Russian Federation	4,692	5,126	434	9%
Europe	1,471	2,233	762	52%
The Middle East.....	589	295	(294)	(50)%
CIS.....	478	492	14	3%
North America	240	141	(99)	(41)%
Africa.....	152	140	(12)	(8)%
Central and South America.....	113	86	(27)	(24)%
South-East Asia	63	24	(39)	(62)%
China and Central Asia	50	43	(7)	(14)%
Revenue	7,848	8,580	732	9%

Revenue by segment

The following table sets out the Group's consolidated revenue by segment for the years ended 31 December 2017 and 2018:

	Year ended 31 December		Year on year change	Year on year percent change
	2017	2018 (US\$ millions)		
Severstal Resources	1,727	1,908	181	10%
Severstal Russian Steel	7,182	7,803	621	9%
Intersegment transactions	(1,061)	(1,131)	(70)	7%
Revenue	7,848	8,580	732	9%

Severstal Resources segment

The Severstal Resources segment's revenue increased by US\$181 million, or 10 percent, from US\$1,727 million in the year ended 31 December 2017 to US\$1,908 million in the year ended 31 December 2018. Included in these amounts are intersegment revenue to the Severstal Russian Steel segment of US\$995 million in the year ended 31 December 2017 and US\$1,061 million in the year ended 31 December 2018. Excluding intersegment revenue, revenue of the Severstal Resources segment increased by US\$115 million, or 16 percent, from US\$732 million in the year ended 31 December 2017 to US\$847 million in the year ended 31 December 2018.

The increase was primarily due to an increase in sales by volume and an increase in the average price per tonne in US dollar terms.

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

Pellets and iron ore. Revenue from pellets and iron ore sales increased by US\$100 million, or 19 percent, from US\$517 million in the year ended 31 December 2017 to US\$617 million in the year ended 31 December 2018. This increase was caused by an increase in the average price per tonne in US dollar terms and due to an increase in sales by volume.

Coal and coking coal concentrate. Revenue from coal and coking coal concentrate sales increased by US\$33 million, or 55 percent, from US\$60 million in the year ended 31 December 2017 to US\$93 million in the year ended 31 December 2018. This increase was primarily due to an increase in the average price per tonne in US dollar terms.

Severstal Russian Steel segment

The Severstal Russian Steel segment's revenue increased by US\$621 million, or 9 percent, from US\$7,182 million in the year ended 31 December 2017 to US\$7,803 million in the year ended 31 December 2018. Included in the above amounts are intersegment revenue of US\$66 million in the year ended 31 December 2017 and US\$70 million in the year ended 31 December 2018. Excluding intersegment revenue, revenue of the Severstal Russian Steel segment increased by US\$617 million, or 9 percent, from US\$7,116 million in the year ended 31 December 2017 to US\$7,733 million in the year ended 31 December 2018.

The increase in revenue for this segment was due to an increase in the average price per tonne in US dollar terms and due to an increase in sales by volume as described below.

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

Hot-rolled strip and plate. Revenue from hot-rolled strip and plate sales increased by US\$298 million, or 12 percent, from US\$2,458 million in the year ended 31 December 2017 to US\$2,756 million in the year ended 31 December 2018. The increase was primarily due to an increase in the average price per tonne in US dollar terms.

Galvanised and other metallic coated sheet. Revenue from galvanised and other metallic coated sheet sales increased by US\$159 million, or 34 percent, from US\$470 million in the year ended 31 December 2017 to US\$629 million in the year ended 31 December 2018. The increase was due to an increase in sales by volume and due to an increase in the average price per tonne in US dollar terms.

Semi-finished products. Revenue from semi-finished products sales increased by US\$102 million, or 47 percent, from US\$219 million in the year ended 31 December 2017 to US\$321 million in the year ended 31 December 2018. This increase was due to an increase in sales by volume and due to an increase in the average price per tonne in US dollar terms.

Long products. Revenue from long products sales increased by US\$101 million, or 17 percent, from US\$600 million in the year ended 31 December 2017 to US\$701 million in the year ended 31 December 2018. This increase was due to an increase in the average price per tonne in US dollar terms and due to an increase in sales by volume.

Cold-rolled sheet. Revenue from cold-rolled sheet sales increased by US\$19 million, or 2 percent, from US\$783 million in the year ended 31 December 2017 to US\$802 million in the year ended 31 December 2018. This increase was due to an increase in the average price per tonne in US dollar terms, which was partially offset by a decrease in sales by volume.

Colour-coated sheet. Revenue from colour-coated sheet sales increased by US\$11 million, or 3 percent, from US\$353 million in the year ended 31 December 2017 to US\$364 million in the year ended 31 December 2018. This

increase was due to an increase in the average price per tonne in US dollar terms, which was partially offset by a decrease in sales by volume.

Large diameter pipes. Revenue from large diameter pipes sales decreased by US\$93 million, or 16 percent, from US\$570 million in the year ended 31 December 2017 to US\$477 million in the year ended 31 December 2018. This decrease was primarily due to a decrease in the average price per tonne in US dollar terms, which was partially offset by an increase in sales by volume.

Revenue by delivery destination

An increase of revenue by delivery destination to Europe, Russia and CIS in the year ended 31 December 2018 compared with the year ended 31 December 2017, was partially offset by a decrease of revenue to the Middle East, North America, South-East Asia, Central and South America. These changes were mainly due to the market-driven changes of demand and the respective reallocation of sales from one region to another.

Cost of sales

The Group's cost of sales increased by US\$183 million, or 4 percent, from US\$4,735 million in the year ended 31 December 2017 to US\$4,918 million in the year ended 31 December 2018. This increase was due to a US\$211 million increase in cost of sales of the Severstal Russian Steel segment, which was partially offset by a US\$6 million decrease in the Severstal Resources segment and a US\$22 million increase in intersegment transactions.

Cost of sales by segment

The following table sets out the Group's consolidated cost of sales by segment for the years ended 31 December 2017 and 2018:

	Year ended 31 December		Year on year change	Year on year percent change
	2017	2018 (US\$ millions)		
Severstal Resources segment	(808)	(802)	6	(1)%
Severstal Russian Steel segment	(4,952)	(5,163)	(211)	4%
Intersegment transactions	1,025	1,047	22	2%
Cost of sales	(4,735)	(4,918)	(183)	4%

Severstal Resources segment

The Severstal Resources segment's cost of sales decreased by US\$6 million, or 1 percent, from US\$808 million in the year ended 31 December 2017 to US\$802 million in the year ended 31 December 2018. The decrease was primarily due to a US\$45 million increase in work-in-progress and finished goods balances, which was partially offset by a US\$27 million increase in raw materials expenses and a US\$11 million increase in labour costs and related tax expense.

Finished goods and work in progress. The increase in finished goods and work-in-progress balances was due to an increase in average prices in US dollar terms.

Raw materials expenses. The increase in raw materials expenses was due to an increase in average prices in US dollar terms.

Labour costs and related tax expenses. The increase in labour costs and related tax expenses was due to an increase in the average number of employees as a result of the consolidation of LLC Metal-group (Yakovlevskiy mine).

Severstal Russian Steel segment

The Severstal Russian Steel segment's cost of sales increased by US\$211 million, or 4 percent, from US\$4,952 million in the year ended 31 December 2017 to US\$5,163 million in the year ended 31 December 2018. The increase was primarily due to a US\$255 million increase in raw materials expenses.

Materials expenses. The increase in raw materials expenses was due to an increase in prices of iron ore, coking coal and other raw materials used in steelmaking process in US dollar terms and due to an increase in production volumes.

Profit from operations

Compared to the prior period, the Group's profit from operations increased by US\$545 million, or 25 percent, from US\$2,162 million in the year ended 31 December 2017 to US\$2,707 million in the year ended 31 December 2018. The increase was due to a US\$549 million increase in gross profit, which was partially offset by a US\$4 million increase in net operating expenses.

The following table sets out the Group's consolidated net operating expenses for the years ended 31 December 2017 and 2018:

	Year ended 31 December		Year on year change	Year on year percent change
	2017	2018 (US\$ millions)		
General and administrative expenses	(286)	(306)	(20)	7%
Distribution expenses.....	(598)	(578)	20	(3)%
Other taxes and contributions	(71)	(69)	2	(3)%
Share of associates' and joint ventures' gain	10	14	4	40%
Loss on disposal of property, plant and equipment and intangible assets	(3)	(23)	(20)	-
Net other operating (expenses)/income.....	(3)	7	10	-
Net operating expenses	(951)	(955)	(4)	0%

Severstal Resources segment

The Severstal Resources segment's profit from operations increased by US\$195 million, or 29 percent, from US\$677 million in the year ended 31 December 2017 to US\$872 million in the year ended 31 December 2018. The increase in profit from operations was due to a US\$187 million increase in gross profit, as a result of the factors described above, and due to a US\$8 million decrease in net operating expenses.

Severstal Russian Steel segment

The Severstal Russian Steel segment's profit from operations increased by US\$395 million, or 27 percent, from US\$1,482 million in the year ended 31 December 2017 to US\$1,877 million in the year ended 31 December 2018. The increase in profit from operations was due to a US\$410 million increase in gross profit, as a result of the factors described above, which was partially offset by a US\$15 million increase in net operating expenses.

The increase in the Severstal Russian Steel segment's net operating expenses was primarily due to a US\$19 million increase in general and administrative expenses, primarily driven by an increase of consulting services, labour costs and related tax expenses.

Profit before financing and taxation

Compared with the prior period, the Group's profit before financing and taxation increased by US\$852 million, or 45 percent, from US\$1,873 million in the year ended 31 December 2017 to US\$2,725 million in the year ended 31 December 2018. The increase was due to a US\$545 million increase in profit from operations and due to a US\$307 million decrease in net non-operating expenses. The increase in profit from operations was due to the factors described above.

The following table sets out the Group's consolidated net non-operating (expenses)/income for the years ended 31 December 2017 and 2018:

	Year ended 31 December		Year on year change	Year on year percent change
	2017	2018 (US\$ millions)		
(Impairment)/reversal of impairment of non-current assets	(3)	68	71	-
Gain from a bargain purchase	135	-	(135)	(100)%
Net other non-operating expenses.....	(421)	(50)	371	(88)%
Net non-operating (expenses)/income.....	(289)	18	307	(106)%

(Impairment)/reversal of impairment of non-current assets

Reversal of impairment of non-current assets for the year ended 31 December 2018 mainly consists of a US\$51 million reversal of impairment loss previously accrued in respect of the Olcon. Additionally, a reversal of impairment of US\$13 million and US\$4 million was recognised in 2018 in relation to specific items of property, plant and equipment and intangible assets in Severstal Russian Steel segment and Severstal Resources segment, respectively.

Gain from a bargain purchase

In the year ended 31 December 2017, the Group obtained the ability to exercise its legal rights arising from the acquired rights to claim debt obligations and direct relevant activities of LLC Metal-group, and consequently consolidated LLC Metal-group's net assets. As a result, a gain from a bargain purchase of US\$135 million was recognised.

Net other non-operating expenses

Compared with the prior period, the Group's net other non-operating expenses decreased by US\$371 million, or 88 percent, from US\$421 million in the year ended 31 December 2017 to US\$50 million in the year ended 31 December 2018.

The following table sets out the Group's consolidated net other non-operating expenses for the years ended 31 December 2017 and 2018:

	Year ended 31 December		Year on year change	Year on year percent change
	2017	2018		
		(US\$ millions)		
Social expenditures.....	(13)	(14)	(1)	8%
Charitable donations.....	(26)	(30)	(4)	15%
Depreciation of infrastructure assets.....	(1)	-	1	-
Loss on disposal of subsidiaries.....	(72)	-	72	-
Other non-operating expenses	(309)	(6)	303	(98)%
Net other non-operating expenses	(421)	(50)	371	(88)%

Loss on disposal of subsidiaries

In the year ended 31 December 2017, the Group recognised a loss on the disposal of Redaelli Tecna S.p.A. and PJSC Dneprometiz, the Group's subsidiaries, of US\$43 million and US\$29 million, respectively.

Other non-operating expenses

Other non-operating expenses consisted primarily of US\$307 million of translation reserves, arising from operations of foreign holding entities, which had been liquidated or were in the process of liquidation, were recognised in the year ended 31 December 2017.

Profit before income tax

Compared with the prior period, the Group's profit before income tax increased by US\$755 million, or 43 percent, from US\$1,764 million in the year ended 31 December 2017 to US\$2,519 million in the year ended 31 December 2018. The increase was due to a US\$852 million increase in profit before financing and taxation, which was partially offset by a US\$97 million increase in net financing expenses. The increase in profit before financing and taxation was due to the factors described above.

Net financing expenses

Net financing expenses increased by US\$97 million, or 89 percent, from US\$109 million in the year ended 31 December 2017 to US\$206 million in the year ended 31 December 2018.

The following table sets out the Group's consolidated net financing expenses for the years ended 31 December 2017 and 2018:

	Year ended 31 December		Year on year change	Year on year percent change
	2017	2018 (US\$ millions)		
Finance income.....	49	14	(35)	(71)%
Finance costs	(158)	(113)	45	(28)%
(Loss)/gain on remeasurement and disposal of financial instruments	(45)	58	103	-
Foreign exchange gain/(loss).....	45	(165)	(210)	-
Net financing expenses	(109)	(206)	(97)	89%

(Loss)/gain on remeasurement and disposal of financial instruments

In the year ended 31 December 2018, the Group had a gain on remeasurement and disposal of financial instruments of US\$58 million, compared with a loss on remeasurement and disposal of financial instruments of US\$45 million in the year ended 31 December 2017. The change was primarily due to the disposal of guaranteed convertible bonds in the year ended 31 December 2018.

Foreign exchange gain/(loss)

In the year ended 31 December 2018, the Group had foreign exchange loss of US\$165 million, compared with foreign exchange gains of US\$45 million in the year ended 31 December 2017. The change was mainly due to the effect of significant Rouble depreciation against the US dollar in 2018 compared with the appreciation of the Rouble against the US dollar in 2017.

Income tax expense

Income tax expense increased by US\$59 million, or 14 percent, from US\$409 million in the year ended 31 December 2017 to US\$468 million in the year ended 31 December 2018. The increase was primarily due to a US\$755 million increase in profit before income tax as a result of the factors described above.

Profit for the period

The Group's profit increased by US\$696 million, or 51 percent, from US\$1,355 million in the year ended 31 December 2017 to US\$2,051 million in the year ended 31 December 2018. The increase was due to a US\$755 million increase in profit before income tax, which was partially offset by an increase in income tax expense of US\$59 million. The increase in profit before income tax was primarily due to the factors described above.

For the years ended 31 December 2016 and 2017

The following discussion is based on, and should be read in conjunction with, the Group's Annual Financial Statements, included in this Base Prospectus beginning on page F-19.

The following table sets out the Group's consolidated income statements for the years ended 31 December 2016 and 2017:

	Year ended 31 December		Year on year change	Year on year percent change
	2016	2017 (US\$ millions)		
Revenue				
Revenue – third parties	5,812	7,726	1,914	33%
Revenue – related parties	104	122	18	17%
	5,916	7,848	1,932	33%
Cost of sales	(3,573)	(4,735)	(1,162)	33%
Gross profit	2,343	3,113	770	33%
General and administrative expenses	(279)	(286)	(7)	3%
Distribution expenses	(462)	(598)	(136)	29%
Other taxes and contributions	(54)	(71)	(17)	31%
Share of associates' and joint ventures' gain	14	10	(4)	(29)%
Loss on disposal of property, plant and equipment and intangible assets	(52)	(3)	49	(94)%
Net other operating income/(expenses)	7	(3)	(10)	(143)%
Profit from operations	1,517	2,162	645	43%
Impairment of non-current assets	(135)	(3)	132	(98)%
Gain from a bargain purchase	-	135	135	-
Net other non-operating income/(expenses)	12	(421)	(433)	-
Profit before financing and taxation	1,394	1,873	479	34%
Finance income	63	49	(14)	(22)%
Finance costs	(157)	(158)	(1)	1%
Loss on remeasurement and disposal of financial instruments	(66)	(45)	21	(32)%
Foreign exchange gain	483	45	(438)	(91)%
Profit before income tax	1,717	1,764	47	3%
Income tax expense	(97)	(409)	(312)	-
Profit for the period	1,620	1,355	(265)	(16)%

Revenue

The Group's consolidated revenue increased by US\$1,932 million, or 33 percent, from US\$5,916 million in the year ended 31 December 2016 to US\$7,848 million in the year ended 31 December 2017. This increase was primarily due to a US\$1,756 million increase in revenue of the Severstal Russian Steel segment and a US\$573 million increase in revenue of the Severstal Resources segment. The increase in revenue was partially offset by a US\$397 million increase in intersegment revenue. Changes in the prices of the Group's various products were generally consistent with the prevailing market trends.

The Group's revenue from related parties increased by US\$18 million, or 17 percent, from US\$104 million in the year ended 31 December 2016 to US\$122 million in the year ended 31 December 2017. The Group's revenue from related parties comprised 2 percent of the Group's total revenue both in the year ended 31 December 2016 and in the year ended 31 December 2017. The increase in revenue from related parties was primarily due to an increase in revenue from Rutgers Severtar LLC by US\$10 million and Severstal-Gonvarri-Kaluga LLC by US\$9 million and was within the normal course of business and consistent with the prevailing market trends.

Revenue by product

The following table sets out the Group's consolidated revenue by product for the years ended 31 December 2016 and 2017:

	Year ended 31 December		Year on year change	Year on year percent change
	2016	2017 (US\$ millions)		
Hot-rolled strip and plate	1,784	2,458	674	38%
Metalware products	488	549	61	13%
Long products	477	600	123	26%
Large diameter pipes	459	570	111	24%
Cold-rolled sheet	451	783	332	74%
Shipping and handling	419	541	122	29%
Other tubes and pipes, formed shapes	372	474	102	27%
Galvanised and other metallic coated sheet	322	470	148	46%
Pellets and iron ore	312	517	205	66%
Colour-coated sheet	298	353	55	18%
Semi-finished products	210	219	9	4%
Coal and coking coal concentrate	105	60	(45)	(43)%
Scrap	8	6	(2)	(25)%
Others	211	248	37	18%
Revenue	5,916	7,848	1,932	33%

Revenue by delivery destination

The following table sets out the Group's consolidated revenue by delivery destination for the years ended 31 December 2016 and 2017:

	Year ended 31 December		Year on year change	Year on year percent change
	2016	2017 (US\$ millions)		
Russian Federation	3,805	4,692	887	23%
Europe	1,174	1,471	297	25%
The Middle East	336	589	253	75%
CIS	299	478	179	60%
Africa	88	152	64	73%
Central and South America	81	113	32	40%
South-East Asia	58	63	5	9%
China and Central Asia	56	50	(6)	(11)%
North America	19	240	221	-
Revenue	5,916	7,848	1,932	33%

Revenue by segment

The following table sets out the Group's consolidated revenue by segment for the years ended 31 December 2016 and 2017:

	Year ended 31 December		Year on year change	Year on year percent change
	2016	2017 (US\$ millions)		
Severstal Resources	1,154	1,727	573	50%
Severstal Russian Steel	5,426	7,182	1,756	32%
Intersegment transactions	(664)	(1,061)	(397)	60%
Revenue	5,916	7,848	1,932	33%

Severstal Resources segment

The Severstal Resources segment's revenue increased by US\$573 million, or 50 percent, from US\$1,154 million in the

year ended 31 December 2016 to US\$1,727 million in the year ended 31 December 2017. Included in these amounts are intersegment revenue to the Severstal Russian Steel segment, of US\$609 million in the year ended 31 December 2016 and US\$995 million in the year ended 31 December 2017. Excluding intersegment revenue, revenue of the Severstal Resources segment increased by US\$187 million, or 34 percent, from US\$545 million in the year ended 31 December 2016 to US\$732 million in the year ended 31 December 2017.

The increase was primarily due to the market-driven increase in the average price per tonne in US dollar terms.

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

Pellets and iron ore. Revenue from pellets and iron ore sales increased by US\$205 million, or 66 percent, from US\$312 million in the year ended 31 December 2016 to US\$517 million in the year ended 31 December 2017. This increase was due to an increase in the average price per tonne in US dollar terms and due to an increase in sales by volume.

Coal and coking coal concentrate. Revenue from coal and coking coal concentrate sales decreased by US\$45 million, or 43 percent, from US\$105 million in the year ended 31 December 2016 to US\$60 million in the year ended 31 December 2017. The decrease was mainly due to a decrease in sales by volume.

Severstal Russian Steel segment

The Severstal Russian Steel segment's revenue increased by US\$1,756 million, or 32 percent, from US\$5,426 million in the year ended 31 December 2016 to US\$7,182 million in the year ended 31 December 2017. Included in the above amounts are intersegment revenue of US\$55 million in the year ended 31 December 2016 and US\$66 million in the year ended 31 December 2017. Excluding intersegment revenue, revenue of the Severstal Russian Steel segment increased by US\$1,745 million, or 32 percent, from US\$5,371 million in the year ended 31 December 2016 to US\$7,116 million in the year ended 31 December 2017.

The increase in revenue for this segment was mainly due to the market-driven increase in the average price per tonne in US dollar terms for steel products.

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

Hot-rolled strip and plate. Revenue from hot-rolled strip and plate sales increased by US\$674 million, or 38 percent, from US\$1,784 million in the year ended 31 December 2016 to US\$2,458 million in the year ended 31 December 2017. The increase was primarily due to the market-driven increase in the average price per tonne in US dollar terms.

Cold-rolled sheet. Revenue from cold-rolled sheet sales increased by US\$332 million, or 74 percent, from US\$451 million in the year ended 31 December 2016 to US\$783 million in the year ended 31 December 2017. The increase was due to the market-driven increase in the average price per tonne in US dollar terms and due to an increase in sales by volume.

Galvanised sheet. Revenue from galvanised sheet sales increased by US\$148 million, or 46 percent, from US\$322 million in the year ended 31 December 2016 to US\$470 million in the year ended 31 December 2017. The increase was due to the market-driven increase in the average price per tonne in US dollar terms and due to an increase in sales by volume.

Long products. Revenue from long products sales increased by US\$123 million, or 26 percent, from US\$477 million in the year ended 31 December 2016 to US\$600 million in the year ended 31 December 2017. The increase was primarily due to the market-driven increase in the average price per tonne in US dollar terms.

Large diameter pipes. Revenue from large diameter pipes sales increased by US\$111 million, or 24 percent, from US\$459 million in the year ended 31 December 2016 to US\$570 million in the year ended 31 December 2017. The increase was due to the market-driven increase in the average price per tonne in US dollar terms and due to an increase in sales by volume.

Other tubes and pipes. Revenue from other tubes and pipes sales increased by US\$102 million, or 27 percent, from US\$372 million in the year ended 31 December 2016 to US\$474 million in the year ended 31 December 2017. The increase was primarily due to the market-driven increase in the average price per tonne in US dollar terms, which was partially offset by a decrease in sales by volume.

Metalware products. Revenue from metalware products sales increased by US\$61million, or 13 percent, from US\$488 million in the year ended 31 December 2016 to US\$549 million in the year ended 31 December 2017. The increase was primarily due to the market-driven increase in the average price per tonne in US dollar terms, which was partially offset by a decrease in sales by volume.

Colour-coated sheet. Revenue from colour-coated sheet sales increased by US\$55 million, or 18 percent, from US\$298 million in the year ended 31 December 2016 to US\$353 million in the year ended 31 December 2017. The increase was due to the market-driven increase in the average price per tonne in US dollar terms and due to the increase in sales by volume.

Revenue by delivery destination

Changes in the regional sales structure resulted in an increase in sales mainly to Russia, Europe, the Middle East, North America and CIS in the year ended 31 December 2017, compared with the year ended 31 December 2016, mainly due to the market-driven changes of demand and the respective reallocation of sales from one region to another.

Cost of sales

The Group's cost of sales increased by US\$1,162 million, or 33 percent, from US\$3,573 million in the year ended 31 December 2016 to US\$4,735 million in the year ended 31 December 2017. This increase was due to a US\$1,465 million increase in cost of sales of the Severstal Russian Steel segment and a US\$119 million increase in the Severstal Resources segment, which was partially offset by a US\$422 million increase in intersegment transactions.

Cost of sales by segment

The following table sets out the Group's consolidated cost of sales by segment for the years ended 31 December 2016 and 2017:

	Year ended 31 December		Year on year change	Year on year percent change
	2016	2017 (US\$ millions)		
Severstal Resources	(689)	(808)	(119)	17%
Severstal Russian Steel	(3,487)	(4,952)	(1,465)	42%
Intersegment transactions	603	1,025	422	70%
Cost of sales	(3,573)	(4,735)	(1,162)	33%

Severstal Resources segment

The Severstal Resources segment's cost of sales increased by US\$119 million, or 17 percent, from US\$689 million in the year ended 31 December 2016 to US\$808 million in the year ended 31 December 2017. The increase was primarily due to a US\$54 million increase in fuel and energy expenses, a US\$35 million increase in labour costs and related tax expenses and a US\$28 million increase in materials expenses.

Fuel and energy expenses. The increase in fuel and energy expenses of US\$54 million was in line with revenue increase by volumes and was due to an increase in fuel and energy average prices in US dollar terms.

Labour costs and related tax expenses. The increase in labour costs and related tax expenses of US\$35 million was due to an increase in the average salaries in US dollar terms.

Materials expenses. The increase in materials expenses of US\$28 million was in line with revenue increase by volumes and was due to an increase in prices for materials in US dollar terms.

Severstal Russian Steel segment

The Severstal Russian Steel segment's cost of sales increased by US\$1,465 million, or 42 percent, from US\$3,487 million in the year ended 31 December 2016 to US\$4,952 million in the year ended 31 December 2017. The increase was primarily due to a US\$1,154 million increase in materials expenses, a US\$83 million increase in labour costs and related tax expenses, a US\$43 million increase in repair services expenses, and a US\$38 million increase in depreciation and amortisation expenses.

Materials expenses. The increase in materials expenses of US\$1,154 million was in line with revenue increase by

volumes and was due to an increase in the average prices in US dollar terms of coking coal, iron ore and other materials used in steelmaking process.

Labour costs and related tax expenses. The increase in labour costs and related tax expenses of US\$83 million was primarily due to an increase in the average salaries in US dollar terms.

Repair services expenses. The increase in repair services expenses of US\$43 million was mainly due to the appreciation of the Russian Rouble against the US dollar.

Depreciation expenses. The increase in depreciation expenses of US\$38 million was primarily due to the appreciation of the Russian Rouble against the US dollar.

Profit from operations

The Group's profit from operations increased by US\$645 million, or 43 percent, from US\$1,517 million in the year ended 31 December 2016 to US\$2,162 million in the year ended 31 December 2017. The increase was due to a US\$770 million increase in gross profit due to the factors described above, which was partially offset by a US\$125 million increase in net operating expenses.

The following table sets out the Group's consolidated net operating expenses for the years ended 31 December 2016 and 2017:

	Year ended 31 December		Year on year change	Year on year percent change
	2016	2017		
	(US\$ millions)			
General and administrative expenses	(279)	(286)	(7)	3%
Distribution expenses.....	(462)	(598)	(136)	29%
Other taxes and contributions	(54)	(71)	(17)	31%
Share of associates' and joint ventures' gain	14	10	(4)	(29)%
Loss on disposal of property, plant and equipment and intangible assets	(52)	(3)	49	(94)%
Net other operating income/(expenses).....	7	(3)	(10)	(143)%
Net operating expenses	(826)	(951)	(125)	15%

Severstal Resources segment

The Severstal Resources segment's profit from operations increased by US\$442 million from US\$235 million in the year ended 31 December 2016 to US\$677 million in the year ended 31 December 2017. The increase in profit from operations was mainly due to a US\$454 million increase in gross profit, as a result of the factors described above, a US\$46 million decrease in loss on disposal of property, plant and equipment and intangible assets, which were partially offset by a US\$30 million increase in distribution expenses and by US\$14 million increase in general and administrative expenses.

The decrease in loss on disposal of property, plant and equipment and intangible assets of US\$46 million was primarily due to the impairment write-off of property, plant and equipment of the Severnaya mine as a result of the incident occurred in February 2016.

The increase in distribution expenses by US\$30 million was due to an increase in shipping volume.

The increase in general and administrative expenses by US\$14 million was due to an increase in the average salaries in US dollar terms.

Severstal Russian Steel segment

The Severstal Russian Steel segment's profit from operations increased by US\$171 million, or 13 percent, from US\$1,311 million in the year ended 31 December 2016 to US\$1,482 million in the year ended 31 December 2017.

The increase in profit from operations was primarily due to a US\$291 million increase in gross profit, as a result of the factors described above, which was partially offset by a US\$106 million increase in distribution expenses, which was due to an increase in shipping volume.

Profit before financing and taxation

Compared with the prior period, the Group's profit before financing and taxation increased by US\$479 million, or 34 percent, from US\$1,394 million in the year ended 31 December 2016 to US\$1,873 million in the year ended 31 December 2017. The increase was due to a US\$645 million increase in profit from operations, which was partially offset by a US\$166 million increase in net non-operating expenses. The increase in profit from operations was due to the factors described above.

The following table sets out the Group's consolidated net non-operating expenses for the years ended 31 December 2016 and 2017:

	Year ended 31 December		Year on year change	Year on year percent change
	2016	2017		
		(US\$ millions)		
Impairment of non-current assets.....	(135)	(3)	132	(98)%
Gain from a bargain purchase	-	135	135	-
Net other non-operating income/(expenses)	12	(421)	(433)	-
Net non-operating expenses	(123)	(289)	(166)	135%

Impairment of non-current assets

Compared with the prior period, the Group's impairment of non-current assets decreased by US\$132 million, or 98 percent, in the year ended 31 December 2017.

Impairment of non-current assets for the year ended 31 December 2016 consisted of:

- a US\$12 million impairment loss recognised at the Vorkutaugol's Severnaya mine in relation to relevant property, plant and equipment as a result of the explosion that occurred in February 2016;
- a US\$56 million and a US\$28 million impairment loss in relation to specific items of property, plant and equipment and intangible assets, respectively in Severstal Resources segment;
- a US\$30 million impairment loss in relation to non-current assets of Redaelli Tecna S.p.A. based on its fair value less costs to sell.

Gain from a bargain purchase

In the year ended 31 December 2017, the Group obtained the ability to exercise its legal rights arising from the acquired rights to claim debt obligations and direct relevant activities of LLC Metal-group, and consequently consolidated LLC Metal-group's net assets. As a result, a gain from a bargain purchase of US\$135 million was recognised.

Net other non-operating income/(expenses)

In the year ended 31 December 2017, the Group had net other non-operating expenses of US\$421 million, compared with net other non-operating income of US\$12 million in the year ended 31 December 2016.

The following table sets out the Group's consolidated net other non-operating income/(expenses) for the years ended 31 December 2016 and 2017:

	Year ended 31 December		Year on year change	Year on year percent change
	2016	2017		
		(US\$ millions)		
Social expenditures.....	(14)	(13)	1	(7)%
Charitable donations	(25)	(26)	(1)	4%
Depreciation of infrastructure assets.....	(1)	(1)	-	-
Gain/(loss) on disposal of subsidiaries.....	52	(72)	(124)	-
Other non-operating expenses	-	(309)	(309)	-
Net other non-operating income/(expenses).....	12	(421)	(433)	-

Gain/(loss) on disposal of subsidiaries

In the year ended 31 December 2016, the Group recognised a gain on disposal of subsidiaries of US\$52 million in relation to foreign exchange translation reserves of foreign subsidiaries, which were reclassified to profit or loss from other comprehensive income upon their disposals.

In the year ended 31 December 2017, the Group recognised a loss on the disposal of Redaelli Tecna S.p.A. and PJSC Dneprometiz, the Group's subsidiaries, of US\$43 million and US\$29 million, respectively.

Other non-operating expenses

Other non-operating expenses consisted primarily of US\$307 million of translation reserves, arising from operations of foreign holding entities, which had been liquidated or were in the process of liquidation, were recognised in the year ended 31 December 2017.

Profit before income tax

Compared with the prior period, the Group's profit before income tax increased by US\$47 million, or 3 percent, from US\$1,717 million in the year ended 31 December 2016 to US\$1,764 million in the year ended 31 December 2017. The increase was due to a US\$479 million increase in profit before financing and taxation, which was partially offset by a US\$432 million decrease in net financing income/(expenses). The increase in profit before financing and taxation was due to the factors described above.

Net financing income/(expenses)

In the year ended 31 December 2017, the Group had net financing expenses of US\$109 million, compared with net financing income of US\$323 million in the year ended 31 December 2016.

The following table sets out the Group's consolidated net financing income/(expenses) for the years ended 31 December 2016 and 2017:

	Year ended 31 December		Year on year change	Year on year percent change
	2016	2017		
		(US\$ millions)		
Finance income.....	63	49	(14)	(22)%
Finance costs	(157)	(158)	(1)	1%
Loss on remeasurement and disposal of financial instruments	(66)	(45)	21	(32)%
Foreign exchange gain	483	45	(438)	(91)%
Net financing income/(expenses).....	323	(109)	(432)	(134)%

Foreign exchange gain

Compared with the prior period, the Group's foreign exchange gain decreased by US\$438 million in the year ended 31 December 2017. The decrease was due to the effect of Rouble appreciation against the US dollar, which was more significant in 2016 than in 2017.

Income tax expense

Income tax expense increased by US\$312 million from US\$97 million in the year ended 31 December 2016 to US\$409 million in the year ended 31 December 2017.

This change was due to the Group reassessment of recoverability of certain previously unrecognised deferred tax assets due to a more positive outlook in the year ended 31 December 2016, which resulted in income tax expense decrease in 2016.

Profit for the year

The Group's profit decreased by US\$265 million, or 16 percent, from US\$1,620 million in the year ended 31 December 2016 to US\$1,355 million in the year ended 31 December 2017. This change was due to a US\$312 million increase in income tax expense, which was partially offset by an increase in profit before income tax of US\$47 million.

The increase in profit before income tax was primarily due to the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2019, the Group had total cash and cash equivalents of US\$345 million. As at 31 December 2018, 2017 and 2016, the Group had total cash and cash equivalents of US\$228 million, US\$1,031 million and US\$1,154 million, respectively.

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

Cash Flows

For the six months ended 30 June 2019 and 2018

The following table sets out the Group's consolidated cash flow for the six months ended 30 June 2018 and 2019:

	Six months ended 30 June		Period on	Period on
	2018	2019	period	period
	(US\$ millions)		change	percent
				change
Net cash from operating activities				
Profit before financing and taxation	1,331	1,156	(175)	(13)%
Adjustments to reconcile profit to cash generated from operations	220	232	12	5%
Changes in operating assets and liabilities	(91)	(1)	90	(99)%
Interest paid	(57)	(48)	9	(16)%
Income tax paid	(240)	(222)	18	(8)%
Net cash from operating activities	1,163	1,117	(46)	(4)%
Net cash used in investing activities				
Capital expenditures ⁽¹⁾	(296)	(476)	(180)	61%
Proceeds from disposal, net of additions to financial investments	183	-	(183)	(100)%
Other	20	11	(9)	(45)%
Net cash used in investing activities	(93)	(465)	(372)	-
Net cash used in financing activities				
Proceeds from debt finance	8	383	375	-
Repayments of debt finance	(562)	(52)	510	(91)%
Dividends paid	(172)	(870)	(698)	-
Net repayments of other financing activities	(2)	(7)	(5)	-
Net cash used in financing activities	(728)	(546)	182	(25)%
Effect of exchange rates on cash and cash equivalents	3	11	8	-
Net increase in cash and cash equivalents	345	117	(228)	(66)%

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

Net cash from operating activities decreased by US\$46 million, or 4 percent, from a cash inflow of US\$1,163 million in the six months ended 30 June 2018 to a cash inflow of US\$1,117 million in the six months ended 30 June 2019.

The decrease in cash from operating activities mainly related to the decrease in profit before financing and taxation of US\$175 million, which was partially offset by the net decrease in changes in operating assets and liabilities of US\$90 million.

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

The net decrease in changes in operating assets and liabilities of US\$90 million was primarily due to the increase in cash inflow of US\$35 million from changes in VAT recoverable balances and was due to the cash inflow of US\$42 million from trade accounts payable increase, including amounts payable to related parties.

Net cash used in investing activities increased by US\$372 million from US\$93 million for the six months ended

30 June 2018 to US\$465 million for the six months ended 30 June 2019. The increase was due to the increase in capital expenditures of US\$180 million and the decrease in proceeds from disposal of financial investments, net of additions to financial investments, of US\$183 million.

The increase in capital expenditures of US\$180 million was in line with the approved budgeted capex programme for 2019.

The decrease in proceeds from disposal of financial investments, net of additions to financial investments, of US\$183 million was mostly due to the disposal of financial investments, mostly presented by bonds of other public companies quoted on an active market, in the six months ended 30 June 2018.

Net cash used in financing activities decreased by US\$182 million, or 25 percent, from a cash outflow of US\$728 million for the six months ended 30 June 2018 to a cash outflow of US\$546 million for the six months ended 30 June 2019. The decrease was mostly due to the decrease in repayments of debt finance of US\$510 million and the increase in proceeds from debt finance of US\$375 million, which was partially offset by the increase in dividends paid of US\$698 million.

The decrease in repayments of debt finance of US\$510 million was primarily related to the decrease in bonds repayments in the six month ended 30 June 2019 compared with the six months ended 30 June 2018. In March 2018, the Group repaid US dollar-denominated Eurobonds with an aggregate nominal amount of US\$600 million in accordance with the payment schedule.

The increase in proceeds from debt finance of US\$375 million was primarily related to the Russian bonds issued by the Group in the nominal amounts of US\$230 million and US\$153 million in April 2019 with put-options in 2026 and 2024, respectively, both due in 2029.

The increase in dividends paid by US\$698 million was consistent with the Group's results year-on-year and dividend policy.

For the years ended 31 December 2017 and 2018

The following table sets out the Group's consolidated cash flow for the years ended 31 December 2017 and 2018:

	Year ended 31 December		Year on	Year on
	2017	2018	year	year
		(US\$ millions)	change	percent
Net cash from operating activities				
Profit before financing and taxation	1,873	2,725	852	45%
Adjustments to reconcile profit to cash generated from operations	644	333	(311)	(48)%
Changes in operating assets and liabilities	(248)	(236)	12	(5)%
Interest paid	(138)	(104)	34	(25)%
Income tax paid	(217)	(464)	(247)	114%
Net cash from operating activities	1,914	2,254	340	18%
Net cash used in investing activities				
Capital expenditures ⁽¹⁾	(591)	(688)	(97)	16%
Business combination, additions to financial investments ⁽²⁾	(137)	(23)	114	(83)%
Proceeds from disposal of financial investments	36	210	174	-
Net cash inflow from disposal of subsidiaries	42	-	(42)	(100)%
Other	70	35	(35)	(50)%
Net cash used in investing activities	(580)	(466)	114	(20)%
Net cash used in financing activities				
Proceeds from debt finance	1,306	-	(1,306)	(100)%
Repayments of debt finance	(1,191)	(584)	607	(51)%
Dividends paid	(1,530)	(1,971)	(441)	29%
Net repayments of other financing activities	(72)	(2)	70	(97)%
Net cash used in financing activities	(1,487)	(2,557)	(1,070)	72%
Effect of exchange rates on cash and cash equivalents	30	(34)	(64)	-
Net decrease in cash and cash equivalents	(123)	(803)	(680)	-

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

⁽²⁾ For the year ended 31 December 2017, this amount included purchase of rights to claim debt obligations for a total consideration of RUB6 billion (US\$101 million at the transaction date exchange rate) which were acquired in July 2017.

Net cash from operating activities increased by US\$340 million, or 18 percent, from a cash inflow of US\$1,914 million in the year ended 31 December 2017 to a cash inflow of US\$2,254 million in the year ended 31 December 2018.

The increase in cash from operating activities was primarily due to the increase in the profit before financing and taxation of US\$852 million, the decrease in interest paid of US\$34 million, which was partially offset by the decrease in adjustments to reconcile profit to cash generated from operations of US\$311 million and the increase of income tax paid of US\$247 million.

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

The decrease in adjustments to reconcile profit in cash generated from operations of US\$311 million was primarily due to the decrease of non-cash accumulated translation reserve of foreign operations of US\$307 million, the decrease in loss on disposal of subsidiaries of US\$72 million and the increase in reversal of impairment of non-current assets of US\$71 million in 2018, which was partially offset by decrease in non-cash gain from a bargain purchase of US\$135 million.

The decrease in accumulated translation reserves from foreign operations of US\$307 million was a result of the reorganisation of a number of foreign holding entities, which had been liquidated or were in the process of liquidation in the year ended 31 December 2017.

In the year ended 31 December 2017, the Group recognised a loss on the disposal of Redaelli Tecna S.p.A. and PJSC Dneprometiz, the Group's subsidiaries, of US\$43 million and US\$29 million, respectively.

The increase in reversal of impairment of US\$71 million in the year ended 31 December 2018 mainly related to a US\$51 million reversal of impairment loss previously recognised in respect of Olcon in Severstal Resources segment.

The decrease in non-cash gain from a bargain purchase of US\$135 million was a result of consolidation of LLC Metal-Group's (Yakovlevskiy mine) net assets in the year ended 31 December 2017.

The decrease in interest paid of US\$34 million was due to the decrease in debt balances in the year ended 31 December 2018 compared with the year ended 31 December 2017.

The increase in income tax paid of US\$247 million in the year ended 31 December 2018 compared with the year ended 31 December 2017 was in line with the increase in taxable profit in corresponding periods.

Net cash used in investing activities decreased by US\$114 million, or 20 percent, from a US\$580 million cash outflow for the year ended 31 December 2017 to a US\$466 million cash outflow for the year ended 31 December 2018. The decrease was due to the increase in proceeds from disposal of financial investments of US\$174 million, the decrease of business combination, additions to financial investments of US\$114 million, which was partially offset by increase in capital expenditures of US\$97 million and the decrease in net cash inflow from disposal of subsidiaries of US\$42 million.

The increase in proceeds from disposal of financial investments of US\$174 million was mostly due to the disposal of financial investments, mostly presented by bonds of other public companies quoted on an active market.

The decrease in business combination, additions to financial investments of US\$114 million, or 83 percent, in the year ended 31 December 2018 was primarily due to the purchase of rights to claim the debt obligations in the amount of US\$101 million related to the acquisition of rights of LLC Metal-group (Yakovlevskiy mine) from a third party, which net assets were subsequently consolidated in the year ended 31 December 2017.

The increase in capital expenditures of US\$97 million was in line with the approved budgeted capex programme for 2018.

The decrease in net cash inflow from disposal of subsidiaries of US\$42 million in the year ended 31 December 2018 related to the sale of 100 percent stake in Redaelli Tecna S.p.A. for a total consideration of US\$40 million and 98.7 percent stake in PJSC Dneprometiz for a total consideration of US\$10 million to third parties in the year ended 31 December 2017.

Net cash used in financing activities increased by US\$1,070 million, or 72 percent, from US\$1,487 million in the year ended 31 December 2017 to US\$2,557 million in the year ended 31 December 2018. The increase was primarily attributable to the decrease in proceeds from debt finance of US\$1,306 million and the increase in dividends paid of US\$441 million, which was partially offset by the decrease in repayments of debt finance of US\$607 million.

The decrease in proceeds from debt finance of US\$1,306 million was primarily related to bonds issued by the Group in the amount of US\$500 million in February 2017, convertible bonds issued by the Group in the amount of US\$250 million in February 2017 and proceeds from banks financing of US\$540 million in the year ended 31 December 2017.

The decrease in repayments of debt finance of US\$607 million was primarily related to the decrease in repayment of bank financing in the year ended 31 December 2018 with compared year ended 31 December 2017.

The increase in dividends paid by US\$441 million was consistent with the Group's results year on year.

The effect of exchange rates resulted in a US\$64 million decrease in cash and cash equivalents for the year ended 31 December 2018 compared with the year ended 31 December 2017 mainly due to the significant deviation of the Russian Rouble against the US dollar in the year ended 31 December 2018.

For the years ended 31 December 2016 and 2017

The following table sets out the Group's consolidated cash flow for the years ended 31 December 2016 and 2017:

	Year ended 31 December		Year on year change	Year on year percent change
	2016	2017		
	(US\$ millions)			
Net cash from operating activities				
Profit before financing and taxation	1,394	1,873	479	34%
Adjustments to reconcile profit to cash generated from operations	484	644	160	33%
Changes in operating assets and liabilities	(134)	(248)	(114)	85%
Interest paid	(152)	(138)	14	(9)%
Income tax paid	(115)	(217)	(102)	89%
Net cash from operating activities	1,477	1,914	437	30%
Net cash used in investing activities				
Capital expenditures ⁽¹⁾	(525)	(591)	(66)	13%
Business combination, additions to financial investments, net of proceeds from disposal ⁽²⁾	(209)	(101)	108	(52)%
Net cash inflow from disposal of subsidiaries	3	42	39	-
Other	68	70	2	3%
Net cash used in investing activities	(663)	(580)	83	(13)%
Net cash used in financing activities				
Proceeds from debt finance	656	1,306	650	99%
Repayments of debt finance	(1,070)	(1,191)	(121)	11%
Net proceeds from/(repayments of) other financing activities	6	(72)	(78)	-
Dividends paid	(921)	(1,530)	(609)	66%
Net cash used in financing activities	(1,329)	(1,487)	(158)	12%
Effect of exchange rates on cash and cash equivalents	23	30	7	30%
Net decrease in cash and cash equivalents	(492)	(123)	369	(75)%
Less cash and cash equivalents of assets held for sale at end of the period ..	(1)	-	1	(100)%

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

⁽²⁾ For the year ended 31 December 2017 this amount included purchase of rights to claim debt obligations for a total consideration of RUB6 billion (US\$101 million at the transaction date exchange rate) which were acquired in July 2017.

Net cash from operating activities increased by US\$437 million, or 30 percent, from a cash inflow of US\$1,477 million in the year ended 31 December 2016 to a cash inflow of US\$1,914 million in the year ended 31 December 2017.

The increase in cash from operating activities was primarily due to the increase in profit before financing and taxation of US\$479 million, increase in adjustments to reconcile profit to cash generated from operations of US\$160 million, which was partially offset by the increase in changes in operating assets and liabilities of US\$114 million and the increase in income tax paid of US\$102 million.

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

The increase in adjustments to reconcile profit to cash generated from operations was primarily due to the increase in non-cash accumulated translation reserves from foreign operations of US\$307 million, the increase in non-cash inflow

from disposal of subsidiaries of US\$124 million, the increase in depreciation and amortisation of US\$61 million, which was partially offset by increase in non-cash gain from a bargain purchase of US\$135 million and decrease in impairment of non-current assets of US\$132 million in the year ended 31 December 2017, compared with the year ended 31 December 2016.

The increase in accumulated translation reserves from foreign operations of US\$307 million was a result of the reorganisation of a number of foreign holding entities, which had been liquidated or were in the process of liquidation in the year ended 31 December 2017.

The Group's gain on disposal of subsidiaries of US\$52 million in the year ended 31 December 2016 changed to a US\$72 million loss on disposal in the year ended 31 December 2017. In the year ended 31 December 2016, the Group recognised gain on disposal of subsidiaries of US\$52 million in relation to foreign exchange translation reserves of foreign subsidiaries, which were reclassified to profit or loss from other comprehensive income upon their disposals. In the year ended 31 December 2017, the Group recognised a loss on the disposal of Redaelli Tecna S.p.A. and PJSC Dneprometiz, the Group's subsidiaries, of US\$43 million and US\$29 million, respectively.

The increase in depreciation and amortisation of US\$61 million was primarily due to the increase in depreciation charge in US dollar terms as a result of the Rouble appreciation against the US dollar in the year ended 31 December 2017 in comparison with the year ended 31 December 2016.

The increase in gain from a bargain purchase of US\$135 million was a result of consolidation of LLC Metal-Group's (Yakovlevskiy mine) net assets in the year ended 31 December 2017.

Compared with the prior period, the Group's impairment of non-current assets decreased by US\$132 million and comprised US\$3 million in the year ended 31 December 2017.

Impairment of non-current assets for the year ended 31 December 2016 was mainly consisted of:

- a US\$12 million impairment loss recognised at the Vorkutaugol's Severnaya mine in relation to relevant property, plant and equipment as a result of the explosion that occurred in February 2016;
- a US\$56 million and US\$28 million impairment loss in relation to specific items of property, plant and equipment and intangible assets, respectively, in Severstal Recourses segment;
- a US\$30 million impairment loss in relation to non-current assets of Redaelli Tecna S.p.A. based on its fair value less costs to sell.

The increase in changes of operating assets and liabilities of US\$114 million was mainly due to the increase in changes in trade accounts receivable of US\$59 million, including accounts receivable to related parties, in VAT recoverable of US\$34 million and in net other changes in operating assets and liabilities of US\$40 million, and was partially offset by an increase in trade accounts payable.

The increase in income tax paid of US\$102 million was in line with the increase of taxable profit.

Net cash used in investing activities decreased by US\$83 million, or 13 percent, from cash outflow of US\$663 million in the year ended 31 December 2016 to cash outflow of US\$580 million in the year ended 31 December 2017. The decrease was due to the decrease in additions to financial investments, net of proceeds from disposal, of US\$108 million and the increase in net inflow from disposal of subsidiaries of US\$39 million, which was partially offset by the increase in capital expenditures outflow of US\$66 million.

In 2016, the additions to financial investments, net of proceeds from disposal, of US\$209 million primarily reflected the purchase of financial investments, mainly presented by bonds of other public companies quoted on an active market. In 2017, the additions to financial investments, net of proceeds from disposal, of US\$101 million mainly related to acquisition rights from a third party to claim debt obligations of LLC Metal-group, which net assets were consolidated subsequently.

The increase in net cash inflow from disposal of subsidiaries of US\$39 million from US\$3 million cash inflow in the year ended 31 December 2016 to a US\$42 million cash inflow in the year ended 31 December 2017 mostly related to the sale of 100 percent stake in Redaelli Tecna S.p.A. for a total consideration of US\$40 million and 98.7 percent stake in PJSC Dneprometiz for a total consideration of US\$10 million to the third parties in the year ended 31 December 2017.

The increase in capital expenditures of US\$66 million was in line with the approved budgeted capex program for 2017.

Net cash used in financing activities increased by US\$158 million, or 12 percent, from US\$1,329 million in the year ended 31 December 2016 to a US\$1,487 million in the year ended 31 December 2017. The increase was primarily attributable to the increase in dividends paid of US\$609 million, which was partially offset by the increase in proceeds from debt finance, net of repayments, of US\$529 million.

The increase in dividends paid was consistent with the Group's results year-on-year.

The increase in proceeds from debt finance, net of repayments, in the year ended 31 December 2017 compared with the year ended 31 December 2016 was primarily due to the long-term borrowings made during the year 2017, including bonds issued by the Group in the amount of US\$500 million in February 2017, convertible bonds issued by the Group in the amount of US\$250 million in February 2017, compared with the convertible bonds issued by the Group in the amount of US\$200 million in April 2016.

The effect of exchange rates resulted in a US\$7 million increase in cash and cash equivalents for the year ended 31 December 2017 compared with the year ended 31 December 2016 mainly due to the appreciation of the Russian Rouble against the US dollar in the year ended 31 December 2017.

INDEBTEDNESS

The following table sets out the Group's indebtedness as at 30 June 2019, 31 December 2018 and 2017:

	30 June 2019	31 December 2018	31 December 2017
	(US\$ millions)		
Eurobonds 2018.....	-	-	555
Eurobonds 2021.....	505	503	503
Eurobonds 2022.....	635	635	635
Convertible bonds 2021.....	35	86	170
Convertible bonds 2022.....	224	220	209
Rouble bonds 2029/put 2024.....	162	-	-
Rouble bonds 2029/put 2026.....	243	-	-
Bank financing.....	7	7	14
Other financing.....	3	4	7
Total debt financing.....	1,814	1,455	2,093

Major Indebtedness

In April 2019, the Group issued two Rouble-denominated bonds amounting to US\$230 million and US\$153 million with put options in 2026 and 2024, respectively, both due in 2029. Bonds bear an interest rate of 8.65 percent per annum, which is payable every 182 days, beginning October 2019. Proceeds from the bonds issue were mainly used for general corporate purposes. As at 30 June 2019, the amount outstanding under these facilities was US\$243 million and US\$162 million respectively.

In April 2016, the Group issued US\$200 million senior unsecured guaranteed convertible bonds maturing in 2021. The conversion rights may be exercised at any time on or after 9 June 2016. The initial conversion price was set at US\$13.80 per GDR. If the conversion rights are exercised, it is at the Group's discretion to determine whether to convert bonds into GDRs or to pay a cash amount as defined in the terms of the issue. This settlement option causes the conversion feature of the bond to be classified separately and measured at fair value through profit and loss, while the host liability is accounted for at amortised cost using market interest rate of 5.1 percent per annum at the date of the issue. The bonds bear an interest rate of 0.5 percent per annum, which is payable semi-annually in April and October each year, beginning in October 2016. Holders of the bonds had an option to require an early redemption of their bonds on 29 April 2019 at the principal amount plus accrued interest. The Group also has an option for early redemption, exercisable starting from 20 May 2019 provided the value of the GDRs deliverable on conversion of the bonds exceeds 130 percent of the principal amount of the bonds for a specified period of time. The proceeds from the bonds' issuance were mainly used for general corporate purposes. During 2018 and the first half of 2019, some holders of the bonds exercised their conversion rights and as a result US\$161 million of bonds at nominal value were redeemed as of 30 June 2019.

As at 30 June 2019, the value of conversion option of convertible bonds maturing in 2021 was US\$38 million and was determined with reference to the quoted market price (level 2 of the fair value hierarchy) and included in other non-current liabilities (as at 31 December 2018, US\$50 million was included in other current liabilities and as at 31 December 2017, US\$109 million was included in other non-current liabilities).

In February 2017, the Group issued US\$250 million senior unsecured guaranteed convertible zero-coupon bonds maturing in 2022. The conversion rights may be exercised at any time on or after 29 March 2017. The initial conversion

price was set at US\$20.33 per GDR. If the conversion rights are exercised, it is at the Group's discretion to determine whether to convert bonds into GDRs or to pay a cash amount as defined in the terms of the issue. This settlement option causes the conversion feature of the bond to be classified separately and measured at fair value through profit and loss, whilst the host liability is accounted for at amortised cost using market interest rate of 3.9 percent per annum at the date of the issue. Holders of the bonds have an option to require an early redemption of their bonds on 16 February 2020 at the principal amount. The Group also has an option for early redemption, exercisable starting from 9 March 2020 provided the value of the GDRs deliverable on conversion of the bonds exceeds 130 percent of the principal amount of the bonds for a specified period of time. The proceeds from the bonds' issuance were mainly used for general corporate purposes.

As at 30 June 2019, the value of the conversion option of convertible bonds maturing in 2022 was US\$77 million and was determined with reference to the quoted market price (level 2 of the fair value hierarchy) and included in other current liabilities (as at 31 December 2018, US\$35 million and included in other non-current liabilities and as at 31 December 2017 US\$48 million and included in other non-current liabilities). See Note 23 of the Annual Financial Statements on pages F-56-58 for further information.

In February 2017, the Group issued US\$500 million bonds denominated in US dollars maturing in 2021. These bonds bear an interest rate of 3.85 percent per annum, which is payable semi-annually in February and August each year, beginning in August 2017. The proceeds from the bonds' issuance were used for general corporate purposes, including refinancing of debt that matured in 2018. As at 30 June 2019, the amount outstanding under this facility was US\$505 million.

In October 2012, the Group issued US\$750 million bonds denominated in US dollars maturing in 2022. These bonds bear an interest rate of 5.9 percent per annum, which is payable semi-annually in April and October each year, beginning in April 2013. The proceeds from the bonds issuance were used for general corporate purposes, including refinancing of debt maturing in 2013. As at 30 June 2019, the amount outstanding under this facility was US\$635 million.

In March 2013, the Group issued US\$600 million bonds denominated in US dollars maturing in 2018. These bonds bear an interest rate of 4.45 percent per annum, which is payable semi-annually in March and September each year, beginning in September 2013. The proceeds from the bonds issuance were used for general corporate purposes, including refinancing of debt maturing in 2013. As at 30 June 2019, the amount outstanding under this facility was fully repaid.

Total debt was contractually repayable as at the following dates:

	30 June 2019	31 December 2018	31 December 2017
		(US\$ millions)	
Less than one year	255	110	586
Between one and five years	1,321	1,344	1,506
After more than five years	238	1	1
Total debt financing.....	1,814	1,455	2,093

Commitments and contingencies

As at 30 June 2019, the Group had contractual capital commitments of US\$249 million.

See Note 32 of the Annual Financial Statements on pages F-73-74 for information on certain actual and potential contingencies for litigation, tax and other liabilities.

Guarantees

As at 30 June 2019 and 31 December 2018, the Group had US\$nil of guarantees issued.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ON MARKET RISK

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

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

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

As of 30 June 2019, the Group had a derivative financial liability due to the bonds conversion option amounting to US\$115 million, measured at fair value.

The fair value of the Group's bonds was greater than their carrying amount by US\$55 million:

	30 June 2019)		
	Market value	Book value	Difference
	(US\$ millions)		
Eurobonds 2021	508	505	3
Eurobonds 2022	679	635	44
Convertible bonds 2021	73	73	-
Convertible bonds 2022	305	301	4
Rouble bonds 2029/put 2024	166	162	4
Rouble bonds 2029/put 2026	243	243	-
Total	1,974	1,919	55

The market value of the Group's bonds was determined based on London Stock Exchange quotations and Moscow Exchange quotations.

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

Credit risk

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

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

The Group allocates each exposure to a credit risk based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, and available press information about customers) and applying experienced credit judgement.

Expected credit loss rate is calculated for accounts receivable based on delinquency status and actual credit loss experience over the past three years.

The Group has developed policies and procedures for the management of credit exposure, including the establishment of a credit committee that actively monitors credit risk.

Additionally, in order to minimise credit risk of the counterparty banks, the analysis is carried out in respect of banks financial stability, and a quarterly review of the risks limits for banks with subsequent following the Group's operations within those established limits.

See Note 31 of the Annual Financial Statements on pages F-68-73 for further information.

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 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 both short-term and long-term financing needs. This enables the Group to maintain an appropriate level of liquidity and financial capacity and to minimise borrowing costs and achieve an optimal debt profile.

See Note 31 of the Annual Financial Statements on pages F-68-73 for further information.

Covenant compliance risk

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

See Note 31 of the Annual Financial Statements on pages F-68-73 for further information.

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.

See Note 31 of the Annual Financial Statements on pages F-68-73 for further information.

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 commodity price risk.

Interest rate risk

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

The following table sets out the amount of variable rate instruments as at 30 June 2019:

	As at 30 June 2019
	(US\$ millions)
Variable rate instruments	
Financial assets	2
Financial liabilities	(8)
Total	(6)

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

A change of 100 basis points in interest rates would not have significant effect on profit and equity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled, directly or indirectly, by the Parent Company. Consolidation of an investee begins from the date the Group obtains control over the investee and ceases when the Group loses control over the investee. The non-controlling interests represent the non-controlling proportion of the net identifiable assets of the subsidiaries, including the non-controlling share of fair value adjustments on acquisitions. The Group presents non-

controlling interests in its consolidated statement of financial position within equity, separately from the parent's shareholders' equity. Changes in the Group's interest in a subsidiary that do not result in losing control of the subsidiary are equity transactions.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing these consolidated financial statements; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Business combinations

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

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

Investments in associates

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

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

Joint ventures

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

The Group accounts for joint ventures using the equity method.

Goodwill

Goodwill is measured as the difference between:

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

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

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.

The gain from a 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. It is recognised in the income statement at the date of the acquisition.

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of each entity at the foreign exchange rate 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 recognised in the income statement.

Exploration for and evaluation of mineral resources

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

- obtaining of the rights to explore and evaluate mineral reserves and resources including costs directly related to this acquisition;
- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods;
- compiling prefeasibility and feasibility studies;
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

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

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

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

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

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and the development of the deposit is sanctioned by management. The carrying amount of such exploration and evaluation asset is reclassified into property, plant and equipment or intangible assets depending on the type of the asset.

Development expenditure

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

Stripping costs

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

- Stripping activity asset; and
- Current stripping costs.

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

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

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

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

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

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and, for qualifying assets, borrowing costs capitalised. In the case of assets constructed by the Group, related works and direct project overheads are included in cost. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. Repair and maintenance expenses are charged to the income statement as incurred. Gains or losses on disposals of property, plant and equipment are recognised in the income statement.

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

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

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

Leases

Policy applicable before 1 January 2019

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

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

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

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

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

Policy applicable from 1 January 2019

The Group has adopted IFRS 16 Leases using the modified retrospective approach with the effect of initial application recognised as at 1 January 2019. Accordingly, the information presented for comparative periods has not been restated.

On transition date, the discounted present value of the Group's operating lease payments, except for agreements with variable lease payments, was recognised as right-of-use assets and corresponding lease liabilities.

The lease liability is discounted using the Group's incremental borrowing rates varying between 1 percent and 10 percent depending on the lease agreement's currency. For some specific lease agreements, the discount rate is determined by the interest rate implicit in these lease agreements.

The Group's right-of-use assets include land and buildings, plant and machinery, vehicles and other productive assets. Short-term and low value leases are accounted as leases; lease and non-lease components are treated as a single lease item for all leased assets.

Intangible assets (excluding goodwill)

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

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

The table below presents the useful lives of intangible assets:

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

The major component of the software is the SAP business system. The major component of other intangible assets is land lease rights. Amortisation of intangible assets is included in the captions "Cost of sales" and "General and administrative expenses" in the consolidated income statement.

Impairment of non-current assets

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

Calculation of recoverable amount

For non-current 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based

on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads. Allowances are recorded against slow-moving and obsolete inventories.

Financial assets

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

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

On initial recognition, financial assets are classified into the following specified categories: financial assets measured at amortised cost, financial assets “at fair value through other comprehensive income” (FVTOCI), financial assets “at fair value through profit or loss” (FVTPL).

The classification depends on the Group’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade receivables, cash and cash equivalents, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as financial assets at amortised cost and are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Group uses a simplified approach for trade receivables to measure expected credit loss based on provision matrix. The Group uses its historical credit loss experience for trade receivables to estimate the lifetime expected credit losses and takes into account current forward-looking information.

Financial assets at FVTOCI

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Investments in unlisted shares or other instruments that do not have a quoted market price in an active market are measured at management’s estimate of fair value. Gains and losses on a FVTOCI are recognised in other comprehensive income with the exception of impairment losses and foreign exchange gains and losses, which are recognised directly in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Dividends on financial assets at FVTOCI equity instruments are recognised in the income statement when the Group's right to receive the dividends is established.

Financial assets at FVTPL

Financial assets are classified as at FVTPL if not included in the categories above.

Financial liabilities

Financial liabilities are measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate.

Financial liabilities are measured at amortised cost using the effective interest method, with interest expense recognised in the income statement.

Hedging instruments

The Group holds derivative financial instruments primarily to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

The Group has not applied hedge accounting to existing financial instruments.

Dividends payable

Dividends are recognised as a liability in the period in which they are authorised by the shareholders.

Other taxes and contributions

Other taxes and contributions are taxes and mandatory contributions paid to the government, or government controlled agencies, that are calculated on a variety of bases, but exclude taxes calculated on profits, value added taxes calculated on revenues and purchases and social security costs calculated on wages and salaries. Social security costs are included in cost of sales, distribution expenses and general and administrative expenses in accordance with the nature of related wages and salaries expenses.

Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax expense is calculated by each entity on the pre-tax income determined in accordance with the tax law of the country, in which the entity is incorporated, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets on deductible temporary differences and tax loss carry forwards are reviewed at each reporting date and recorded only to the extent that it is probable that the temporary differences will reverse in the future and there is sufficient future taxable profit available against which they can be utilised.

Deferred tax is not recognised in respect of the following:

- investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future;
- if it arises from the initial recognition of an asset or liability that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss;
- initial recognition of goodwill.

Provisions

Employee benefits

The Group pays retirement, healthcare and other long-term benefits to its employees.

The Group has two types of retirement benefits: defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts in respect of those benefits. The Group's only obligation is to pay contributions as they fall due, including contributions to the Russian Federation State pension fund. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans are post-employment benefits plans other than defined contribution plans. The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.). For the Group's entities, the discount rate used is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually using the projected unit credit method. In accordance with this method, the Group's net obligation is calculated separately for each defined benefit plan. Any actuarial gain or loss arising from the calculation of the retirement benefit liability is fully recognised in other comprehensive income.

Other long-term employee benefits include various compensations, non-monetary benefits and a long-term cash-settled share-based incentive programme.

Decommissioning liabilities

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closure of certain of its production sites. Decommissioning liabilities are estimated case-by-case based on available information, taking into account applicable local legal requirements. The estimation is made using existing technology, at current prices, and discounted using a real discount rate. Future decommissioning costs, discounted to net present value, are capitalised and the corresponding decommissioning liability raised as soon as the constructive obligation to incur such costs arises. Future decommissioning costs are capitalised in property, plant and equipment and are depreciated over the life of the related asset. The effect of the time value of money on the decommissioning liability is recognised in the income statement as an interest expense. Ongoing rehabilitation costs are expensed when incurred.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of issued shares

When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, net of any tax effects is recognised as a deduction from equity and classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

Operating income and expenses

The Group presents profit or loss from operations, which includes various types of income and expenses arising in the course of production and sale of the Group's products, disposal of property, plant and equipment, participation in joint ventures and associates and other Group's regular activities.

Certain items are presented separately from profit or loss from operations by virtue of their size, incidence or nature to enable a full understanding of the Group's financial performance. Such items, which are included in profit or loss before financing and taxation, primarily include impairment of non-current assets, gain from a bargain purchase and other non-operating income and expenses, as, for example, gain or loss on disposal of subsidiaries and associates and charitable donations.

Revenue recognition

The Group has adopted IFRS 15 using the cumulative effect method with the effect of initial application recognised as of 1 January 2018. Accordingly, the information presented for comparative periods has not been restated.

Most of the Group's revenue is revenue from contracts with customers.

Revenue from the sale of hot rolled strip and plate, other steel products, pellets and iron ore and most other revenue is recognised in the income statement primarily at the point in time when control of the promised goods passes to the customer.

The amount of revenue recognised reflects the consideration to which the Group is or expects to be entitled in exchange for those goods and is reduced for estimated customer returns, rebates and other similar allowances.

In most instances, control passes, and sales revenue is recognised when the product is delivered to the vessel or vehicle on which it will be transported once loaded, the destination port or the customer's premises.

The Group's products are sold to customers under contracts which vary in tenure, but are generally less than one year in duration (therefore, no significant effect of any financing component exists); and pricing mechanisms, including some volumes sold in the spot market. Revenue is generally recognised at the contracted price as this reflects the stand-alone selling price.

Finance income and costs

Finance income includes interest income and dividend income (except for dividends from investments in associates and joint ventures).

Interest income

Interest income is recognised in the income statement on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Finance costs include interest expense and other finance costs.

Interest expense

Interest expense is recognised in the income statement as it accrues, taking into account the effective yield on the liability.

Other finance costs

Other finance costs include costs incurred for bank operating services and other related charges.

Gain/(loss) on remeasurement and disposal of financial instruments

Gain/(loss) on remeasurement and disposal of financial instruments comprises impairment, realised and unrealised gains on financial instruments, remeasurement of financial assets at FVTPL and financial liabilities at FVTPL.

Earnings per share

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by dividing adjusted profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of shares outstanding, adjusted for the effect of all dilutive potential ordinary shares.

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 key management 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 are stated before intersegment elimination and are measured on the same basis as those in the consolidated financial statements, except that:

- non-monetary long-term investments in subsidiaries are translated into the presentation currency at the historic exchange rate;
- no impairment is recognised on investments in subsidiaries;
- no discounting is applied for intersegment loans;
- in case of transfers of equity investments between segments, such investments are accounted at their historic cost.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Critical accounting judgments, estimates and assumptions

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and recognition/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.

Areas of judgement that have the most significant effect on the amounts recognised/disclosed in the consolidated financial statements are:

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.

Taxation

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 by the various regulatory authorities and jurisdictions, who can impose significant fines and penalties. Management has to apply considerable judgement in determining the appropriate amounts of taxes payable.

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. The Group uses an allowance matrix to measure expected credit loss of trade receivables. Loss rates are based on actual credit loss experience over the past three years. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Allowance for obsolete and slow-moving inventories

The Group makes allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

Decommissioning liabilities

The Group reviews its decommissioning liabilities, representing site restoration provisions, at each reporting date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 'Changes in Existing Decommissioning, Restoration and Similar Liabilities'. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

Retirement benefit liabilities

The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

Litigation

The Group exercises judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results.

Deferred tax assets

Deferred tax assets on deductible temporary differences and tax loss carry forwards are reviewed at each reporting date and recorded only to the extent that it is probable that the temporary differences will reverse in the future and there is sufficient future taxable profit available against which they can be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future

utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation of deferred tax assets must be reduced, this reduction will be recognised in the income statement.

Consolidation

For new investees or when there are changes in Group's existing involvement with an investee, the Group assesses all facts and circumstances to determine whether it has control over the investee. There may be cases which require management to exercise significant judgement to determine whether it is exposed or has the rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The acquisition method

The acquisition method requires the Group for each business combination to identify the acquirer, date of acquisition, recognising and measuring the identified assets and liabilities assumed and any non-controlling interest in the acquiree, and goodwill or gain from a bargain purchase. Assessment of the fair value of identifiable net assets along with resulted goodwill or gain from a bargain purchase based on applicable valuation techniques using market inputs and other assumptions involves significant judgement to determine appropriate amounts to include in the consolidated financial statements at acquisition date.

Functional currency determination

The Group exercises judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions based on the specific facts and circumstances. This is a complex process and different factors are considered in determining the appropriate functional currency. Management regularly reviews the facts and circumstances, which may indicate that the functional currency of an entity should be changed.

The key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- useful lives of property, plant and equipment;
- impairment of assets;
- taxation;
- litigation.

Functional and presentation currency

The presentation currency of the Financial Statements is the US dollar.

The functional currency is determined separately for each of the Group's entities. The functional currency of the major part of the Group's entities is the Russian Rouble, except for entities located in Latvia and Poland, other entities and currencies are not material to the Group.

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 monthly exchange rates; and
- all resulting exchange differences are recognised as a separate component in other comprehensive income.

INDUSTRY

The following information includes extracts from publicly available information, data and statistics and has been extracted from official sources and other sources the Company believes to be reliable. The Company accepts responsibility for accurately reproducing such information, data, and statistics and, as far as the Company is aware, no facts have been omitted that would render such information misleading. The Company accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers.

STEEL INDUSTRY

Global Overview

The global steel industry is affected by a combination of factors, including periods of economic growth or recession, worldwide production capacity and the existence of, and fluctuations in, steel imports and protective trade measures. Steel prices respond to supply and demand and fluctuate in response to general and industry specific economic conditions.

The steel industry reached a low in 2015 as raw material markets were oversupplied due to rapid capacity expansion and pressure on steel margins stemming from global destocking and declining demand in China. The steel market has been enjoying a positive trend since 2016, driven by a combination of increasing steel demand both in China and in developing Asia excluding China, a capacity reduction programme in China, strict environmental policies and raw material supply disruptions in coking coal in 2016-2017 and iron ore in 2019.

Steel demand in China was driven by relaxation of housing policies in 2016 and an economic stimulus in 2017 before the Communist Party congress. In 2018-2019, China continued supportive economic policies in order to counteract the negative impact of trade wars.

According to Worldsteel, apparent steel consumption in China increased by 7.9 percent in 2018. Alternative measures of steel demand growth in China are based on the production of steel consuming industries which increased by 2 percent in 2018. In the first five months of 2019, steel demand growth in China was estimated at 10.5 percent year on year.

Since 2016 China has eliminated approximately 150 million tonnes of steel capacity. In addition, China closed approximately 120 million tonnes of illegal induction furnace capacities in 2016-2017. Nowadays new steelmaking capacities in China can be built only in replacement of closed old capacities. Steelmaking capacity utilisation in China is estimated to be above 90 percent, a rate which is significantly higher than the world average.

Steel demand in developing Asia excluding China experienced growth of 2.4 percent in 2017 and 2.2 percent in 2018 driven by India, economic recovery in Brazil, and growth in Indonesia and other ASEAN countries in 2018.

In the second half of 2018 Ex-China steel demand was affected by a financial crisis in Turkey and a decrease in Turkish steel demand by 14.9 percent year on year in 2018. Economic conditions in Turkey have stabilised but steel demand has not yet gained traction. Simultaneously, steel demand in Europe was affected by weakening automotive production and reduced external demand for machinery sectors. Construction activity in Europe is performing better, but overall demand in Europe is expected to slow down in 2019.

According to Worldsteel, the global crude steel output was 1,809 million tonnes in 2018, representing an increase of 4.5 percent compared with the preceding year. The five largest global steel producers in 2018 were China (producing 828.3 million tonnes), India (106.5 million tonnes), Japan (104.3 million tonnes), the US (86.6 million tonnes) and South Korea (72.5 million tonnes). Russia was sixth with a production of 71.7 million tonnes.

In 2018, China was the largest single producer of steel in the world, producing 928.3 million tonnes of crude steel, as well as the largest consumer of steel, consuming approximately 835 million tonnes of finished steel. According to Worldsteel, China's steel production in 2018 increased by 6.6 percent from 2017, accounting for 51.3 percent of global steel production.

The following table sets out estimated crude steel production data by country or region from 2011 to 2018:

World Crude Steel Production, million tonnes

	2011	2012	2013	2014	2015	2016	2017	2018
Europe	217	209	205	208	202	200	211	211
CIS.....	112	111	109	105	102	102	101	101
Russia.....	69	70	69	71	71	71	72	72
Ukraine.....	35	33	33	27	23	24	21	21
North America	118	122	119	121	111	111	116	121
US	86	89	87	88	79	79	82	87
South America	48	46	46	45	44	39	44	44
Middle East/Africa	39	40	43	45	43	45	50	55
Asia.....	995	1,027	1,124	1,140	1,108	1,125	1,203	1,271
China.....	702	731	822	823	799	808	871	928
Japan	108	107	111	111	105	105	105	104
India	73	77	81	87	89	96	102	107
Oceania.....	7	6	6	5	6	6	6	6
World total	1,538	1,560	1,650	1,670	1,615	1,629	1,731	1,809
Annual change (%)	7.3	1.4	5.8	1.2	(3.3)	0.8	6.1	4.5

Source: Worldsteel

Note: numbers are rounded to the nearest whole

While production in Europe, Japan and the United States remains significant, steel producers in those regions have increasingly focused on rolling and finishing semi-finished products. The industry is shifting in demand from “commodity steel” to “high value-added steel” or “specialised steel” in developed markets.

The following table sets out estimated finished steel consumption data by country or region:

Apparent Steel Use, finished steel products, million tonnes

	2012	2013	2014	2015	2016	2017	2018
Europe	174	180	186	195	199	205	208
CIS.....	59	60	58	52	51	54	56
Russia.....	43	43	43	39	38	41	41
Ukraine.....	6	6	4	3	4	5	5
North America	133	131	146	134	132	141	143
US	96	96	107	96	92	98	100
Central and South America.....	49	52	49	46	40	42	43
Middle East/Africa	84	89	92	92	91	88	87
Asia.....	939	1,026	1,011	978	1,000	1,095	1,168
China.....	660	741	711	672	681	774	835
Japan	64	65	68	63	62	64	65
India	72	74	76	80	84	89	96
Oceania.....	8	7	8	7	7	7	7
World total	1,447	1,545	1,550	1,504	1,520	1,632	1,712
Annual change (%)	2.3	6.8	0.3	(3.0)	1.1	7.4	4.9

Source: Worldsteel

Note: numbers are rounded to the nearest whole

According to Worldsteel, global finished steel consumption in 2018 increased by 4.9 percent to 1,712.1 million tonnes driven by China and other countries demonstrating synchronised growth.

Major traded steel products worldwide include semi-finished products, hot and cold-rolled sheets and coils, steel tubes and fittings, galvanised sheet, wire rod and angles and sections.

Competition

According to Worldsteel, in 2018, the five largest producers – ArcelorMittal (96.42 million tonnes); China Baowu Group (67.43 million tonnes); Nippon Steel Corporation (49.22 million tonnes); HBIS Group (46.8 million tonnes); and POSCO (42.86 million tonnes) – accounted for approximately 17 percent of total worldwide steel production, with ArcelorMittal, the largest, accounting for 5.3 percent.

The Group faces competition from a number of steel makers in the global steel industry. The following table sets out the production volumes of some of the competitors of the Group in the global steel industry.

World Crude Steel Production by company, million tonnes

Rank	Company	2018
1.	ArcelorMittal	96.42
2.	China Baowu Group	67.43
3.	Nippon Steel Corporation	49.22
4.	HBIS Group	46.80
5.	POSCO	42.86
6.	Shagang Group	40.66
7.	Ansteel Group	37.36
8.	JFE Steel Corporation	29.15
9.	Jianlong Group	27.88
10.	Shougang Group	27.34

Source: Worldsteel

Russian Steel Industry

The Soviet Union produced approximately 160 million tonnes of crude steel a year at the end of the 1980s. Following the collapse of the Soviet Union, the steel industry suffered a substantial decline in production, to approximately 75 million tonnes of crude steel for all the newly independent states combined in 1997. At that point, Russia was producing approximately 38 million tonnes of rolled products annually.

However, steel production started to recover following the devaluation of the Rouble in 1998, due in part to the significant cost benefits that steel exporters experienced in 1999 and 2000. While the major mills were export oriented and their sales receipts were mostly US dollar based, their operating costs fell substantially in US dollar terms following the devaluation. In addition, the strength of steel prices in 2000 led to increased capacity utilisation rates, even at technologically inferior mills.

Though steel prices decreased in the second half of 2001 and the first half of 2002, beginning in the third quarter of 2002, the steel market demonstrated robust recovery in terms of both prices and volumes. According to Worldsteel, in 2005, 2006 and 2007 production of steel grew approximately 0.8 percent, 7.1 percent, and 2.3 percent, respectively, compared with the previous year. Production of steel in 2008 decreased approximately 5.4 percent, the production of steel in 2009 decreased by approximately 12.4 percent, in response to the global economic downturn, and the steel production in 2010 recovered to climb by 11.7 percent, and in 2011, production increased by 3.0 percent. In 2012, production in Russia of crude steel continued to rise by 2.5 percent, but growth was less than expected.

During the period from 2013 to 2018, production was relatively stable with an annual range from 69 to 72 million tonnes. Despite economic downturn started in the end of 2014 followed by domestic steel demand reduction major Russian steel producer managed to maintain high capacity utilisation rates mainly due to redirection of domestic shipments to export markets and changes in product mix. Nevertheless, weak domestic demand and shifting to semi-finished products negatively impacted steel producers' margins. Since 2017 Russian steel demand has been gradually recovering. Russian steel producers increased domestic market shipments redistributing some export volumes which were under protectionist pressure in Europe and the US.

Russian steel production

In 2018, Russia ranked as the world's sixth largest producer of steel, producing 71.7 million tonnes of steel, or approximately 4 percent of global production, according to Worldsteel. The metallurgy sector is one of the most important sectors of the Russian economy accounting for approximately 2 percent of GDP. Russian enterprises produce a wide range of metal products for the domestic economy, in particular for the construction, machinery, automotive and energy sectors.

Russian market

In 2014-2016, Russian steel demand experienced decline due to an economic recession in Russia. The Russian economy was severely affected by weakening oil prices and as a result the country's GDP shrank by 2.5 percent and apparent steel consumption fell by 7.7 percent in 2015. Despite a stabilisation of the Russian economy in 2016, Russian apparent steel consumption continued to decline by 2.7 percent. Main drivers of this slowdown in domestic steel demand were a reduction in real disposable household incomes, an increase in mortgage rates and a general decline in investments due to

economic uncertainty and low credit availability. By way of example, fixed capital investments declined by 8.4 percent in 2015.

Since 2017, Russian steel demand has been increasing due to a recovery in the construction, machinery and automotive sectors. Steel demand increased by 5.4 percent in 2017 and 0.7 percent in 2018. Residential construction was supported by declining interest rates and the growing penetration of mortgage lending. Machinery sectors were benefiting from a significantly cheaper Rouble. Automotive demand grew due to pent-up orders. Consumption of large diameter pipes was supported by a number of large-scale pipeline projects (e.g. the “Power of Siberia”).

In the first half of 2019, steel demand in Russia demonstrated impressive year on year growth of 10 percent affected by a possible front-loading of residential construction activity before the introduction of project financing after the 1 July 2019. It is expected to decelerate in the second half of the year, which would bring figure for the whole year to approximately 2-5 percent.

Export market

The Middle East, Asia and Europe are the primary export destinations for Russian steel producers. In 2018, Russian steel exports increased by 3.6 percent and reached 28.8 million tonnes of semi-finished and finished steel products according to Metal-Expert. This growth is explained by attractive conditions in the global markets.

Steel Production Process

The key stages of the steel production process are coke making, iron making, steelmaking and steel rolling. Captive iron ore and coking coal resources ensure a secure supply of raw materials for steel production. The following is a brief summary of these processes:

Coke making

Coke is a solid product of coal coking. Coke usually contains 84 to 91 percent carbon and is used as the main fuel in blast furnaces. Coke is produced by heating the prepared coal charge in the absence of oxygen at temperatures of 900 to 1,200°C (pyrolysis) for 14 to 18 hours in the coke-ovens. After discharge from the ovens, coke is delivered to the blast furnaces for further use in iron making. Other products of the traditional by-product coking process include coke-oven gas and various by-products separated from the coke-oven gas. Coke-oven gas may be used as gaseous fuel in coking and other shops of the steel plant, as well as in adjacent power generation. The other by-products are further processed by the designated on-site shops and eventually sold to the third-party customers.

Iron making

Prepared iron ore raw materials (sinter and pellets) and coke are used for hot metal production. Coke and natural gas serve as fuel for the blast furnaces. Coke-oven gas, together with top gas from the blast furnaces, is used as fuel for the heating of the stoves. Sinter, pellets and coke are layered and fed into a blast furnace from the top. Fuel combustion, reduction of iron from oxides, carbonisation of iron with partial reduction of silicon and manganese, melting of all components of burden and slag-making all occur inside a blast furnace.

Once formed, hot metal sinks to the bottom of the blast furnace where it is tapped off into the torpedo cars and delivered to the steel making shop to be converted into steel. Hot metal can also be delivered to a pig iron casting machine that produces pig iron for sale as a semi-finished product. Slag from the blast furnaces is recycled and further used in a variety of industries. At many steel plants, top gas generated in the blast furnaces during the iron making process is also used as a fuel for stoves, coke-ovens, boilers, rolling mills and other purposes.

Steel making

Steel is produced from hot metal and/or steel scrap and scrap substitutes using one of the following three technologies.

Basic oxygen furnace (BOF)

The oxygen converter process is based on the interaction of process oxygen (practically pure oxygen) with the molten charge bath. By blowing oxygen through the bath, the carbon content is reduced and the charge is transformed into low-carbon steel.

Scrap and hot metal are charged into the vessel and oxygen is then blown via a lance into the vessel, oxidising carbon and other impurities (silicon, manganese, etc.), thus lowering the carbon content of the molten charge and partially removing undesired chemical elements. Fluxes, such as burnt lime and dolomite, are fed into the vessel to form slag, which absorbs

undesired impurities during the steel making process. The steel is then poured into a steel ladle where alloying materials can be added. The oxygen converter process is generally considered to be the most efficient steelmaking route for producing large volumes of high-quality steel.

Electric arc furnace process (EAF)

In electric arc furnaces the scrap and other charge elements are being melt by the heat generated by electricity arcing between graphite electrodes and the metallic charge. The key equipment components of the EAF are: a furnace shell, a retractable roof, a graphite electrode arm, a tilting device and a furnace transformer. The EAF production process consists of charging, melting, oxidation and tapping.

The EAF charge consists of scrap and scrap substitutes, such as DRI/HBI or pig iron, and sometimes hot metal, as well as fluxes. In some furnace designs, charge materials can be added in batches or continuously fed during the melting process. Once the melting stage is completed, the steel is tapped out into a preheated ladle. Some liquid steel is often left in the furnace to facilitate the melting of the next charge.

Open hearth process

In the open hearth process the steel is produced by melting scrap, hot metal and other charge components by the radiation heat of the burners positioned above the charge materials surface. Scrap and other components are charged into the furnace prior to heating. Fuel (such as natural gas, fuel oil, etc.) is burned to heat the scrap, hot metal is charged and slag is formed and flushed. During melting, the oxidation of carbon and other impurities (such as silicon and manganese) takes place. Fluxes, such as metallurgical lime and other, are used to form slag, which absorbs impurities during the steel making process.

Generally speaking, open hearth furnaces are disadvantaged by relatively high operating costs due to high levels of energy consumption, relatively low productivity, as well as prevailing combination with the ingot cast route. At the same time, open hearth allows higher flexibility in the raw materials used and under certain circumstances may be economically compatible with both EAF and BOF. The tendency of the world steel making industry has been gradual substitution of the open hearth production with either BOF or EAF methods.

Steel rolling

Cast steel is a relatively weak mass of coarse uneven metal crystals or “grains”. Rolling the steel makes this coarse grain structure re-crystallise into a much finer grain structure, giving greater toughness, shock resistance and tensile (stress) strength. Rolling is also the main method used to shape steel into different products.

Flat rolling process consists of passing the steel between two rolls revolving at the same speed but in opposite directions. The gap between the rolls is less than the thickness of the steel being rolled, resulting in the steel being reduced in thickness, at the same time, lengthened. In addition to hot-rolling, where steel is reheated prior to rolling, it may also be further reduced without preheating in the process called cold-rolling, resulting in a different set of properties.

MINING INDUSTRY

Iron Ore

The global iron ore industry is characterised by a high degree of consolidation, with Rio Tinto, Vale, BHP Billiton and Fortescue accounting for approximately 70-75 percent of the global seaborne iron ore trade. The major iron ore producing countries are Australia, Brazil and China which were together responsible for 70 percent of global output in 2018. From 2015 to 2018, Australia increased its iron ore production by 10 percent, Brazil by 23 percent and India by 28 percent. China decreased its output by 9 percent.

Iron ore production, million tonnes

	2015	2016	2017	2018
United States	46	42	48	49
Australia	817	858	883	900
Brazil	397	430	425	490
Canada	46	47	49	49
China	375	348	360	340
India	156	185	202	200
Iran	27	35	40	40
Kazakhstan	21	34	39	40
Russia	104	105	107	108
South Africa	73	66	81	81
Sweden	25	27	27	27
Ukraine	67	63	61	60
Other countries	132	116	119	120
World total (rounded)	2,286	2,356	2,441	2,504
Annual change (%)	-	3.1	3.6	2.6

Source: US Geological Survey, MetalsMining.ru

Note: Numbers are rounded to the nearest whole

Historically, Europe, Japan and China have been the major iron ore consumption centres. After the global economic crisis in 2008, China became the global leader for economic growth rates, steel production volumes and iron ore consumption primarily due to increasing imports. China is today the biggest consumer of seaborne iron ore with Chinese imports accounting for approximately 70 percent of global trade. A decrease in domestic production and growing consumption levels have combined to increase China's dependence on imports.

On 25 January 2019, Vale's Córrego do Feijão operation in the south-eastern state of Minas Gerais in Brazil reported the failure of the Brumadinho dam which flooded the company's facilities, local communities and farmland with liquefied mud. The dam's failure and subsequent decommission of some Vale's facilities caused a significant deficit on the global market and the resulting supply shortfall pushed up iron ore prices from approximately US\$70 to US\$100-120 per tonne CFR China.

Russian market

Total iron ore production in Russia in 2018 was 108 million tonnes. Russia is generally self-sufficient in iron ore consumption with imports accounting for a small portion of consumption that can be explained by the geographic proximity of MMK Steel Works to iron ore producer SSGPO, located in Kazakhstan near the border with Russia. The majority of Russian steel producers control iron ore production assets: Mechel has control over Korshunovskiy GOK, Evraz over KGOK, NLMK over Stoilensky GOK, and Ural Steel over Mikhailovsky GOK and Lebedinsky GOK. Production of iron ore in Russia is concentrated in the Kursk region, representing the majority of Russian production, as well as in the northwest, the Urals and the Siberian and Far East districts. Iron ore produced in Russia is mainly magnetite, as opposed to hematite which is common in Australia.

Production process

More than 90 percent of iron ore mined in Russia is extracted by open-pit methods, with the balance extracted from underground mines. After extraction, the ore is processed further in order to increase its iron concentration. The iron ore is then crushed to a powder-like consistency, and iron-rich particles are separated from the waste rock by magnetic separation to produce iron ore concentrate. This concentrate is then formed into pellets or sinter that are suitable for use as blast furnace feed.

To produce sinter, iron ore, iron ore concentrates and iron-bearing materials (blast furnace dust, screenings of sinter and pellets, scale, waste and slime), flux (limestone) and coke breeze are weighed and mixed to form sinter burden. This sinter burden is then granulated and laid in two layers in sinter machines. The sinter burden becomes sinter at temperatures of 1,070-1,200°C through the combustion of carbon from the coke breeze, while air is simultaneously drawn through the sinter burden by means of exhausters. After crushing, screening and cooling the sinter is ready for delivery to blast furnaces.

In producing iron ore pellets, iron ore concentrate is mixed with water and other additives, such as bentonite and limestone. The resulting slurry is baked at approximately 1,300°C. After the pellets have been screened and undersized material removed, they are prepared for use in blast furnaces.

Coal

Coal may be divided into steam (thermal) coal and coking (metallurgical) coal. Steam coal is used in electricity generation and industrial applications, while coking coal is used to manufacture coke for use in blast furnaces and other metallurgical applications. Coking coal swells when heated in coke-ovens to produce hard coke, which characteristic is essential in steel making operations. Approximately 400-500 kilograms of coke is used per tonne of hot metal. Coke is supplemented by the direct injection of PCI at rates of 100 to 200 kilograms per tonne of hot metal. PCI uses less expensive semi-soft coking coal to reduce costs.

In recent years, the global coal industry has consolidated, partly as a result of oil companies and other non-mining companies exiting the sector. As a result of consolidation, coal suppliers have gained more pricing power. Historically, Australia, China, Indonesia and South Africa have been the largest coal-producing countries, with Russia increasing its share of world supply in recent years.

Russian market

Russia has the world's second largest coal reserves after the United States. Its proven coal reserves total approximately 173 billion tonnes, accounting for 19.0 percent of the world's proven coal reserves.

Coal production in Russia is concentrated in the Kuznetsk Basin and the Kansk-Achinskii Basin, which are east of the Ural Mountains, and Pechorskii Basin, which is northeast of European Russia, and collectively account for the majority of Russia's total coal production.

Principal Competitors of Severstal Resources—Coking Coal Production, million tonnes

	2015	2016	2017	2018
Raspadskaya (owned by EVRAZ)	6.1	6.7	7.1	7.3
Sibuglemet (independent producer)	5.9	6.5	6.3	6.2
Yuzhkuzbassugol (owned by EVRAZ)	5.3	6.2	6.5	6.0
Vorkutaugol (owned by Severstal)	5.7	4.1	3.3	3.4
Yakutugol (owned by Mechel)	4.9	5.6	4.5	3.4
KRU (owned by UMMC)	4.0	3.4	3.5	3.3
Yuzhny Kuzbass (owned by Mechel)	2.7	2.4	2.5	2.6
Other	22.2	26.7	29.5	31.2
Russia	56.8	61.6	63.2	63.4
Annual change (%)	4.9	8.5	2.6	0.3

Source: Metcoal.ru

Note: Numbers are rounded to the first decimal place

Production process

Approximately two-thirds of the coal mined in Russia is extracted by open pit methods, with the balance extracted from underground mining. At surface mines, a combination of shovels and draglines is used for moving coal and overburden after drilling and blasting. Production at underground mines in Russia is predominantly from long-wall mining. After mining, depending upon the amount of impurities in the coal, the coal is processed in a wash plant, where it is crushed and beneficiated. Coking coal is then transported to steel plants for conversion to coke for use in steel making. Steam coal is shipped to utilities that use it in boilers to generate steam used in producing electricity.

Russian Methodologies for Reserve and Resource Reporting

Severstal Resources has traditionally used Russia's long-established system of reserve and resource reporting, set out by the Russian Federation Ministry of Natural Resources. In 2005, Severstal Resources began voluntarily using the internationally recognised JORC code of reserves and resource reporting (see “—*International Reporting Methodologies*”). All data relating to Severstal Resources' iron ore reserves and resources summarised in this Base Prospectus is calculated by reference to estimates contained in a report issued by IMC Montan dated February 2013 and IMC dated June 2006, in each case, prepared in accordance with JORC reporting standards (for assets located in Russia), SRK Consulting dated September 2012 prepared under the Guidelines of Samrec (for the Putu Range deposit, Liberia) and Russian state reporting (for Vorkutaugol).

The primary difference between Russian and international methodologies is that Russian methodologies rely on “geometrical” methods to determine reserves, as compared with international methodologies, which utilise sampling and extrapolation techniques.

According to the Russian system, deposits are classified into one of four classes, based on the complexity of their geological structure. This classification may take into account quantitative results measuring the inconsistencies in the basic features of mineralisation. This initial classification is intended to identify those resources warranting further study. Depending on the extent of further exploration, mineral resources are subsequently divided into “explored” and “evaluated” deposits. Explored deposits have been sufficiently explored to proceed with a feasibility study relating to commercial development, and evaluated deposits have been explored to the extent necessary to determine whether continued exploration is warranted. Resources that do not meet the standards for explored or evaluated deposits are classified as projected resources. Explored and evaluated deposits are further classified based on the type, quantity and quality of the measurements taken to evaluate the reserves.

Category A reserves include only explored deposits, and must meet the following criteria:

- the sizes, forms and bedding conditions of the mineral body have been determined; the nature and regularities in their morphology and internal fabric have been studied; the barren and off-grade segments within the mineral bodies have been detected and mapped; and the locations and fault amplitudes of dislocations with a break have been identified;
- the natural varieties of the minerals within the body have been determined; its categories and grades have been identified and mapped; its compositions and properties have been verified; and the quality of all categories and grades of the identified minerals have been characterised in terms of all parameters stipulated by industrial regulations;
- the distribution and forms of those valuable and noxious components found in the mineral body and products of its processing have been investigated; and
- the mineral reserves have been mapped based on test wells, mine workings and detailed trial runs.

Category B reserves include only explored deposits. Category B reserves have been subject to a high level of investigation, though their boundaries have been determined with less accuracy than Category A reserves. Category B reserves meet the criteria established for Category A reserves, except that Category B reserves may contain a limited extrapolation zone that is substantiated on the basis of geological criteria and geophysical and geochemical research.

Category C1 reserves are characterised by a lower level of accuracy than the determination of Category B reserves. Most explored deposits are Category C1 reserves. Category C1 reserves meet the criteria established for Category B, except that additional extrapolation is permitted in mapping the mineral deposit.

Category C2 reserves consist of evaluated deposits. Category C2 reserves must meet the criteria established for Category C1, except that:

- the sizes, forms, internal fabric and bedding conditions of the mineral body are confirmed by means of only a limited number of test wells and core samples; and
- the boundaries of the deposit (including core samples and outcroppings) are mapped based on data gathered from only a limited number of test wells, and a geologically substantiated extrapolation of deposit parameters is permitted.

Resources that do not meet the standards for classification as A, B, C1 or C2 reserves may be classified as probable resources, in Category P1, P2 or P3. Such deposits have undergone some exploration, but require further geological work in order to be upgraded to A, B, C1 or C2 reserves. While a direct comparison between international and Russian reporting methodologies is difficult because each is founded on different principles, it is often the case that categories A and B Russian reserves correlate to prove reserves, and C1 Russian reserves to probable reserves. However, these relationships may vary among deposits, and at different times for the same deposits.

International Reporting Methodologies

Several codes exist for reporting reserves in the international mining industry. The technical differences between these codes are minor, and results are generally comparable regardless of which methodology is employed in assessing a particular deposit. The principal reporting codes in current use are:

- United States Geologic Survey Circular 831 (United States);
- Ontario Securities Commission Instrument 43-101 (Canada);

- Australasian Joint Ore Reserves Committee (JORC) Code (Australia);
- Institute of Materials, Minerals and Mining Reporting Code (United Kingdom and Ireland); and
- South African Institute of Mining and Metallurgy Reporting Code (South Africa).

Each of these codes recognises the difference between mineral resources and reserves. Conversion from a mineral resource to an ore reserve requires the application of “modifying factors”, including mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. A “resource” is geologically defined; it becomes a “reserve” when the modifying factors, especially technical and economic factors, are taken into account. Each of these codes also includes strict guidelines for data quality and reporting in mining commodities.

The Council of Mining and Metallurgical Institutions (**CMMI**), which includes representatives of the major international standard setting organisations, is currently working to establish a common international reporting code standard. CMMI has promulgated common definitions that have been adopted by each of its member organisations in their respective reporting codes, including the principal reporting codes noted above, and these definitions are also incorporated into reporting standards that have been adopted by the United Nations Economic Commission for Europe.

A *mineral resource* is a concentration or occurrence of material of intrinsic economic interest in or on the earth’s crust, or deposit, in such a form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are subdivided, in order of increasing geological confidence, into inferred, indicated and measured categories. Portions of a deposit that do not have reasonable prospects for eventual economic extraction are not included as mineral resources.

An *inferred mineral resource* is that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity, and based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which is limited or of uncertain quality and/or reliability.

An *indicated mineral resource* is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are too widely or inappropriately spaced to confirm geological continuity and/or grade continuity, but are spaced closely enough for continuity to be assumed.

A *measured mineral resource* is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

Ore reserves are the economically mineable parts of an indicated or measured mineral resource. Ore reserves take account of diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out on the deposit and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments establish that at the time of reporting extraction is reasonably justified. A probable ore reserve is the economically mineable part of an indicated and, in some circumstances, a measured mineral resource.

BUSINESS

OVERVIEW OF THE GROUP

The Group is a vertically-integrated steel and steel-related mining company that sells high quality metal and mining products to customers across the world. In 2018, the Group's total output of crude steel was 12.0 million tonnes. The Group operates a full production cycle which includes iron ore, coal, scrap collection, steel mills and rolled product plants, downstream production and distribution businesses. The Group's primary production facilities are located in Russia. With a focus on high value-added products in attractive niche markets, sales of which represented 46 percent of the Group's total metal sales volume for 2018, the Group's vision is to become a leader in the global steel industry, maximise total shareholder return and be the first choice for customers, employees and partners. The Group's principal financial target is annual Adjusted EBITDA growth of 10 to 15 percent net of macroeconomic factors which it aims to achieve by focusing its capital expenditure programme on increasing Adjusted EBITDA generation, cost cutting, further synergies from vertical integration and superior customer service.

As at 31 December 2018, the Group comprised two business divisions: Severstal Russian Steel and Severstal Resources.

Severstal Russian Steel. In 2018, Severstal Russian Steel produced 16.8 percent of total Russian crude steel production, based on data from Worldsteel. According to calculations by the Group's management based on publicly released data, Severstal Russian Steel was the third largest producer of crude steel products in Russia by volume of production inside the Russian Federation in 2018. Severstal Russian Steel's revenue accounted for 90.1 percent of the Group's total revenues in 2018. Severstal Russian Steel is comprised of the following:

- *Cherepovets Steel Mill.* One of the world's largest stand-alone integrated steelworks by capacity, Cherepovets Steel Mill produced 11.13 million tonnes of crude steel in 2018. It produces a wide range of flat and long-rolled products, including hot and cold-rolled flat products, galvanised and colour-coated products and long-steel applications. Rolling Mill 5000, one of the Cherepovets Steel Mill's facilities, located in Kolpino, near Saint-Petersburg, produces thick plates for large diameter pipes, ship and bridge building and other industries.
- *Izhora Pipe Mill.* The Izhora pipe mill located in Kolpino specialises in manufacturing large diameter pipes from plate produced at the nearby Kolpino Rolling Mill 5000. It has a production capacity of up to 600,000 tonnes of pipes per year. These pipes are mainly used in oil and gas pipeline projects.
- *Mini-Mill Balakovo.* The Balakovo mini-mill is a new generation mini-mill focused on the production of long products for the construction industry. It has an annual production capacity of one million tonnes of rolled products. In July 2019, the Group sold its 100 percent stake in the Balakovo mini-mill to a third party. See "—Recent Developments".
- *Severstal-Metiz.* Severstal-Metiz manufactures more than 55,000 product types, including low-carbon and high-carbon wire rods, nails, cold-drawn steel, steel shapes, railway fasteners, steel fibre, steel wire ropes, wire strands, steel meshes and fasteners. Severstal-Metiz comprises several subsidiaries located at the Cherepovets site in north-west Russia, the Orel site in central Russia and the Volgograd site in the Povolzhie region.
- *Downstream production assets.* The Group has various downstream production assets, including:

TPZ-Sheksna, which is designed to annually produce up to 290,000 tonnes of electric-welded pipes of various diameters, thicknesses and lengths for the construction industry, as well as square and rectangular sections with different cross-sections. The plant uses semi-finished steel products made at Cherepovets Steel Mill.

Severstal-Gonvarri-Kaluga Steel Centre, which is a joint venture between the Group and Gonvarri. It provides a wide range of longitudinal and transverse cutting services for rolled metal and blanking for further processing. It has a designed capacity of 170 million tonnes of rolled metal products per year, which are produced for the automotive, electrical and machinery industries;

Gestamp-Severstal-Kaluga Stamping Facility, which is a joint venture between the Group and Gestamp. The facility produces a full range of rolled steel products from coils to car components for international car manufacturers. It has an annual output of 13 million stamped parts and has the potential to increase output;

Severstal-SMC-Vsevolozhsk Services Centre, which is a joint venture between the Group and Mitsui. The centre provides services of longitudinal and transverse cutting of rolled metal and blanking for further stamping. In 2010, the joint venture was the first facility in Russia and the CIS countries to install a production line for welding blanks for the automotive industry. This has enabled the Group to become the first Russian metallurgical company

to enter the market for ultralight steel auto bodies to cater for demand from auto producers carrying out component assembling in Russia and the CIS. The centre's capacity is 150,000 tonnes per year;

Gestamp-Severstal-Vsevolozhsk, which is a joint venture between the Group and Gestamp. It produces car components for international car manufacturers. Its annual output is approximately press and assembly 600,000 parts with the potential to increase up to two million parts;

Rutgers Severtar, which is a joint venture between the Group and Rutgers (RAIN), based at the Cherepovets Steel Mill plant that produces vacuum pitches, technical oils and naphthalene with an annual output at the facility of 300,000 tonnes; and

- *Trading companies.* Severstal Russian Steel sells its products domestically to regional and national distributors, directly to end-users, and through AO Severstal Distribution. AO Severstal Distribution has a wide network of metal centres throughout the country. Severstal Russian Steel conducts export sales principally through its subsidiaries Severstal Export GmbH, SIA Severstal Distribution and ZAO Severstal Distribution.

Severstal Resources. Severstal Resources comprises iron ore production and coal production. Severstal Resources' revenue accounted for 9.9 percent of the Group's total revenues in 2018.

- The Group's iron ore business consists of three iron ore extracting complexes: Karelsky Okatysh, which produces iron ore pellets, Olcon, which produces iron ore concentrate, and the Yakovlevskiy mine, which produces high grade iron ore with iron content in excess of 60 percent. Karelsky Okatysh, located in the Karelia Republic, had an annual iron ore output of 36.7 million tonnes in 2018 and estimated JORC iron ore reserves and resources of approximately 236.3 million tonnes and 831.3 million tonnes, respectively, as at 1 January 2019. The Group expects iron ore output at Karelsky Okatysh to increase to 38.5 million tonnes in 2021 and remain at approximately the same level until 2031. Olcon, located in the Murmansk region of Russia, had an annual iron ore output of 14.9 million tonnes in 2018 and estimated JORC iron ore reserves and resources of approximately 175.5 million tonnes and 542.3 million tonnes, respectively, as at 1 January 2019. The Group expects Olcon to operate until 2038 with its ore output remaining at approximately the same level until 2028 (but with increased iron ore concentrate production of up to 4.4 million tonnes per year compared with current annual production of 4.2 million tonnes). The Yakovlevskiy mine is located 40 km north of Belgorod. Iron ore output at the Yakovlevskiy mine in 2017 amounted to 0.9 million tonnes and increased to 1.2 million tonnes in 2018. In 2019, the Group plans to increase the iron ore output at the Yakovlevskiy mine from 1.2 to 2.2 million tonnes. Estimated JORC iron ore reserves and resources were approximately 66.3 million tonnes and 213.16 million tonnes, respectively, as at 1 January 2019.
- The Group's coal business consists of Vorkutaugol and two greenfield projects: Tsentralny field and Usinskoye-1 field. Vorkutaugol, located in the Komi Republic, produces coking and steam coal and had ROM coal output of 9.6 million tonnes in 2018 and estimated coal reserves of approximately 135.2 million tonnes as at 1 January 2019. Vorkutaugol comprises four longwall mines, an open pit mine and two washing plants. Tsentralny field is a greenfield project located in the Tyva Republic and, as at 1 January 2019, had total resources approximating 807.8 million tonnes of coking coal of A, B, C1 and C2 categories, according to the Russian Classification. Usinskoye-1 field is a greenfield project located in the Republic of Komi near the existing Vorkutaugol operation, with estimated resources of 537.3 million tonnes of coking coal of A, B and C1 categories, according to the Russian Classification, as at 1 January 2019. The Group plans to continue implementing measures aimed at increasing the operational efficiency of its mines which the Group expects will drive increases in production output. See "*Industry—Mining Industry—Russian Methodologies for Reserve and Resource Reporting*".

Please refer to page 152 of this Base Prospectus for Severstal Resources' sales volumes by product.

In 2018, Severstal Resources was the second largest producer of iron ore pellets and one of the leading producers of high quality hard coking coal in Russia, according to RudProm and Rasmin. Severstal Resources has the capacity to satisfy 120 percent of Severstal Russian Steel's iron ore and approximately 60 percent of its coking coal requirements. This forms the basis of the Group's balanced and vertically-integrated business model, with a focus on high value-added products, such as the export of high quality iron ore pellets and hard coking coal concentrate. The Group estimates that, as at 1 January 2019, it had iron ore reserves and resources of approximately 478.1 million tonnes and 6,276.76 million tonnes, respectively, based on reports issued by IMC Montan dated February 2013 and IMC dated June 2006, in each case, prepared in accordance with JORC reporting standards (for assets located in Russia) and a report issued by SRK Consulting dated September 2012 prepared under the guidelines of Samrec (for the Putu Range deposit, Liberia) and coal reserves of approximately 135.2 million tonnes, based on reporting conducted by the Group in accordance with the Russian Classification.

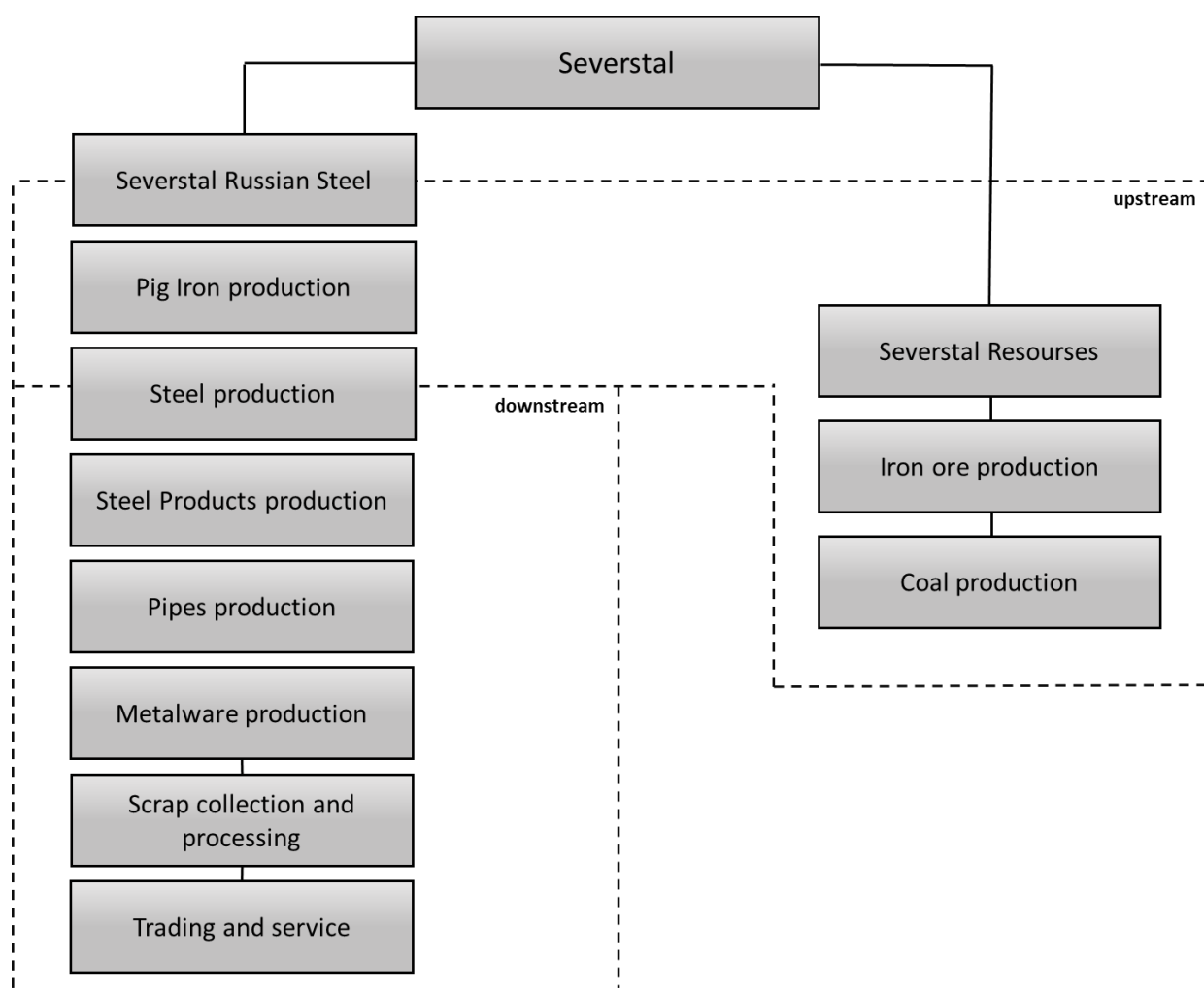
Upstream and Downstream Operations

In 2019, the Group's organisational structure underwent change to support its updated strategy and ensure the Group consistently delivers a superior customer experience. The Group's production and sales divisions now fall under two streams - upstream and downstream.

Upstream includes all of the Group's raw materials assets (Vorkutaugol, Karelsky Okatysh, Yakovlevskiy GOK and Olcon), coke-producing and steelmaking (including liquid steel production), and Vtorchermet and SPb-Giproshakht. These assets represent 70 percent of the Group's production costs. Management is focused on ensuring that the Group's upstream operations achieve cost leadership.

A key area of transformation under the new organisational structure will affect the Group's downstream business. Downstream operations includes the production of flat, section and tube rolled products, metalware, finished products, marketing, sales functions and the downstream material management department. The Group's downstream operations are designed to provide superior customer experience throughout the chain from production to delivering the solution to the customer.

Downstream is divided into three key areas, representing the Group's primary customer segments: "Construction", "Energy" and "Mechanical Engineering". The Group has dedicated industry teams for each of these areas. These industry teams consist of industrial, commercial and technology experts. Such industry teams directly interact with the Group's customers which enables the Group to maintain efficient communication and fast decision making processes resulting in unique customer propositions. Experts from the Group's technical development and quality department centres work alongside the industry teams to ensure that customer initiatives are implemented directly into the production process.



COMPETITIVE STRENGTHS

The Group has developed a variety of competitive strengths, which it believes provide it with a greater resilience to the cyclical nature of the steel industry than some of its competitors and a basis on which to build its position as a global metals and mining company. The Group's distinct business model is focused on global cost leadership through efficient vertical integration, prudent investment and focus on customer care. Consequently, the Group remains one of the global leaders by profitability margins and returns on investment. Financial resilience remains a top priority and the Group aims to maintain a strong balance sheet and comfortable leverage, which can provide a strong cushion against market volatility. According to the Group's estimates based on information from public sources, the Group's share in the domestic market (excluding large diameter pipes) accounted for 16.1 percent and 16.7 percent in 2017 and 2018, respectively, and its share in the domestic market (excluding large diameter pipes and long products) was 20 percent and 21.6 percent in 2017 and 2018, respectively.

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

The Group is a vertically-integrated steel producer with production assets concentrated in Russia and a global sales presence. Its facilities span the full production cycle from iron ore and coal mining operations to steel mills and rolled product plants as well as downstream production and distribution businesses. The Group's mining operations, conducted by Severstal Resources, provide supplies of iron ore and coal products to its production facilities in Russia while also supplying these raw materials to third parties. The Group has its own scrap collection and processing facilities.

Severstal Resources is one of the largest producers of hard coking coal and iron ore pellets in Russia. Severstal Russian Steel's operations with respect to iron ore are fully self-sufficient, as Severstal Resources' overall production volumes of iron ore are able to cover approximately 120 percent of the overall consumption volumes of Severstal Russian Steel, without taking into account the chemical features of the particular iron ore mix required. With respect to coal, Severstal Resources' capacities are able to satisfy approximately 60 percent of Severstal Russian Steel's demand for coking coal. Severstal Russian Steel sources a portion of its iron ore and coking coal from third party suppliers for a number of reasons, including when it may be necessary or economically viable to cover the Group's requirements for iron ore and coking with specific chemical features, to take advantage of favourable prices, as well as in cases of disruptions in the mining operations of Severstal Resources. In 2018, Severstal Russian Steel's steel operations procured approximately 70 percent of its iron ore, concentrate and pellets and 60 percent of its coal requirements from Severstal Resources (69 percent and 60 percent in 2017, respectively), purchasing its remaining requirements from third-party sources.

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

The Group also covers a significant part of its electricity requirements from internal sources. In 2018, the share of internally generated power in the overall consumption of the Group amounted to 77.9 percent.

Global Cost Competitiveness

Globally, Russia is one of the lowest cost regions for steel production in the world, and the Group occupies one of the most favourable positions on the global hot-rolled coil cost curve, according to World Steel Dynamics. For example, the Group's slab cash costs amounted to approximately US\$197 per tonne in the second quarter of 2019 on an integrated basis, compared with approximately US\$233 per tonne in the second quarter of 2018. With its largest production facilities located in northwest Russia, the Group benefits from relatively low-cost supplies of electricity and natural gas, as well as low transportation fees as a result of its proximity to major steel consuming markets in the central European part of Russia and the ports of the St. Petersburg region.

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

Further, the Group is self-sufficient to a substantial degree in the raw materials essential for its operations. It generates a significant amount of the electricity it uses in its operations at its own production facilities and, consequently, is less exposed to electricity price volatility. The Group's vertically-integrated structure and self-sufficiency in iron ore and to a substantial degree in coking coal also reduces its exposure to raw material price volatility and enables it to achieve significant cost synergies. See "*—Vertically-Integrated Business with Access to Iron Ore, Coal and Electricity*". The

Group benefits from the implementation and close monitoring of cost control measures, including as part of the Severstal Business System, and as a result of the launch of various initiatives by the Group's Expert Network since 2015 that are designed to improve operational processes throughout the Group. See "*—Severstal Business System*". In recent years the Group has made significant investments into modernisation and efficiency programmes in order to improve productivity and achieve cost and operational efficiencies. As a result of these investments, the Group is well positioned to control operating costs.

Experienced Management Team

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

Severstal Business System

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

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

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

Strong Corporate Governance

The Group seeks to adhere to international corporate governance standards. The Group benefits from a culture of independence on its Board of Directors as a result of both a diverse, multinational membership and the independence of half of its board (according to UK standards of independence). In addition, the Group has established committees of its Board of Directors in accordance with the UK Combined Code on Corporate Governance and has implemented other measures aimed at promoting transparency and good corporate governance. These measures include implementing internal control procedures and internal audit functions, publishing quarterly financial statements prepared in accordance with IAS 34, publishing regular production updates and requiring the approval of two-thirds of the Board of Directors for acquisitions with a value in excess of US\$500 million and any transaction with a value of more than 10 percent of the book value of the Company's assets. In addition, all transactions with affiliates are approved by the Board of Directors. To ensure that the Group's operations comply with the requirements of applicable anti-bribery legislation and to mitigate bribery and corruption risks, the Group has adopted an Anti-corruption Policy which forms the centrepiece of the global

anti-corruption programme implemented by the Group and which is updated on a regular basis (the new edition of the policy was approved by the Board of Directors of the Company in February 2019). In 2018, the Group received excellence award from ISS Quality Score for corporate governance excellence. As of August 2019, ISS Quality Score assessment of Severstal's corporate governance was "1" (standing for the lowest risk).

Robust Liquidity and Sustainable Leverage

As a result of the Group's strong financial performance, including achieving Adjusted EBITDA margins of 36.6 percent and 33.7 percent in 2018 and six months ended 30 June 2019, respectively, the Group has a sustainable leverage (net debt/Adjusted EBITDA ratio was 0.5 as at 30 June 2019), operating profit margins of 31.6 percent and 28.0 percent in 2018 and six months ended 30 June 2019, respectively, and a robust liquidity position (US\$345 million of cash and cash equivalent and unused committed credit lines of US\$1.2 billion as at 30 June 2019). Even though the Group represents less than 1 percent of the global steel industry in terms of production volumes, it has been the leader within the global steel industry in terms of profitability for the past six consecutive quarters. Moody's upgraded the Company's credit rating to Baa3 in January 2018 and to Baa2 in February 2019 with stable outlook. Fitch upgraded the Company's credit rating to BBB with stable outlook in April 2019. Financial resilience remains a top priority for the Group and provides a strong cushion against market volatility.

STRATEGY

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

In order to successfully implement the above strategy, the Group is focused on the following strategic priorities:

Superior Customer Experience

The Group's management believes that best-in-class customer care will enable the Group to attract and retain customers in a volatile macro-economic environment.

The Group's unique customer proposition rests on three pillars, being product customisation, downstream opportunities and new market business models. Product customisation is a structured stage-gate process focusing on value and market release timing of a product and includes five key product categories with more than 1,400 customisation initiatives in the pipeline. Implementing downstream opportunities allows the Group to increase the value of its products and services by focusing on key steel consuming industries and benefiting from closer positioning to end-customers. Furthermore, the Group aims to implement new market business models that involve identifying areas of opportunity across the entire value chain with a view to creating unique solutions in collaboration with the Group's customers.

In order to ensure that the Group delivers a superior customer experience, the Group focuses on three key areas, being service quality, product quality and supply discipline.

Service Quality

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

The Group's management believes in significant sales growth potential for downstream products and has therefore made the transition from production planning to customer-oriented Supply Chain Management (*SCM*). Such transition involved an implementation of SCM modelling taking into account customer requirements and ensuring transparent order tracking, and enhancing the Group's automated planning system and customer information systems. This has further enhanced the Group's online store. The online store, which was launched in 2017, has enabled the Group to considerably

enhance customer outreach and feedback capabilities. As a result, the Group is able to better anticipate changing market demand and efficiently deliver product innovations that meet its customers' changing requirements.

Product Quality

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

Supply Discipline

The Group will seek to further improve its supply discipline and increase the proportion of product deliveries that are made on-time and in-full. To this end, the Group will integrate and develop the IT-systems to oversee and coordinate its supply chain.

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

Cost Leadership

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

The Group believes that a low-cost operating structure can be achieved by a combination of prudent capital expenditure on production facilities, cost control measures, energy efficiency improvements, integration of its raw materials business with steel production and labour productivity gains, the main contributions of which are expected to come from the continuous improvement, purchasing optimisation and cost control and other initiatives included in the Severstal Business System. In particular, the Group intends to continue to invest in modernisation and maintenance projects which are expected to make the Group's assets more cost efficient and expand the number and scope of the initiatives already introduced through the Severstal Business System. See "*—Implement Prudent Investment Policy*". The Group has a strong track record of delivering operational improvements that have enabled it to become one of the lowest cost steel producers in the world according to World Steel Dynamics. The unrivalled efficiency of the Group's business is underpinned by a vertically-integrated business model with high quality, modern upstream and downstream facilities.

With the aim of enhancing its operational, technological and business efficiency, the Group invests, and plans to continue investing, in the construction and modernisation of existing production and mining facilities and the development of its supply chain system. The Group believes that such investments will enable it to maintain and increase its cost advantage over its competitors. The Group endeavours to successfully implement advanced technologies in the key areas of its business and operations and has already introduced a number of improvement programmes and expanded its existing Business System to cover new areas of the Group's operations.

Implement Prudent Investment Policy

The Group intends to continue to implement a prudent investment policy, under which investments will continue to be primarily focused on the key areas of the Group's updated strategy – superior customer experience, cost leadership and

embracing new opportunities, and aimed at further strengthening its financial performance, maximising value creation and enhancing shareholder returns. Cutting-edge technology will allow the Company to produce more high-value added and innovative products and solutions, improve customer care and reduce its environmental impact.

The Group expects to invest approximately US\$1.45 billion across its business in 2019. The planned investments are preliminary estimates and amounts are subject to adjustments dependent on foreign exchange rate changes. The majority of the Company's expenditure in 2019 will be in Roubles.

Severstal Russian Steel

The Group plans to invest approximately US\$981 million into its Russian Steel division in 2019, of which US\$697 million will be committed to development projects. The most significant projects in 2019 will be the construction of the new Blast Furnace No. 3 (expected to be launched in 2020), coking battery No. 11 (expected to be launched in 2022 to replace batteries No. 8 and No. 9) and the flat steel production development programme aimed at improving the Group's product mix. Cutting-edge technology is aimed at allowing the Group to produce more high-value added and innovative products and solutions, improve customer care and reduce its environmental impact.

Severstal Russian Steel will invest US\$284 million in maintenance projects in 2019. The Group will commit US\$88 million of investment capital to digital and IT projects focused on further improving operational excellence and enhancing product quality and customer service.

Severstal Resources

The Group plans to invest approximately US\$469 million in its Severstal Resources division in 2019, of which US\$395 million is planned to be invested in asset development. One of the main investment areas within Severstal Resources is the development of the Vorkutaugol mines and the Yakovlevskiy mine volume restoration. The Group plans to invest in the Yakovlevskiy mine approximately US\$126 million in 2019. The Group will also continue to focus on safety and ecology in 2019 and boost its investment in these areas, including the implementation of a new multi-functional safety system at the Vorkutaugol mines, improvements to stripping works, maintenance of the Group's coal and iron ore operations as well as health and safety improvement projects.

New Opportunities

The Group plans to embrace new opportunities by looking beyond its traditional business to ensure that the Group remains innovative and at the forefront of the industry. Furthermore, the Group endeavours to maintain its operational leadership by actively identifying new early-stage opportunities and developing technological solutions that will add further value to its business model.

The creation of Group Ventures, the Group's venture capital unit, in 2018 was a significant milestone in the implementation of the Group's strategy. Group Ventures focuses on technologies that are ready for rapid implementation in the steel making industry. The Group's management believes that this is the first institutionalised venture investment initiative of its kind in the steel industry globally. Group Ventures invests in venture capital funds with the aim of gaining access to a unique range of technological and business projects, including steel making and associated construction, machinery manufacturing and energy projects. Furthermore, Group Ventures supports the venture projects that it has invested in, providing them with access to the Group's in-house expertise, facilities for trialling pilot products and funding. As such, Group Ventures enables the Group to benefit directly from early access to new technologies, which should contribute to further cost efficiencies and the development of unique products.

Advanced Corporate Culture

The Group aims to maintain a corporate culture that unites its talented and ambitious workforce. The Group believes that maintaining and further developing a strong corporate culture will enable it to accomplish its new strategy, without compromising the core values of quality, collaboration and innovation.

The Group endeavours to develop its advanced corporate culture by focusing on creating an environment in which employees: (i) strive to understand the needs of the business and solve its problems at a pace faster than the Group's competitors; (ii) are fully engaged to produce the best results and are able to develop their talents in various aspects of the Group's business; (iii) engage with partners to increase product value and satisfy customer needs (iv) are incentivised to work as a team towards minimising the environmental impact and creating a sustainable business. The Group believes that these strategic priorities drive operational and organisational excellence, promote a safety-conscious culture and collegiate working environment and improve customer satisfaction.

Develop and Incorporate Advanced Information Technology

The Group believes that recent developments in information technology and analytics, such as the “internet of things”, machine learning, neural networks and the use of “big data”, will offer significant opportunities to improve the productivity and efficiency of all areas of the Group’s business and operations. To that end, the Group is actively developing its expertise in data engineering, machine learning and advanced analytics. In particular, the Group created one of the largest industrial data repositories in Russia for the storage and processing of large amounts of data. In addition, the Group developed and successfully implemented data science products in areas such as predictive maintenance, digital assistants to production machine operators and advanced analytics instruments for technologists.

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

- maintaining each project’s internal rate of return above 20 percent thereby achieving “value creative” capital expenditure;
- maintaining a net debt to Adjusted EBITDA ratio below 1.5x;
- maintaining high profitability (with an Adjusted EBITDA margin of more than 20 percent through the cycle) and achieving Adjusted EBITDA growth of 10-15 percent net of macro-economic factors;
- maintaining positive free cash flow throughout the cycle; and
- dividend payout equivalent to 100 percent of free cash flow, provided that net debt to Adjusted EBITDA ratio is below 1.0x; if net debt to Adjusted EBITDA ratio is below 0.5x, dividend payout of above 100 percent of equivalent of free cash flow; and if net debt to Adjusted EBITDA ratio is above 1.0x, dividend payout equivalent to 50 percent of free cash flow.

HISTORY AND DEVELOPMENT OF THE GROUP

The Group’s predecessor, Cherepovets Metallurgical Works, produced its first cast iron in 1955. Cherepovets Metallurgical Works was 100.0 percent state-owned until it was privatised in 1993 in accordance with the State Programme for the Privatisation of State and Municipal Enterprises in the Russian Federation. The newly privatised entity, the Company, was registered as an open joint stock company in the city of Cherepovets on 24 September 1993. Since 1993, the Group has expanded its corporate vision by entering a number of different businesses, including companies engaged in the mining of iron ore and coal, the procurement of scrap, pipe manufacturing, metalware production, serving the needs of the Russian automotive, construction, shipbuilding, oil and gas, engineering and other industries, as well as the international market.

A brief timeline illustrating the historical development of the Group’s current business divisions, Severstal Russian Steel and Severstal Resources is set out below.

1994-1999	The Group and the Majority Shareholder acquire a combined interest in Karelsky Okatysh, an iron ore pellet producer.
1995	The Company’s shares list on the RTS.
1995-2001	The Group and the Majority Shareholder acquire a controlling stake in Olcon, an iron ore producer in the Murmansk region in Russia.
2000	The Group purchases Rolling Mill 5000 from OAO United Heavy Machinery.
2001	The Group and Arcelor formed the Severgal joint venture, which produces high-quality galvanised auto body sheet products.
2001-2003	The Group and the Majority Shareholder acquire Vorkutaugol, which consists of several mines, coking coal production and beneficiation plants in the Republic of Komi in Russia.
2001-2002	The Majority Shareholder acquires a controlling stake in Kuzbassugol, a coal-mining company that includes the Pervomayskaya Mine and the Berezovskaya Mine.
2004	The Group acquires substantially all the assets of Rouge Steel, forming the business formerly called Severstal North America and later renamed Severstal Dearborn, an integrated steel making facility based in Michigan.
2005	The Group’s shares list on MICEX.

The Group acquires a 100.0 percent stake in ZAO Severstal-Metiz, now JSC Severstal-Metiz, from the Majority Shareholder.

SeverCorr LLC (later renamed Severstal Columbus) is formed in order to develop a “next generation” steel plant in Mississippi.

Severstal North America (later renamed Severstal Dearborn) and Wheeling Pittsburgh Steel Corporation form MSC through a 50:50 joint venture.

The Group and the Majority Shareholder acquire Lucchini, an integrated steel making company.

2006

The Group conducts its initial public offering on the LSE. The Company placed GDRs, which were admitted to trading on the regulated main market of the London Stock Exchange on 14 November 2006 and remain listed on the London Stock Exchange.

The Group acquires the majority stake of a number of mining and steel companies (including Lucchini) from the Majority Shareholder.

The Group completes the construction of the Izhora Pipe Mill, which produces large diameter pipes.

The Company approves a new corporate governance system, incorporating independent directors into its Board of Directors.

Severstal-Metiz acquires Dneprometiz.

2007

Severstal Columbus (formerly SeverCorr LLC) mini-mill commences operations.

The Group acquires several scrap processing businesses.

The Group establishes SMZ-Kolpino, a processing service centre.

The Group acquires 86.3 percent of Celtic, a company with subsidiaries holding gold mining assets in Kazakhstan.

The Group establishes LLC Severstal Ukraine, now Severstal Distribution LLC, to be a distributor in Ukraine and begins expanding its distribution operations in Belarus through ZAO SeverstalBel, now ZAO Severstal Distribution.

The Group acquires ArcelorMittal's 25.0 percent stake in the Sevelgal joint venture, taking the Group's stake in Sevelgal to 100.0 percent.

The Group acquires stevedore company ZAO Neva-Metall, now CJSC Neva-Metall.

The Group sells Lucchini Sidermeccanica to members of the founding Lucchini family.

The Group commences development of the mini-mill in Balakovo.

The Group acquires all of the shares in Neryungri Metallic and Rudnik Aprelkovo, each a Russian gold mining company.

2008

The Group acquires 61.5 percent of African Iron Ore Group Ltd. (later renamed Severstal Liberia Iron Ore Ltd.), which owns the exploration rights for an iron ore deposit in the Putu Range area in Liberia.

The Group acquires WCI (later renamed Severstal Warren) based in Ohio.

The Group acquires 100.0 percent of PBS Coals, a coking coal producer located in Pennsylvania.

The Group acquires Esmark Incorporated (later renamed Severstal Wheeling) located in West Virginia, including the remaining 50.0 percent stake in MSC.

The Group acquires 100.0 percent of Sparrows Point based in Maryland.

The Group completes the acquisition of both Olcon and Karelsky Okatysh.

The Group completes the acquisition of Celtic.

The Group sells Kuzbassugol to ArcelorMittal.

The Group acquires a 100.0 percent stake in Redaelli Tecna S.p.A.

The Group acquires 100.0 percent of Semgeo, which includes a gold mine in Kazakhstan.

The Group acquires a 53.8 percent stake in High River Gold, which comprises the Irokinda, Zun-Holba and Berezitovy mines in Russia and the Taparko mine in Burkina Faso.

2009

Following a restructuring, Nord Gold acquires all of the Group's gold mining assets.

- 2010** The Group acquires 20.2 percent of Lucchini bringing its shareholdings in Lucchini to 100.0 percent. The Group later sells 50.8 percent of its stake in Lucchini to the Majority Shareholder.
- The Group acquires a 16.5 percent stake in a project which controls exploration licences for the Avima iron ore deposit in the Republic of Congo (Brazzaville) and the Kango iron ore deposit in the Republic of Gabon.
- The Group commences operations at its TPZ Sheksna facility with production capacities of electric welded pipes and other profiles.
- The Group sells Northern Steel Group, a group of companies within the Severstal International segment.
- Through a series of transactions, the Group increases its interest in High River Gold to 72.6 percent.
- Through a series of transactions, the Group brings its total interest in Crew Gold to 93.4 percent.
- The Group acquires an 11.0 percent stake in SCM, increasing its ownership to 18.1 percent.
- The Group obtains a license for further exploration and coal extraction at the Tsentralny field in the western part of the Ulug-Khemskiy basin in the Tyva Republic, Russia.
- The Group acquires a 21.7 percent stake in Intex Resources, a public mining and exploration company listed on the Oslo Stock Exchange with its headquarters in Oslo, Norway.
- The Group acquires a 25.6 percent stake in IMBS, a research and development company based in Johannesburg, South Africa.
- The Group sells its 5.9 percent stake in OAO Vorkutaugol, now AO Vorkutaugol.
- 2011** The Group sells its 100.0 percent stake in Sparrows Point, Severstal Warren and Severstal Wheeling and a 50.0 percent stake in MSC.
- The Group acquires a 7.4 percent stake in IMBS, increasing its ownership interest to 33.0 percent.
- The Group acquires an additional 6.6 percent stake in Crew Gold to increase its ownership interest to 100.0 percent.
- The Group acquires an additional 49.0 percent stake in LLC Severstal Ukraine, now Severstal Distribution LLC, increasing its ownership interest to 100.0 percent.
- The Group sells its 100.0 percent stake in SSM RP Holding B.V. and its wholly owned subsidiary Severstal-Metiz: welding consumables.
- The Group sells its 91.6 percent stake in OAO Stalmag.
- The Group acquires a 25.0 percent stake in SPG Mineracao S.A. The Group also enters into a call option agreement to purchase an additional 50.0 percent stake, exercisable upon fulfilment of certain future conditions. SPG Mineracao S.A. owns exploration licences for a number of highly prospective iron ore properties in the northern state of Amapa, Brazil.
- The Group acquires an additional 2.4 percent stake in High River Gold Mines Ltd., increasing its ownership interest to 75.1 percent.
- The Group signed an amendment to the Lucchini sale and purchase agreement with the Majority Shareholder, which cancelled the call option and the contractual entitlement, for the benefit of the Group, to any gain on a subsequent sale of this stake to a third party. As a result, effective from the date of that amendment, the Group has accounted for the investment in Lucchini using the equity method.
- 2012** The Group sells its 21.7 percent stake in Intex Resources ASA.
- The Group acquires an additional 15.8 percent stake in AS Severstallat, now SIA Severstal Distribution, increasing its ownership interest to 100.0 percent.
- The Group completes the separation of its Gold segment by exchanging 100.0 percent of shares of Nord Gold N.V., the segment's holding company, for OAO Severstal, now PAO Severstal, shares and GDRs.
- The Group acquires an additional 38.5 percent stake in Severstal Liberia Iron Ore Ltd., increasing its ownership interest to 100.0 percent.
- ZAO Mine Vorgashorskaya 2 is merged into OAO Vorkutaugol, now AO Vorkutaugol. As a result of this merger, the Group's ownership interest in OAO Vorkutaugol, now AO Vorkutaugol, decreases from 88.1 percent to 84.2 percent.
- The Group acquires an additional 14.8 percent in OAO Vorkutaugol, now AO Vorkutaugol, increasing its ownership interest to 99.0 percent.

- 2013** The Group exercises its put option to sell back a 12.8 percent stake in SPG Mineracao SA by setting off its deferred consideration payable. As a result, the Group's ownership interest decreases from 25.0 percent to 12.2 percent. Additionally, the Group cancels a call option agreement to purchase an additional 50.0 percent stake in this company.
- Lucchini S.p.A. officially declared insolvency. The appointed independent Extraordinary Commissioner sent a communication to all creditors informing them of the opening of the extraordinary administration proceeding. Effective on that date, the Group lost its significant influence in Lucchini and began to account for its investment at fair value.
- 2014** The Group acquired an additional 50.0 percent stake in Mountain State Carbon LLC from a third party, increasing its ownership interest to 100.0 percent.
- The Group sells its 100.0 percent stake in PBS Coals, Severstal Dearborn and Severstal Columbus.
- 2015** The Group transfers some of the Group's entities from the Severstal Resources segment to the Severstal Russian Steel segment following a change in the Group's management structure.
- 2016** The Group liquidated 7027940 Canada Limited, Potren Limited and Canolion Limited.
- 2017** The Group sells its 98.7 percent stake in PJSC Dneprometiz to a third party.
- The Group sells its 100 percent stake in Redaelli Tecna S.p.A. to a third party.
- In July 2017, the Group acquired rights from a third party to claim debt obligations of LLC Metal-group. The debt obligations were secured by a 100 percent stake in LLC Metal-group's participation rights and property. From November 2017, the Group obtained the ability to exercise its legal rights arising from acquired rights to claim debt and direct relevant activities of LLC Metal-group, and consequently consolidated LLC Metal-group's net assets.
- 2018** The Group enters Russia's growing renewable energy sector through a joint venture with JCS Rusnano and Windar Renovables. Under the joint venture WRS Towers, Severstal will produce steel towers for wind-driven power plants, the first renewable energy products of their kind in Russia. Windar Renovables has a 51 percent stake in the joint venture, and JSC Rusnano and Severstal each hold a 24.5 percent stake.
- 2019** The Group and Tenaris S.A. established a joint venture in Singapore, which subsequently founded the Russian legal entity that is building a welded pipe plant to produce oil country tubular goods in the Surgut area, West Siberia, Russian Federation. Tenaris has a 49 percent stake in the joint venture company and Severstal holds the remaining 51 percent.
- In July 2019, the Group sold its 100 percent stake in AO Severstal LPM Balakovo to a third party for a total consideration of US\$215 million.
- In July 2019, the Group entered into a joint venture with Linde AG. The joint venture produces coil-wound heat exchangers for use at medium-scale and large-scale liquefied natural gas plants. The Group holds a 26 percent stake, whereas Linde controls a 74 percent stake in the joint venture.

Employees

The following table sets out the average number of the Group's employees (full-time equivalents) by business division in 2017 and 2018:

Business division	Year ended 31 December	
	2017	2018
Severstal Russian Steel	37,018	36,257
Severstal Resources	12,444	13,410
Total.....	49,462	49,667

Currently, 98 percent of the Group's employees are covered by the collective bargaining agreements.

The Group has a set of ongoing schemes for employee development and training, from induction programmes through to senior professional development. In 2018, the Group's employees undertook 45.7 hours of training in average. In addition, the Group conducts an annual large-scale anonymous social survey, Severstal Pulse, to understand the level of satisfaction of the Group's employees and their engagement with the Group's strategy, and to identify the most important issues. Survey results indicated a three percentage improvement in employee engagement, from 75 percent in 2017 to 78 percent in 2018.

Health, Safety and Environment

Each of the Group's business divisions operate health and safety management systems which apply a systematic approach to establishing work processes that preserve and enhance their employees' ability to work effectively and safely and that are in compliance with applicable legal requirements. Each of the Group's business divisions monitors its compliance with applicable environmental regulations and standards.

The management systems at the Cherepovets Steel Mill, the Izhora Pipe Mill, the Severstal-SMC-Vsevolozhsk Services Centre, Severstal Distribution and Karelsky Okatysh are certified for compliance with ISO 14001:2015 and OHSAS 18001:2007 standards. The Group plans to ensure that all its businesses have certification for compliance with the international standard ISO 45001 by 2025.

Occupational safety is a priority for the Group and a critical component of the Severstal Business System. The goal of the Group is to completely eliminate work-related fatalities. For this purpose, the Group constantly introduces best global practices and leading business methods aimed at improving the employees' safety culture and occupational safety training system and motivating employees not to ignore occupational safety violations. The Group endeavours to become the best Russian company as measured by key safety indicators and strives to involve not only its own workforce at all levels, but also employees of contractors that work on-site at the facilities of the Group, in achieving this goal. Strategy decisions related to the health, safety and environmental aspects of the Group's operations are developed and adopted by the Health, Safety and Environmental Committee which is headed by an independent director. The Health, Safety and Environmental Committee is responsible for oversight of management's plans and climate change is a standing item at every meeting of the committee. The current goal of the Group, as approved by the Board of Directors, is to decrease LTIFR by 50 percent by 2025 in comparison with LTIFR levels in 2017, and to completely eliminate fatal injury incidences. There is also a complex safety framework embedded across the Group's business.

Improving occupational safety is deemed one of the key performance indicators of the Group. The Group's businesses use integrated tools to analyse injuries, work with personnel who violate safety regulations, discover sources of danger, and engage personnel with regards to safety issues. The businesses of the Group also use an integrated approach to evaluate the work of managers in connection with safety issues, including both reactive and proactive indicators aimed at injury prevention, an audit of accident prevention systems and the functioning of production control.

During the period between 2016 and 2018, the Group experienced 310 work-related lost time injuries at its production facilities, of which 149 incidents occurred in 2016, 80 in 2017 and 81 incidents occurred in 2018. In the six months ended 30 June 2019, 31 incidents occurred at the Group's production facilities. The Group's LTIFR was 1.77, 0.96 and 0.95 for the years ended 31 December 2016, 2017 and 2018, respectively. In the six months ended 30 June 2019, the Group's LTIFR was 0.71.

The Group focuses on reduction of its environmental footprint. In 2018, the Group reduced its specific atmospheric emissions of pollutants by 6 percent in comparison to 2017. In 2018, the Group spent more than US\$9.6 million on emission reduction initiatives at Cherepovets Steel Mill, including investment projects and repairs of environmental protection equipment. Starting from 2019, the Group expects to reduce air emissions of pollutants by almost 700 tonnes

per year following the start-up, adjustment and launch of coking battery No. 4. The Group also expects to reduce its volatile organic compound emissions by 3.9 percent. A new smokeless technology developed by the Group eliminates the emissions of raw coal gas with high concentrations of hazardous substances with the use of a dust-free coke dispensing unit, modern gas cleaning equipment and an aspiration system with bag and sleeve filters. The Group expects that upgrades of its gas filtering system in the steelmaking furnaces of the SSM Tyazhmash machinery plant will reduce emission dust concentration by a factor of 40. The upgrades of equipment made by the Group in 2018 resulted in, *inter alia*, a reduction of residual dust contents in off-gas and atmospheric emissions of sulphuric acid vapour. The Group plans to continue to identify opportunities to reduce carbon intensity of steel production and focus on reduction of greenhouse gas emissions through all aspects of the steel-making process. In 2018, the Group confirmed its commitment to join the SmartSteel Site project, a pilot project of the Worldsteel Association. The SmartSteel Site project will help to conduct a study using the Worldsteel benchmarking system to identify opportunities for CO₂ reduction. The Group expects that by participating in this project, Cherepovets Steel Mill will be able to approach the target of 1.85 tonnes of CO₂ per tonne of molten steel, which is consistent with industry best practice. The Group's current emissions, according to Worldsteel calculations, are 2.1 tonnes of CO₂ per tonne of molten steel.

All Group businesses calculate greenhouse gas emissions using the measurement methodology adopted by the Russian Ministry of Natural Resources. Although the Group increased its production volumes in 2018, its greenhouse gas emissions reduced by 100,000 tonnes compared with 2017, mostly due to reduced gas flaring at Cherepovets Steel Mill. The Group continues to reduce greenhouse gas emissions through the adoption of new technologies and the retirement of inefficient technologies. The most significant current projects of Severstal include, *inter alia*, improvement of steel and hot metal production technologies to reduce lime and dolomite consumption, reduction of natural gas consumption in favour of coke and blast furnace gas, transition of some power boilers from solid to gaseous fuel (coke and blast furnace gas). The Group plans to assess, in greater detail, the potential impact of the environmental risks and opportunities, including, if possible, outline financial implications and plans to also assess the impact of legislative action to limit the rise of global warming to two degrees.

In June 2019, in connection with the Presidential Decree dated 7 May 2018 No. 204 "On the National Goals and Strategic Objectives of the Development of the Russian Federation for the Period up to 2024" and the Federal Project "Clean Air", the Company entered into the agreement on co-operation for reducing air emissions in Cherepovets with the Ministry of Natural Resources and Ecology, Rosprirodnadzor and the local authorities. In accordance with this agreement the Company assumed obligations to ensure the implementation of measures that will reduce pollutant emissions by 30,000 tonnes into the atmosphere by 2024. The Group plans to invest approximately US\$211 million into this project.

In addition, the Group is focused on reducing its waste disposal, for example, in 2018 Severstal Russian Steel's waste disposal reduced by 28 percent.

Insurance

The Group's operations are subject to numerous operating risks, including environmental hazards, industrial accidents, unusual or unexpected geological conditions, labour force disruptions, unavailability of materials and equipment, weather conditions, pit wall failures, rock bursts, cave-ins, flooding, seismic activity, interruptions to power supplies and industrial and other accidents at mills, mines, processing plants or related facilities. While management has set up business continuity management systems to try to prevent and mitigate these events, these risks and hazards could result in damage to, or destruction of mineral properties or processing facilities, personal injury or death, environmental damage, delays in mining and monetary losses and possible legal liability.

The Group's business divisions maintain a level of insurance commensurate with the standards of other leading steel companies in the markets in which it operates.

Severstal Russian Steel maintains a level of insurance covering property, plant and equipment. Severstal Russian Steel believes that this insurance is commensurate with the standards of other international and domestic steel companies and has business interruption insurance coverage ranging from fixed costs to full gross profits, depending on the plant, for interruption periods of up to 12 months. Severstal Russian Steel does not purchase full insurance for third-party liability in respect of property or environmental damage. Third-party insurance services are provided to Severstal Russian Steel by first-rate Russian insurers, including SOGAZ Insurance Company. All risks covered by the majority of policies issued by SOGAZ are reinsured, with approximately 70 percent reinsured in the international market and the remainder with domestic insurers.

Severstal Resources maintains a level of insurance commensurate with the standards of other large mining companies in Russia. In particular, it insures the property, plant and equipment of Karelsky Okatysh and Olcon at the actual cash value but does not insure against interruption. Insurance coverage in respect of property, plant and equipment at the coal mines is provided on a limited basis. Procedures are being put in place to ensure insurance coverage for all newly built major facilities. All employees are insured against accidents that occur within the workplace.

Legal

Each of the Group's business divisions has been and continues to be the subject of legal proceedings and adjudications from time to time, which are incidental to the Group's business. Save as disclosed below, the Group is not aware of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) during the last 12 months, which may have, or had in the recent past, significant effects on the Group's financial position or profitability.

In 2015, a bankruptcy clawback claim was made by the insolvency receiver of Lucchini against Karelsky Okatysh for US\$142 million. Lucchini was previously a subsidiary of the Group and was deconsolidated in 2011 and currently is undergoing a bankruptcy process in Italy. This claim relates to payments received by Karelsky Okatysh for the supply of raw materials to Lucchini primarily after Lucchini was deconsolidated. The bankruptcy clawback action is a remedy offered by Italian bankruptcy legislation to allow insolvency receivers to invalidate certain payments and transactions executed in the period preceding the insolvency that altered the equal treatment of all unsecured creditors of an insolvent debtor.

The judge of the first instance court reduced the amount of the claw-back claim in its decision of 25 May 2018 to US\$86 million. Management did not agree both with this claim and the judgment of the first instance court and appealed against the court decision on 18 July 2018. The hearing is scheduled on 28 April 2020. The Group and its legal advisors believe that there are strong grounds in support of the Group's position, however, the Group is unable to assess the ultimate outcome of the claim, including the outflow of the financial resources to settle the claim, if any, because it depends on multiple circumstances concerning the facts and the applicability and interpretation of the relevant statutes. In case the Group has to make any payment, the relevant amount paid will be included in Lucchini's creditors' list and will be settled in the course of the bankruptcy procedure.

Supply Chain

In order to take advantage of savings, the Group has centralised purchasing functions for all spending categories, including with respect to raw materials, equipment and services that are used by members of the Group. Procurement functions are operated through a centre-led model whereby all procurement staff eventually report to the Chief Procurement Officer. Procurement is divided into three blocks: category management, operational purchasing and back-office operations, each supported by dedicated groups responsible for planning, reporting and project management. Approximately 80 percent of spending is currently earmarked for formal long-term category strategies that were developed by the centralised category management team. Operational purchasing is carried out by procurement departments located at manufacturing facilities and regulated by centrally defined category management strategies. As regards all centralised categories, operational procurement teams handle cross-business purchasing with the support of a unified procurement back-office department located at the Group's Shared Services Centre in Yaroslavl. Procurement is mainly responsible for savings and a number of operational and net working capital improvement initiatives, as well as several cross-functional continuous improvement and cost control projects, including in fields such as supplier innovation, supply sustainability, and total cost of ownership implementation models.

Raw materials. Raw materials used by the Group include coal, iron ore products and pellets, oil products, liquid explosives, and metallic raw materials. Purchases of all raw materials are fully centralised and most of them carried out under long-term contracts, including ones with credit terms and long-term pricing agreements. Suppliers are selected based on the competitiveness of their commercial terms and their strategic value. Actual prices are often determined on a monthly basis through a group of suppliers chosen within the wider pool, on the basis of their proposals as well as current and forecasted market conditions. Raw material purchases are sourced through direct contracts with manufacturers or their subsidiaries.

Severstal Russian Steel's operations with respect to iron ore are fully self-sufficient, as Severstal Resources' overall production volumes of iron ore are able to cover approximately 120 percent of the overall consumption volumes of Severstal Russian Steel, without taking into account the chemical features of the particular iron ore mix required. With respect to coal, Severstal Resources' capacities are able to satisfy approximately 60 percent of Severstal Russian Steel's demand for coking coal. Severstal Russian Steel sources a portion of its iron ore and coking coal from third party suppliers for a number of reasons, including when it may be necessary or economically viable to cover the Group's requirements for iron ore and coking with specific chemical features, to take advantage of favourable prices, as well as in cases of disruptions in the mining operations of Severstal Resources. In 2018, Severstal Russian Steel's steel operations procured approximately 70 percent of its iron ore, concentrate and pellets and 60 percent of its coal requirements from Severstal Resources (69 percent and 60 percent in 2017, respectively), purchasing its remaining requirements from third-party sources.

The principal raw materials used by Severstal Russian Steel to produce steel include iron ore concentrate and pellets, coking coal, limestone and dolomite, non-ferrous metal and ferro alloys and metal scrap. Severstal Russian Steel

maintains a minimum two-week reserve of all the main raw materials used in the production process. This reserve is normally higher during the winter to compensate for any potential break in supply due to bad weather and for increased consumption rates experienced during the colder weather. In addition, during the winter, the stocks of scrap are increased to three months. Severstal Russian Steel's steel production energy requirements include water, gas, electricity and steam.

In 2018, the Cherepovets Steel Mill's raw materials requirements accounted for approximately 100 percent of Severstal Russian Steel's total raw material requirements, and approximately 100 percent of iron ore, concentrate, pellets and coal, 70 percent of metal scrap; 30 percent metal scrap and 3 percent of ferro alloys and non-ferrous metal purchased by Severstal Long Product Mill Balakovo. In 2018, 98.3 percent of the overall water intake at Cherepovets Steel Mill was recycled water.

The following table sets out a breakdown of the raw materials procured by the Cherepovets Steel Mill in 2017 and 2018.

Procurement of Raw Materials—Cherepovets Steel Mill

Raw materials	Year ended 31 December	
	2017	2018
	(mln tonnes)	
Iron ore (concentrate and pellets)	13.0	13.0
Coal	5.9	5.5
Metal scrap	2.0	2.3
Ferro alloys and non-ferrous metals	0.2	0.3

Iron ore and pellets. The smelting process at Severstal Russian Steel's blast furnace facilities requires up to 40 percent of the feedstock to be in the form of iron ore pellets, all of which are sourced from Severstal Resources. All of Severstal Russian Steel's contracts with its iron ore suppliers, including those with Severstal Resources, are concluded on an arm's length basis. Severstal Russian Steel's quality control of iron ore supplies involves verifying suppliers' quality certificates and monitoring the moisture content, iron content and weight of the ore concentrate at laboratories located at each of Severstal Russian Steel's production facilities. Some contract arrangements provide for price adjustments depending on the quality of the concentrate.

In 2017 and 2018, the Cherepovets Steel Mill's iron ore requirements accounted for approximately 100 percent of Severstal Russian Steel's total iron ore requirements.

The following table sets out a breakdown of the iron ore procured by the Cherepovets Steel Mill by supplier in 2017 and 2018.

Major Suppliers of Iron Ore Concentrate and Iron Ore Pellets—Cherepovets Steel Mill

Supplier	Year ended 31 December	
	2017	2018
	(mln tonnes)	
Iron ore concentrate		
Olcon ⁽¹⁾	4.1	4.2
Kovdorsky GOK	2.1	2.3
Yakovlevskaya Ruda	0.3	0.5
Lebedinsky GOK	1.6	1.4
Others	0.3	0.2
Iron ore pellets		
Karelsky Okatysh ⁽¹⁾	4.6	4.4

Note: (1) Owned by the Group.

Coal. Severstal Russian Steel meets most of its coke supply requirements from its own coke batteries. The Group's main supplier of coking coal from which the coke is made is Vorkutaugol. Vorkutaugol has been supplying coal to the Cherepovets Steel Mill for more than 40 years. Geographically, the Cherepovets Steel Mill is closer to Vorkutaugol than Vorkutaugol's other customers. The Group pursues supply policy based on the cost control, therefore all transactions with Severstal Russian Steel's coal suppliers are conducted on an arm's length basis and the relevant contracts may be suspended if suitable coal can be purchased from alternative suppliers at lower prices. The Group generally enters into annual supply contracts with the intention of ensuring continuity, security and reliability of supplies.

In 2017 and 2018, the Cherepovets Steel Mill's coal requirements accounted for approximately 100 percent of Severstal Russian Steel's total coal requirements.

The following table sets out a breakdown of the coal procured by the Cherepovets Steel Mill by supplier in 2017 and 2018.

Major Suppliers of Coal—Cherepovets Steel Mill

Supplier	Year ended 31 December	
	2017	2018
	(mln tonnes)	
Vorkutaugol ⁽¹⁾	3.17	3.02
StroyService.....	0	0.05
Evrash Holding.....	0	0
Raspidskaya Coal.....	0.68	0.50
Sibuglemet.....	0.39	0.17
South Kuzbas.....	0	0
Kuzbassrazrezugol.....	0.72	1.21
ASR - Uglesbyt.....	0.44	0.42
TopProm.....	0.03	0.01
Koks.....	0.23	0.02
Yakutugol.....	0.22	0.11
Transmetkoks.....	0.02	0.01

Note:

(1) Owned by the Group.

Scrap. Severstal Russian Steel is a significant consumer of scrap in Russia. The scrap is purchased in the market by the Company's subsidiary – Severstal-Vtorchermet. In addition, the Group uses a significant amount of internal scrap (production waste and dormant scrap). Severstal Russian Steel purchased approximately 2.5 million tonnes of scrap in each of 2017 and 2018.

Severstal Russian Steel has its own scrap-processing facilities enabling it to utilise a wide range of steel scrap sizes. These facilities include special cutting and packaging lines, the shredding plant for processing the scrap so that it is ready for use in the smelting process. The average proportion of scrap metal in the metal charge used in the smelting process ranges from approximately 25 percent in the oxygen converter and 75 percent in the electric arc furnace.

Other raw materials. Severstal Russian Steel sources limestone from its open-pit limestone mines located in the northern part of the Vologda region in Russia, approximately 250 kilometres from Cherepovets.

A wide range of ferro alloys is also used in the steelmaking process. Non-ferrous metals, such as zinc and aluminium, are employed primarily in the production of higher value-added steel products, such as galvanised sheet. Severstal Russian Steel sources most of its ferro alloy requirements from third-party suppliers under annual contracts.

Severstal Russian Steel also imports certain raw materials, such as ferro alloys and refractory materials, from Norway, France, Austria, China, Ukraine, Germany and Brazil. Contracts are typically for a term of one year, with prices being fixed on a quarterly basis or adjusted monthly by reference to market rates. Prices for non-ferrous metals are generally linked to the London Metal Exchange prices for such metals.

Energy. The largest power generation units of the Cherepovets Steel Mill are TPP-SS (Thermal Power Plant & Steam Blowing Station) and TPP-PS-2 (Thermal Power Plant & Power Blowing Station). In 2018, these units generated 93.7 percent of all of the Group's power from internal sources. These facilities also provide the majority of the electricity and all heat required by the Cherepovets Steel Mill and 80 percent of industrial consumers in the city. These power plants use a mix of fuels.

In 2018, the Cherepovets Steel Mill increased the production of its own electricity to 4,565.8 million kWh, which is 2.8 percent more than during the previous reporting period. This improvement was due to a series of repair and investment projects at Cherepovets Steel Mill focused on improving the productivity and efficiency of the main generation equipment, and also the use of new repair technologies which sped up the repairs. The Group also utilises its own non-compressor gas recovery turbines, and turbine generators at its coke quenching plant. The waste heat recovery plants produced 288.1 million kWh of electricity in 2018.

The Group plans on further developing internal power generation, especially with regards to converter gas utilisation. It is evaluating an opportunity to burn converter gas in existing TPP-SS boilers with an installation of additional gas holders to reduce natural gas consumption.

The Group is planning to increase internal power generation at the Cherepovets Steel Mill by 5 percent. On 1 December 2018, it launched the renovation of Turbine Generator 5 at TPP-SS. The TPP-SS Turbine Generator 5 is expected to be upgraded to increase its capacity by 25 MW. The upgrades will be completed on the operating unit without interruption to the power supply.

The Group also sources electricity from third parties through 24 overhead lines, 18 of which are the property of Vologda Power Backbone of the Centre, and six the property of Vologda Energy branch of IDGC North-West.

In 2018, total power consumption of Cherepovets Industrial Site increased to 5,864.4 million kWh compared with 5,670.3 million kWh in 2017. The increase in power consumption mostly reflects a higher production of rolled products, the launch of new facilities (ladle furnace No. 2 in the steelmaking plant, colour coating plant No. 3) and the operation of additional equipment in the basic oxygen plant - the highest energy consumer of the mill. The share of internally generated power in the overall consumption remained almost flat at 77.9 percent (compared with 78.3 percent a year before).

The following table sets out a breakdown of the energy consumption of the Cherepovets Steel Mill in 2017 and 2018.

Consumption of Energy—Cherepovets Steel Mill

Energy consumption	Year ended 31 December	
	2017	2018
Electricity (million kilowatt hours).....	5,670	5,864
Natural gas (million cubic metres).....	2,436	2,541

Explosives. Currently Severstal (Karelsky Okatysh) has one long-term contract for the supply of explosives with OOO “Eastern Mining Services” for six years signed in 2013. In order to supply explosives, a manufacturing plant for liquid explosives was constructed in Kostomuksha in April 2008 which is controlled by LLC Eastern Mining Services. A similar contract was entered into by Olcon with ZAO “Dyno Nobel Russia” in 2008 for 15 years and a liquid explosives manufacturing plant was constructed in Olenegorsk in December 2010.

A number of the Group’s costs relating to its Russian operations, such as wage costs, maintenance costs, construction costs and utilities costs, are sensitive to rises in general price levels in Russia. High rates of inflation in the future may increase the Group’s costs. See “*Risk Factors—Risk Factors Relating to Russia—Inflation in Russia could increase the Group’s costs*”.

SEVERSTAL RUSSIAN STEEL

Severstal Russian Steel comprises steel products production, pipes production, scrap processing, trading and services.

Steel production. The production of steel products occurs primarily at the Cherepovets Steel Mill, including a number of its workshops, among which there are high grade automotive galvanising facilities, as well as a number of other facilities located primarily in the northwestern region of Russia. These facilities jointly constitute a full production cycle, from the creation of crude steel to production of high value-added products, such as electric welded pipes for construction or coated flat products for the automotive industry. Severstal Russian Steel produced 11.65 million tonnes of steel in 2017 and 12.04 million tonnes of steel in 2018. The Severstal Russian Steel core asset Cherepovets Steel Mill is located in Cherepovets, in northwest Russia, approximately 600 kilometres from Moscow and approximately 450 kilometres from St. Petersburg. Severstal Russian Steel also includes a heavy plate mill in Kolpino, which is approximately 26 kilometres from St. Petersburg. The Izhora Pipe Mill is adjacent to Kolpino. Metalware operates out of multiple sites across Russia. These locations give Severstal Russian Steel strategic proximity to river access to the Baltic ports and railways, providing logistically favourable access to raw material sources and customers.

Pipes production is carried out at the Izhora Pipe Mill which specialises in manufacturing large diameter pipes from plate produced at the nearby Kolpino Rolling Mill 5000. The Izhora Pipe Mill produced 416,000 tonnes of pipes in 2017 and 440,000 tonnes of pipes in 2018.

Scrap Processing. Severstal Russian Steel has its own facilities for processing steel scrap of various sizes. Severstal-Vtorchermet specialises in scrap collection and processing and meets the need in ferrous metals scrap of the largest division asset – the Cherepovets Steel Mill.

Trading and services. Severstal Russian Steel’s distribution network supplies steel products to customers from Russia, the Republic of Belarus and European countries, including Latvia, Lithuania, Estonia, Finland, Germany, Sweden, Poland, Czech Republic and Slovak Republic. Development of its own distribution network is an important element of

Severstal Russian Steel's strategy, and it enables consumers of the Group's products to use unique service capabilities provided by the Group. When dealing with customers, Severstal Distribution companies adhere to a principle of the best possible partnership which allows a customer to select the most favourable combinations out of the complex offer consisting of products and various related services. Severstal Russian Steel conducts export sales to other, not mentioned above countries, through the subsidiary Severstal Export GmbH.

Facilities

The following table sets out Severstal Russian Steel's major current production capacity and equipment by unit as at 31 December 2018.

Major Steel Production Facilities, Severstal Russian Steel - Achieved Capacity

	As at 31 December 2018	
	Equipment	Capacity (million tonnes per year)
Severstal Russian Steel		
Cherepovets Steel Mill		
Coking plant	8 batteries	4.6
Sintering plant	8 machines	9.3
Blast furnace facilities	4 furnaces	9.2
Basic Oxygen Furnaces (BOFs)	3 furnaces	9.8
Electric Arc Furnaces (EAFs)	2 furnaces	1.1
Continuous casters	2 casters	1.05
General Meltshop Engineering bars	1 plant	1.1
General Meltshop Engineering slabs	1 plant	1.0
Hot-rolling mills	4 mills	8.4
Cold-rolling mills	2 mills	2.7
Hot-dip galvanising lines	4 lines	1.4
Shape and bar production	3 bars mill	2.25
	2 ball-rolling mills	0.07
	2 electric pipe-welded rigs	0.054
SMZ-Kolpino		
Line of automotive parts production (edge cutting, forming, rolling)	1 line	0.005
Rolled products plasma cutting	4 machines	0.02
Flat-rolled products processing area (shot blasting and prime coating facilities)	1 line	0.04
TPZ Sheksna		
Slitting unit	1 unit	0.48
Pipe mill	1 mill	0.3
Izhora Pipe Mill		
Large diameter pipe mill	1 mill	0.6

Cherepovets Steel Mill is one of the world's largest stand-alone integrated steel facilities by capacity as well as a favourably located, low-cost steel producer. It produces a wide range of flat and long-rolled products, including hot and cold-rolled flat products, galvanised and colour-coated products and long-steel applications. The Cherepovets Steel Mill produces almost all of Severstal Russian Steel's crude steel. The Cherepovets Steel Mill produced 10.87 million tonnes of crude steel in 2017 and 11.13 million tonnes of crude steel in 2018. It is a fully integrated steel plant occupying a 30 square kilometre site and consisting of more than a hundred large process machines from iron ore materials and coals processing to deep processing machines. As at 31 December 2018, the Company had over ten thousand customers including Russian and foreign companies operating in major industry sectors, such as construction, car production, fuel and power, oil and gas, engineering, shipbuilding and others.

The Cherepovets Steel Mill consists of five production units: coke-sintering-blast-furnace, steelmaking, production of flat products, production of long products and pipes production.

Coke-sintering-blast-furnace production

Coke-sintering-blast-furnace production includes a coking facility, a sintering facility and blast furnaces. Preparation to iron smelting process starts at the coking facility. It includes five major process shops: the Coal Preparation Shop, Coking Shops No.1 and No.2 and Coke By-product Shops No.1 and No.2.

Coking Shop No.1 consists of a number of coking batteries: (i) coking battery No.3 (equipped with paired flues systems) and coking battery No. 4 (equipped with fly gates systems), each with a production capacity of 460,000 tonnes of coke per year and 61 ovens; and (ii) coking batteries No.5 and No.6 each with a production capacity of 660,000 tonnes per

year and 77 ovens and equipped with paired flues systems. Coking Shop No.2 consists of Batteries No.7, No.8, No.9 and No.10 each with a production capacity of 730,000 tonnes per year and 65 ovens and equipped with paired flues systems. The Cherepovets Steel Mill produced 4.2-4.4 million tonnes in each of 2017 and 2018.

In 2019, The Group completed the first large project of the coking battery No.4 upgrade programme at the Cherepovets Steel Mill. This project helped increase coke production while significantly reducing the environmental footprint. The company expects to reduce the overall amount of dust by 690 tonnes per year and its concentration in treated gas to 20 mg/m³, in line with the best practice worldwide.

The sintering facility comprises four shops. Sintering Plant No.2 has six sinter machines with the sintering area of 84 sq.m. and a production capacity of 4.5 million tonnes. Sintering Plant No.3 has two sinter machines with the sintering area of 312 sq.m. and a production capacity of 4.8 million tonnes. Charge Preparation Shop No.1 is designed for discharging, storing and providing raw materials required for sinter production for Sintering Plants No.2 and No.3. Charge Preparation Shop No.2 is designed for discharging, storing and providing raw materials (pellets, coke, sinter) for the blast furnaces and limestone for Sintering Plant No.3. The Cherepovets Steel Mill produced 9.4-9.5 million tonnes of skip sinter in each of 2017 and 2018.

The blast furnace facility, which produces hot metal, comprises three shops. The Production Preparation and Procurement Shop are designed to transfer materials to blast furnaces and their preparation for smelting while the Slag Processing Shop deals with processing steelmaking slags and production waste. The Hot Metal Production Shop currently comprises four blast furnaces with volumes ranging from 1,007 to 5,500 cubic metres including one of the largest blast furnaces in the world, Blast Furnace No.5 named Severyanka with a volume of 5,500 cubic metres. The main task of the coke-sintering-blast-furnace production is to provide steel making iron to the steel making plant. In 2017, the coke-sintering-blast-furnace production smelted 9.2 million tonnes of hot metal at four blast furnaces compared with 9.1 million tonnes in 2018.

Steelmaking Production

The Cherepovets Steel Mill produces steel in the BOF Shop and the EAF Shop.

The EAF Shop can produce up to 2.1 million tonnes of steel per year in more than 470 steel grade variations. The EAF Shop includes two production lines: a billet production line and a slab line. Each production line has a shaft-type electric arc furnace, a ladle furnace, a continuous casting machine and one vacuum degasser. The production of steel at the EAF Shop amounted to 1.3 million tonnes in each of 2017 and 2018. The BOF Shop contains three basic oxygen furnaces with volumes ranging from 350 to 400 cubic metres. Main components for steel production at the BOF Shop are hot metal, scrap, slag forming powder and ferroalloys. The production of steel at the BOF Shop amounted to 9.6-9.9 million tonnes in 2017 and 2018, respectively. Hot metal cash cost amounted to US\$230 per tonne in 2017 and reached US\$231 per tonne in 2018. Cash cost of slab amounted to US\$320 per tonne and US\$331 per tonne in 2017 and 2018, respectively.

Flat Products Production

Flat products production includes hot-rolling and cold-rolling shops. There are ten shops in total in flat products production. The production area is approximately 625,000 sq.m. The hot-rolling shops produce billets for the cold-rolling shops, the roll forming mill and TPZ Sheksna. Several major mills function in the hot-rolling shops: Mill 2800, Mill 1700 and Mill 2000. Mill 2800 is designed for rolling plates with a thickness of 7 to 50 mm and a width of up to 2,500 mm and is also a roughing mill for rolling narrow work pieces for Mill 1700. Mill 1700 is a continuous 6-stand hot-rolling mill. Mill 1700 produces coil stock with a thickness of 0.8 to 6.0 mm and a width of 810 to 1,450 mm. Mill 2000 provides 70 percent of semi-finished rolled products for further processing at facilities of the Cherepovets Steel Mill.

In 2012, extensive renovation of Mill 2000 was completed with the reconstruction of the coiling area which provided the opportunity to coil skelp (a hot-rolled strip) of higher strength category with a thickness of up to 25 mm and width of up to 1,850 mm. More than 350 steel grades were adopted for production at Mill 2000 for the fuel and power, defence and automotive, shipbuilding and machine-building industries. Mill 2000 produced 5.9-6.1 million tonnes in each of 2017 and 2018.

The cold-rolling shops include a four-stand mill renovated in 2016 and a five-stand mill. Machines produce cold-rolled sheets with a thickness of 0.25 to 3.2 mm. As a result of full automation introduced in the four-stand mill in 2016, deployment of CVC system and two flatness rolls the four-stand mill is able to produce steel with flatness up to 5 mm and a thickness of 0.4 to 3.2 mm. The annual capacity of this mill is 1.3 million tonnes of rolled steel. The main consumers of products made using new equipment are the automotive industry, manufacturers of home appliances and construction companies. The five-stand cold-rolling Mill 1700 is designed for continuous rolling of hot-rolled pickled coiled strips. The five-stand mill is a continuous rolling mill which enables continuous rolling with operational shut down

only for roll change and maintenance. It comprises two pay-off reels, two coilers, a welder and a looper with a strip reservoir of up to 800 metres.

The steel colour coating section of Steel Coating Shop No.2 comprises two lines producing hot-dip galvanised steel with coating. The line producing hot-dip galvanised sheets is included into Steel Coating Shop No.2. The machine produces more than 50 grades of hot-dip galvanised sheet with a thickness of 0.4 to 2.0 mm and a width of 900 to 1,850 mm for domestic automotive companies and international automotive concerns such as Renault-Nissan, Volkswagen, Hyundai-Kia, Ford, GM and others. Some grades of galvanised sheets are produced and supplied to automotive companies in Russia only from the Cherepovets Steel Mill.

Long Products Production

Several facilities are used in long products production. A continuous four-stand wire rod Mill 150, with an annual capacity of 800,000 tonnes per year, produces reinforcing bars in coils No.6, No.8, and No.10, as well as rounds in coils with a diameter of 5.5 to 13 mm. High-speed rolling blocks used in Mill 150 enabling production with a rolling speed of up to 50 metres per second. Renovation of the lap formation section in 2014 enabled production of rebars No.8 in coils of “A500C” class. In addition, a light section continuous two-stand Mill 250 functions within the long products production making rounds in coils, bars, rebars in bars and equal angles. Mill 250 is the first mill in Russia certified in 2014 for production of rebars for European markets. The mill’s design capacity is 600,000 tonnes per year. Mill 350 is a semi-continuous one-stand mill. It produces rounds with a diameter of 28 to 100 mm, reinforcing bars, hexagonal section bars, equal angles and non-equal angles, channels, cross bar joints for vehicles and other steel products. A ball-rolling Mill 20-60 was commissioned in April 2014 designed for production of steel grinding balls with a diameter of 20 to 60 mm. The mill’s capacity is 30,000 tonnes per year. A second ball-rolling Mill 30-60 was commissioned at the end of 2016.

In the second half of 2014, the Group launched two electric pipe-welding machines: EPWM 12-38 and EPWM 19-60 producing closed square sections (15x15 to 40x40 mm), and rectangular sections (40x20 to 50x25 mm), resulting in increased volumes of products made by the Cherepovets Steel Mill in average by 45,000 tonnes per year.

Pipe Production

The pipes rolling shop includes a plate rolling Mill 5000 (Kolpino Rolling Mill 5000) located in Kolpino of the Leningrad Oblast. The wide-strip rolling Mill 5000 is designed for rolling sheets with a thickness of 10 to 300 mm thick with a width of 1,500 to 4,800 mm and with a length of up to 30 metres from cast and forged slabs and ingots of 5 to 60 tonnes in weight from carbon, alloyed, stainless and special steels and alloys. The shop’s products are used in shipbuilding, machine-building and fuel and power industries. In particular, the rolling shop is a supplier of skelp for the Izhora Pipe Mill.

The Izhora Pipe Mill in Kolpino specialises in manufacturing large diameter pipes from plate produced at the nearby Kolpino Rolling Mill 5000. The Izhora Pipe Mill has a production capacity of up to 600,000 tonnes of pipes per year depending on the diameter of pipe produced. The Izhora Pipe Mill produced 416,000 tonnes of pipes in 2017 and 440,000 tonnes of pipes in 2018. The biggest customers of Izhora Pipe Mill are Gazprom and Transneft.

SMZ-Kolpino houses the Steel Service Centre of the Izhora Pipe Mill complex which is a technologically advanced facility for rolled steel plate processing. SMZ-Kolpino’s production capacity is 65,000 tonnes of finished products per year. SMZ-Kolpino specialises in the production of machined billets from rolled steel for the needs of machine- and shipbuilding enterprises and the construction industry.

Severstal TPZ-Sheksna is a pipe mill with a capacity of 250,000 tonnes of pipes per year. This pipe mill produces electric longitudinal welded circular pipes with a diameter of 159 to 426 mm, square profiles ranging from 100 × 100 mm to 300 × 300 mm and rectangular profiles ranging from 120 × 80 mm to 400 × 200 mm, 3 to 16 mm thick and with a length of 6 to 16m.

Metalware

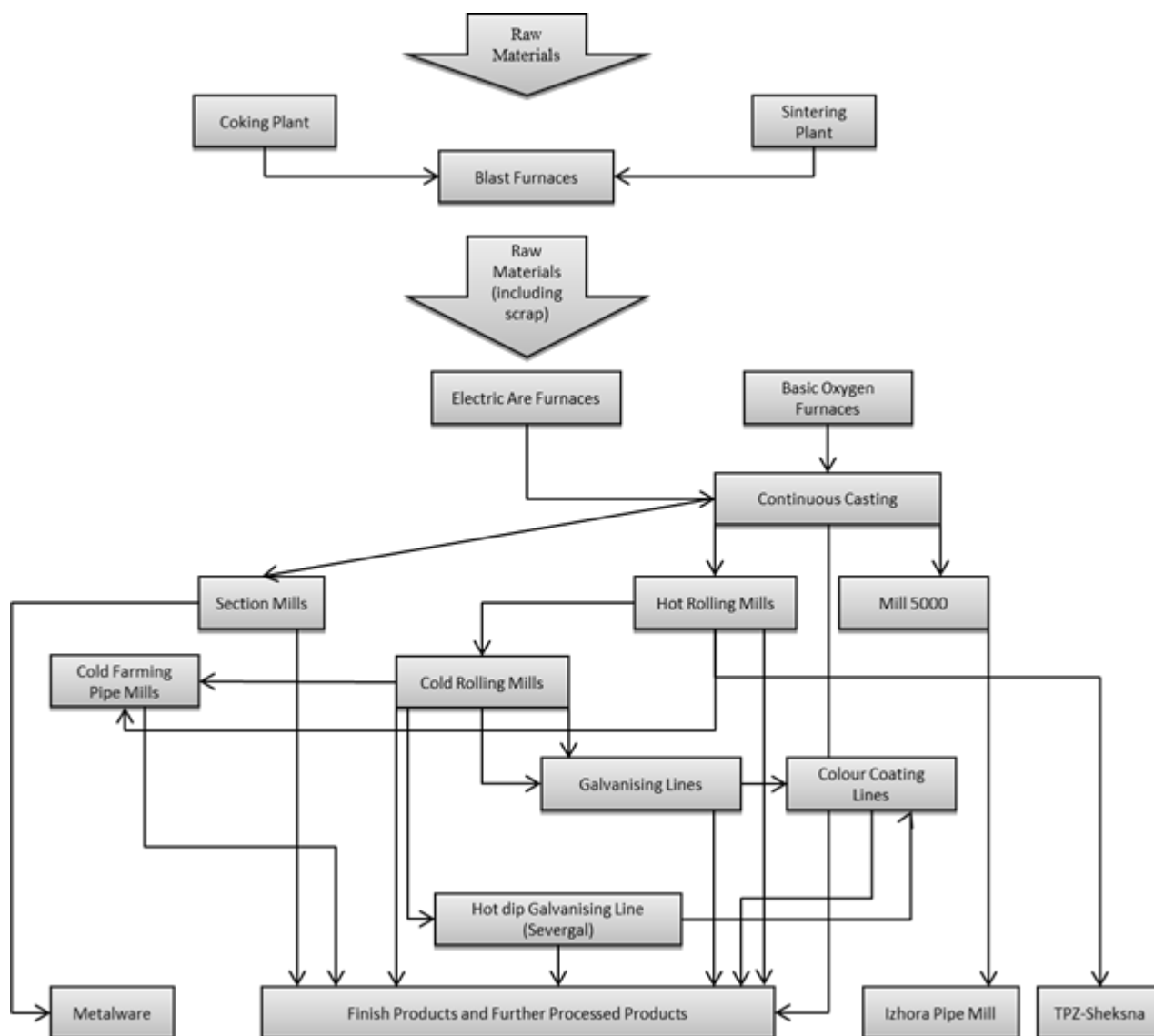
The Group’s metalware production business comprises Severstal-Metiz, which encompasses wire drawing and metalware manufacturing businesses in Russia. The Group’s Metalware business currently produces more than 55,000 types of products, including high-carbon and low-carbon wire, cold drawn steel, steel shape profiles, steel wire ropes, nails, fibre, fasteners, mesh, and currently has a total maximum production capacity of more than 1 million tonnes per year. Total metalware sales of the Group’s Metalware amounted to 592,000 tonnes in 2017 and 535,000 tonnes in 2018.

Severstal-Metiz operations include metalware production facilities in Cherepovets, Orel and Volgograd. In addition to significant geographic coverage, Severstal-Metiz operates in each of the primary parts of the Russian metalware products market, benefitting from the wide range of products manufactured at the respective plants.

On 28 April 2017, Severstal-Metiz completed the sale of Redaelli Tecna S.p.A. (Italy). On 26 October 2017 Severstal completed the sale of its wholly owned subsidiary Dealzone Holding Ltd which holds the 98.7 percent stake in Dneprometiz. Located in Dnepr, Dneprometiz is a Ukrainian business and a former subsidiary of Severstal-Metiz. The sale of Redaelli Tecna S.p.A. (Italy) and Dneprometiz (Ukraine) reflects the Group's commitment to maximise value creation for its shareholders and has allowed Severstal-Metiz to focus on its Russian assets with the aim of enhancing their efficiency.

Steel Production Process

The diagram below illustrates the major steps in Severstal Russian Steel's main steel production processes:



Severstal Russian Steel continuously seeks to improve the efficiency of the steel production process through a number of annual asset modernisation activities.

The steelmaking process at the Cherepovets Steel Mill begins with coal being fed into the coking plant and iron ore concentrate and other materials being fed into the sintering plant to produce coke and sinter, respectively. The mix of sinter, pellets and coke is then fed into the blast furnaces, which operate continuously. During the blast furnace process, the charge is converted into hot metal. Liquid slag, which remains after smelting, is also removed from the blast furnaces. When cooled, the slag is crushed at the slag processing facilities and is then sold domestically by Severstal Russian Steel as road-construction material. Gas produced by the blast furnaces is captured and recovered for further process needs.

The hot metal is transported to the BOF shop and EAFs in railway ladle cars. The basic oxygen steelmaking process is autogenous, or self-sufficient in terms of energy.

The two EAFs at the Cherepovets Steel Mill do not need to be charged with hot metal, and can be charged with “cold” material, normally steel scrap, recycled goods made from steel which have reached the end of their useful life and solid pig iron. Other forms of raw materials may be used, including pig iron from the blast furnaces that has been cast and allowed to go cold. Molten steel produced by the EAFs can either undergo secondary steelmaking or be transported to the continuous caster.

All of the liquid steel is fed from the furnaces into continuous casting machines to produce slabs and billets. Continuous casting is the most efficient casting process with the lowest metal consumption per tonne of rolled products, saving approximately 70 kilograms of steel per tonne compared with ingot casting. The slabs are further rolled at the hot-rolling mills into sheet and coils.

Additional processing methods related to cold-rolling further improve the mechanical characteristics of the steel. These additional processing methods include pickling, hydrogen annealing and tempering. Some cold-rolled sheet is galvanised, which involves applying a coat of zinc and aluminium, and some is further colour coated.

Quality control

Severstal Russian Steel has established comprehensive quality control systems at each stage of its production cycle. Severstal Russian Steel employs a wide range of techniques, varying from performance benchmarking to best practices, along with statistical process control, which were initiated by Severstal Russian Steel in 2001. Since 2005, the Company has been developing and implementing a system of statistical production management and in 2009 witnessed a launch of the “Continuous Improvement” project under which a unified model of operational management and continuous quality improvement is being developed and implemented. The main objective of these quality control systems is to enhance the quality of steel by improving technological process parameters. The Group runs the “Continuous Improvement” project on a regular basis with an annual update on objectives regarding current customers’ needs.

Quality control measures currently used by Severstal Russian Steel, are primarily aimed at making products that comply with the high requirements applied in the United States, Japan, EU countries and other developed markets along with upgraded standards of the Russian oil and gas and pipeline industries.

Severstal Russian Steel’s products have been certified for compliance with the regulations and classifications of many associations, including members of IACS, such as the Russian Maritime Register of Shipping, Lloyd’s Register of Europe, Middle East, and Africa, the American Bureau of Shipping, DNV - GL, Bureau Veritas, TUV Rheinland Group and the Russian River Register. A number of the Group’s products made for the construction market (for example, rebars of various diameters and strength classes) were duly certified by the Technological Institute of Concrete and Reinforced Concrete Named after Gvozdev A.A. (NIIZhB) and the Transportation Research and Development Institute (OAO TsNIIS).

The certificate approval area was expanded for CE marking for hot-rolled plate according to EN 10025-1-2004 by Lloyd’s Register of Europe, Middle East, and Africa according to requirements of Regulation (EU) No. 305/2011. The current certificate for CE marking was expanded for the Group with the inclusion of new steel grades S355JR and S355J2 in condition “+N” with 16 mm thickness.

Steel products of Severstal Russian Steel are supplied for different off-shore projects for development of oil and gas deposits, as well as for construction to EU markets and neighbouring countries. As at the day of this Base Prospectus, the Company possesses approximately 100 valid compliance certificates and expert reports confirming quality compliance of a wide range of products, including by-products (break stones from steel making and blast furnace slags of different sizes).

The Company produces a broad portfolio of steel products and is focused on consistently delivering new, high-value added steel products to meet the requirements of the next generation of infrastructure projects. It is also focused on opportunities in new growth niches, such as wind tower production and cryogenic steel components for LNG tanks. In June 2018, the Group successfully passed a compliance audit of the quality management by TÜV Rheinland Group to supply construction elements for a liquefied natural gas (LNG) storage facility made of cryogenic low-carbon steel with 9 percent nickel content. The Group has begun producing innovative products as a part of its import substitution programme for construction materials in partnership with Gazprom. Cryogenic steel has high resistance to the cold, retaining its elasticity and strength even at low temperatures. The cryogenic low-carbon steel is mainly produced by Mill 2800 at Cherepovets Steel Mill (part of Severstal’s Russian Steel division). It will also be possible to produce the metal at Cherepovets Steel Mill 5000, located in Kolpino, Saint Petersburg.

Severstal-Metiz’s three plants in Russia have management quality systems certificate, corresponding to the requirements of International Standard ISO 9001:2015, issued by Certification Association “Russian Register”. Along with it, Severstal-Metiz has received a certificate of conformity stating that its quality control system is in compliance with the requirements of International Standard IATF 16949:2016 concerning cold drawn steel and steel shape profiles issued by certification body United Registrar of Systems Ltd (URS). Severstal-Metiz testing laboratories based in Cherepovets and

Volgograd successfully passed accreditation for conformance to the requirements of ISO17025. In addition, Severstal-Metiz has a number of RosTechNadzor (Russian Technical Supervisory Authority) certificates and permits attesting to the quality of its products, including steel ropes, reinforcing steel cables, railway fasteners, engineering and high strength fasteners, low carbon wire for concrete reinforcement, wire fibre and periodic profile wire.

Products

Crude steel products. The table below sets out Severstal Russian Steel's production of crude steel in 2017 and 2018, as well as the estimated aggregate production of crude steel in Russia and Severstal Russian Steel's estimated share of production.

Crude Steel Production - Severstal Russian Steel

Period	Year ended 31 December	
	2017	2018
Crude steel (Russian Steel), (thousand tonnes).....	11,651	12,039
Estimated aggregate production of crude steel in Russia, (million tonnes)	71.5	71.7
Severstal Russian Steel's estimated share of production in Russia, (percent)	16.3	16.8

Source: Worldsteel.

Semi-finished products. Semi-finished products are intermediary products from the production process and represent generic steel products that have not yet been rolled for a specific application.

Finished steel products. Most of Severstal Russian Steel's crude steel production is further processed into finished steel products, which include flat and long products. Flat products include hot-rolled and cold-rolled sheet, plates and coils. Long products include hot-rolled sections, rebar and wire rod.

The following table sets out Severstal Russian Steel's total output and sales volumes by product category in 2016, 2017 and 2018 and six months ended 30 June 2018 and 2019.

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

	Year ended 31 December			Six months ended 30 June	
	2018	2017	2016	2019	2018
	(thousand tonnes)				
Output volumes					
Crude steel	12,039	11,651	11,630	6,101	6,034
Sales volumes by products					
Semi-finished products	695	519	724	190	441
Rolled products	8,760	8,579	8,121	4,644	4,408
Hot-rolled coil	3,896	3,950	4,080	2,142	1,932
Hot-rolled plate	852	805	692	458	424
Cold-rolled coil	1,286	1,324	964	517	710
Galvanised and metallic coated coil	835	654	560	491	416
Long products	1,500	1,443	1,439	793	754
Colour coated coil	391	403	386	243	172
Downstream products	1,765	1,862	1,870	857	882
Metalware products	562	615	641	268	274
Large diameter pipes	440	416	389	203	205
Other tubes, pipes, formed shapes	763	831	840	386	403
Total steel products	11,220	10,959	10,715	5,691	5,731

(1) Includes intersegment sales.

The Group's high value-added products comprise hot-rolled plates, large diameter pipes, cold-rolled sheet, metalware products, galvanised and other metallic coated sheet, colour coated sheet and other tubes and pipes and formed shapes.

Hot-rolled strip and plate. Hot-rolled flat products include heavy gauge plate and light gauge hot-rolled sheet produced from ordinary and high-quality carbon steel, low-alloy strengthened steel and clad steel. Clad steel includes two- and three-ply steel combined with a corrosion resistant or wear-resistant ply.

Several major mills function in hot-rolling shops: Mill 2800, Mill 1700 and Mill 2000. Mill 2800 is designed for rolling plates with a thickness of 7 to 50 mm and a width of up to 2,500 mm serves at the same time as a roughing mill for

rolling narrow work pieces for Mill 1700. Mill 1700 is a continuous 6-stand hot-rolling mill. The mill produces coil stock with a thickness of 0.8 to 6.0 mm and a width of 810 to 1,450 mm. Mill 2000 provides 70 percent of semi-finished rolled products for further use by the Cherepovets Steel Mill production facilities.

Large diameter pipes. The wide-strip rolling Mill 5000 is designed for rolling sheets with a thickness of 10 to 300 mm with a width of 1,500 to 4,800 mm and with a length of up to 30 metres from cast, rolled and forged slabs and ingots of 5 to 60 tonnes in weight from carbon, alloyed, stainless and special steels and alloys. These products are used in shipbuilding, machine-building and fuel and power industries.

Cold-rolled sheet. A cold-rolled flat product consists of cold-rolled sheet and coils with a thickness of 0.25 to 3.2 mm and a width of up to 1,620 mm. Cold-rolled sheet, which has a greater elasticity and a better surface quality than hot-rolled sheet, has various uses, including the manufacture of automotive body panels and home appliances. In addition, cold-rolled products serve as feedstock for Severstal Russian Steel's galvanised and roll-formed products.

Galvanised and other metallic coated sheet. Severstal Russian Steel produces galvanised coated products, including those produced for the automotive industry by Sevelgal. Severstal Russian Steel believes that demand for galvanised products from international automotive manufacturers will increase. Due to strict requirements of automotive plants outside Russia, Severstal Russian Steel has focused on improving the quality of its products significantly and has developed new grades of products to meet the demands of automotive customers.

Long products. Hot-rolled steel sections are produced from ordinary carbon steel, high-carbon steel, low-alloy steel, structural alloy steel and include equal and unequal angles, hexagonal shapes, round bars, steel strips, wire rods and reinforcement bars.

Metalware products. Severstal-Metiz sites are focused on metalware production, such as low-carbon and high-carbon wire, cold drawn steel, steel shape profiles, steel wire ropes, nails, fibre, fasteners, mesh. There are three sites in Russia: in Cherepovets, Orel and Volgograd, located in northwest Russia, central Russia and the Volga region, respectively.

Other tubes and pipes, formed shapes. Severstal Russian Steel produces more than 250 types of carbon and low-carbon steel roll-formed shapes, including perforated, close welded square and rectangular sections. Profiles with rectangular and square cross sections are widely used in the agricultural machine building, civil construction and automotive industries. Cold-formed sections also include a wide range of pipes and construction and furniture materials.

Colour coated sheet. Severstal Russian Steel produces colour coated material of more than 20 colours with thickness of up to 1.2 mm and width from 1,000 to 1,400 mm. The main application of the colour coated products is in the construction industry for roofing, hedging and similar uses. In some cases this product can be a substitute for galvanised material.

Scrap Processing. Severstal Russian Steel has its own facilities for processing steel scrap of various sizes. Severstal-Vtorchermet specialises in scrap collection and processing and meets the need in ferrous metals scrap of the largest division asset – the Cherepovets Steel Mill.

Repair Facilities. The main goal of Severstal Russian Steel's repair division is to support the production processes of the Cherepovets Steel Mill by providing timely and high-quality repair of the equipment. A subdivision, Promservice Centre, provides services and manufactures products in the area of electrical equipment repair and production, machining, diagnostics, geodetic surveys and in other directions. The Domnaremont Centre is a subdivision specialising in equipment overhaul and construction of large facilities.

Other and shipping. Other goods manufactured by Severstal Russian Steel include civil construction goods and associated products. Severstal Russian Steel also renders services in transportation and support of cargoes both domestically and abroad.

Research and Development

Severstal Russian Steel pursues research and development initiatives aimed at the development of new technologies and products, the expansion of the product mix, compliance with new product requirements, continued product quality improvement and a reduction of the costs associated with manufacturing.

The Group conducts research and development initiatives, including the development of different types of coatings, high corrosion resistance products, high-strength rolled materials of different purposes, skelp, strips, tubes and pipes of different diameters and with special properties, construction materials including steelworks (*Steel Solutions*), clad metals and nanomaterials, as well as development of additive manufacturing and welding engineering processes. The Group also focuses its research and development on reduction, recycling and disposal of waste products.

The Group's research and development activities are aimed at technologies which help improve product quality, eliminate defects, optimise chemical composition and decrease alloy levels. In addition, research is directed towards the reduction of manufacturing expenses. Moreover, the Group is focused on developments from the fourth industrial revolution, including computer simulation for different processes, machine vision, advanced engineering, and materials informatics.

The Group operates fully-equipped laboratories for comprehensive research and testing activities and established Technopark, a unique platform to carry out full-scale experiments and develop prototypes of new products. By virtue of the internal "Expert Network" service, the Group's employees involved in research and development share their knowledge and experience with their colleagues from other Group companies, which helps integrate research and development activities within the Group.

The Group regularly involves external Russian and foreign experts, scientists and organisations, including research institutes, universities, research and development centres, laboratories, startups, and international consulting companies.

Sales, Marketing and Competition

Severstal Russian Steel sells its products in both export and Russian domestic markets. Severstal Russian Steel views the Russian domestic market as strategically important and has implemented a long-term programme designed to broaden its customer base and develop its relationship with various key customers. In export markets, Severstal Russian Steel aims to sell products predominantly on a spot-market basis.

The following table sets out the revenues by market for both domestic and export sales for Severstal Russian Steel in 2017 and 2018.

Revenues by Market—Severstal Russian Steel⁽¹⁾

Market	Year ended 31 December	
	2017	2018
	(percentage of revenues)	
Domestic sales		
Russian Federation.....	64	63
Export sales		
Europe.....	16	24
CIS.....	7	6
The Middle East.....	5	3
Asia.....	1	1
Other.....	7	3
Total	100	100

(1) Includes intersegment sales.

The following table sets out the revenues by industry sector for both domestic and export sales for Severstal Russian Steel in 2017 and 2018.

Revenues by Industry Sector—Severstal Russian Steel⁽¹⁾

Industry sector	Year ended 31 December	
	2017	2018
	(percentage of revenues)	
Construction and processing.....	44	43
Machinery building.....	5	5
Oil and gas.....	4	4
Tube and pipemaking.....	7	4
Automotive.....	4	4
Other.....	36	40
Total	100	100

(1) Includes intersegment sales.

According to estimates of the Ministry of Economic Development, Russia's GDP increased by 1.4-1.8 percent in 2017 and by 2.0 percent in 2018. According to Rosstat, the industrial production index was 103 percent in 2018 in comparison with 2017. The production of steel rolled metal increased by 1.9 percent to 61.6 million tonnes in Russia in 2018.

Metal consumption levels in the Russian Federation in 2018 remained at a similar level to 2017, that is approximately 41 million tonnes. Machinery and the oil and gas industry were growing markets, however demand in the construction sector decreased. This was caused by the stagnation of capital investments after the completion of major construction projects.

Russian domestic sales. Severstal Russian Steel continues to regard Russia as its most important market. This market has certain advantages, including lower transportation costs for delivery of products and the ability to develop long-term strategic alliances with customers. Despite decreased demand of most Russian industries, Severstal Russian Steel's domestic revenue slightly decreased from 64 percent in 2017 to 63 percent in 2018.

Customers. Severstal Russian Steel recognised the importance of the construction and construction materials sectors, which include a number of important customers located in the European part of Russia. Sales to the construction segment accounted for 47 percent of domestic sales in 2017 and 49 percent in 2018. At the same time Severstal Russian Steel's largest customers are in the oil and gas, pipemaking, machinery and automotive sectors. A major part of Severstal Russian Steel's domestic sales are made by the Cherepovets Steel Mill, either directly to end users or to trading and distribution companies (see also "*Distribution*"). The following paragraphs briefly describe the main customers to which the Cherepovets Steel Mill sells directly.

Tube and pipemaking industries accounted for 11 percent and 6 percent of Severstal Russian Steel's total domestic sales by value in 2017 and 2018, respectively. While the majority of the sales in these industries were made to a large number of small producers of tubes used in construction, customers' tubes and pipes for oil and gas industries contain a few large customers such as TMK, Gazpromtrubinvest and ChelPipe. The Cherepovets Steel Mill is able to produce sophisticated steel grades for pipe manufacturing as well as high-quality steel with very low level of impurities.

The Russian automotive sector accounted for 5 percent and 4 percent of Severstal Russian Steel's total domestic sales in 2017 and 2018, respectively. Severstal Russian Steel's key customers in the domestic automotive sector are foreign car manufacturers (Renault-Nissan, Hyundai, GM) and KAMAZ. Due to the strict requirements of automotive plants, especially those outside Russia, Severstal Russian Steel has focused on improving the quality of its products significantly and has developed new grades of products (for example, high-strength steels) to meet the demands of its customers.

Key customer management. Severstal Russian Steel has identified a number of key customers as part of a project to work in close coordination with customers in strategically important sectors, including large accounts such as Gazprom, Transneft, ChelPipe, TMK, OMK, GREIF, KAMAZ and Renault-Nissan. Severstal Russian Steel works with these customers within its "key account management" process, managed by a dedicated team which includes the development of new products and innovations for both the customers and Severstal Russian Steel. Services for such customers include the construction of consignment warehouses in different regions and quarterly product quality coordination, managed by representatives of both Severstal Russian Steel and the relevant customer. Sales by Severstal Russian Steel to such customers accounted for approximately 40 percent of Severstal Russian Steel's total sales in 2017 and 2018.

Distribution. Domestically, Severstal Russian Steel sells its products to distributors and end-users – directly or through AO Severstal Distribution which has a wide network of metal service/processing centres throughout Russia.

Products. Severstal Russian Steel's domestic sales are dominated by hot-rolled strip and plate, which accounted for 33.8 percent and 33.9 percent of total domestic sales by steel products by volume in 2017 and 2018, respectively. Higher value-added products such as cold-rolled flat products and coated sheet are also very significant, making up 18.4 percent and 19.1 percent of total domestic sales by steel products by volume in 2017 and 2018, respectively.

The following table sets out the domestic sales by product for Severstal Russian Steel in 2017 and 2018.

Domestic Sales by Products—Severstal Russian Steel⁽¹⁾

Product	Year ended 31 December			
	2017		2018	
	(thousand tonnes)	(US\$ million)	(thousand tonnes)	(US\$ million)
Hot-rolled strip and plate	2,243	1,263	2,316	1407
Large diameter pipes.....	304	430	355	370
Cold-rolled sheet.....	851	503	956	594
Metalware products	413	386	401	402
Galvanised and other metallic coated sheet	365	257	442	326
Long products	1,375	589	1,378	658
Semi-finished products	36	19	22	10
Other tubes and pipes, formed shapes.....	653	365	604	351
Colour-coated sheet	367	320	348	325
Scrap.....	24	6	18	6
Total steel products.....	6,631	4,138	6,840	4,449
Iron ore pellets.....	-	-	43	5
Other and shipping and handling	-	432	-	446
Total sales by products	6,631	4,570	6,883	4,900

(1) Includes intersegment sales.

Contracts. Severstal Russian Steel has developed a flexible approach to contractual relations with its customers. Contracts are concluded on a quarterly, semi-annual or annual basis, depending on the customer. Factors determining the length of the contract include, for example, relationship history, industry and significance of the customer in its industry. Contracts also include a flexible system of discounts and rebates that provides for price adjustments on the basis of product tonnage, timing of payment and other contractual terms.

The prevailing economic environment is also a significant factor in choosing the length of the contractual period and certain other contractual terms (e.g., price and volume). As market prices become more volatile, contracts will provide for more frequent renegotiation of the terms. In the domestic market, this is illustrated by shorter contract periods with customers in the metal trading and metal processing industries, whose markets are characterised by volatility, whereas customers in the automobile industry generally have longer contractual periods, reflecting the relative stability of the automotive market generally.

In the export market, shipments usually are made on a monthly basis, but with certain exceptions for more stable customers, such as purchasers of cold-rolled non-grain oriented steel or large pipes mills. Contracts for key customers usually have a duration of approximately six months, after which the price may be renegotiated, and may include other customised terms.

Severstal Russian Steel offers its customers various methods of payment which are customarily used in the market, such as letters of credit, factoring, insurance, bank guarantee, promissory notes and others. Severstal Russian Steel seeks advance payments from certain customers, including new customers and those companies who are considered to be at risk financially. The remainder of contracts requires settlement within a range of two to three weeks from delivery and combined settlements. This flexibility of contract and credit terms has generated a significant competitive advantage for Severstal Russian Steel, allowing it to forge closer ties with customers and to react more effectively to changes in market conditions. In recent years, Severstal Russian Steel has experienced very low levels of bad debts.

Electronic Data Interchange. Severstal Russian Steel maintains advanced IT services which are vital for highly developed customers. The Group believes that Severstal Russian Steel is the only participant in the metal mining industry in Russia which applies a fully paperless and digitalised document flow with customers that have the necessary IT systems.

Sales by products. Due to increased demand for steel products in Russia in 2018, Severstal Russian Steel's domestic sales volumes increased slightly in comparison with 2017. At the same time, according to the Group's estimates based on information from public sources, Severstal Russian Steel managed to increase its market share in cold-rolled sheet by one percent in 2018 compared with 2017.

Izhora Pipe Mill. Izhora Pipe Mill sells most of its products in Russia to the oil and gas industry and, in particular, to Gazprom and Transneft, which together purchased approximately 55 percent and 67 percent of the total sales by volume in 2017 and 2018 (for projects in the domestic market), respectively. The domestic market for large diameter pipes increased by 17 percent in 2018 compared with 2017. In 2018, Severstal Russian Steel's market share in large diameter pipes remained flat compared with 2017 and was 18 percent according to the Group's estimates based on information from public sources.

Metalware domestic sales. Severstal-Metiz continues to consider Russia as the most important market. This market has certain advantages, such as significant demand and higher profit margins, compared with export markets, and is characterised by lower transportation costs for delivery to customers from its Russian production facilities. Severstal-Metiz has a wide product portfolio range and its Russian customers are in the construction industry, engineering industry, mining and the mass market.

Severstal-Metiz's market share of the combined Russian and Belarus markets was approximately 20 percent both in 2017 and 2018 according to the Group's estimates based on information from public sources. Severstal-Metiz typically seeks advance payments from certain customers, including new customers and those who are considered to be at risk financially. A flexible system of discounts and rebates may also be given according to product tonnage, timing of payment and other matters.

Export sales. In line with its strategy of focusing on the Russian domestic market, Severstal Russian Steel's export sales strategy is oriented towards spot markets of steel products. In 2018, share of Severstal Russian Steel's export revenue increased to 37 percent of total revenue compared with 36 percent in 2017. Europe remains the main market for Severstal Russian Steel's exports and accounted for 16 percent of total revenue in 2017 and 24 percent in 2018.

Customers. Severstal Russian Steel's largest export customers are rerollers, service metal centres and tubemakers. In 2018 the major buyers were Marcegaglia, Vítcovice Steel, Carl Spaeter GmbH, Steel Service centre and Ferpinta Ind. Tubos.

Distribution. Severstal Russian Steel conducts its export sales through sales subsidiaries Severstal Export GmbH and SIA Severstal Distribution. This system has enabled Severstal Russian Steel to increase the efficiency of its export operations by minimising its reliance on intermediaries in the sales process, thereby reducing its distribution costs.

Severstal Export GmbH is the centre for Severstal Russian Steel's sales operations in export markets, excluding the Baltic States and Eastern Europe, which are covered by SIA Severstal Distribution. Handling export operations through one centre has allowed Severstal Russian Steel to achieve cost savings through lower administrative expenses to benefit from large volumes and to eliminate intermediaries from the distribution chain.

SIA Severstal Distribution has been Severstal Russian Steel's export agent in the Baltic region since its formation in 1992. Although Severstal Russian Steel has direct contracts with certain customers in the Baltic market, the majority of sales contracts are concluded through SIA Severstal Distribution. SIA Severstal Distribution now operates as the export agent and the customer oriented regional service centre for the Baltic countries and Northern and Eastern Europe.

Products. Severstal Russian Steel's export sales consist predominantly of flat products with hot-rolled products and cold-rolled products accounting for approximately 57.7 percent and 10.9 percent respectively of sales by volume by steel products in 2017 and 55.2 percent and 7.5 percent in 2018. Semi-finished products also represent a significant proportion of total sales.

The following table sets out the export sales by products for Severstal Russian Steel in 2017 and 2018.

Export Sales by Products—Severstal Russian Steel⁽¹⁾

Product	Year ended 31 December			
	2017		2018	
	(thousand tonnes)	(US\$ million)	(thousand tonnes)	(US\$ million)
Hot-rolled strip and plate	2,512	1,196	2,432	1,349
Large diameter pipes.....	112	140	85	106
Cold-rolled sheet.....	473	280	330	209
Metalware products	202	164	161	142
Galvanised and other metallic coated sheet	289	213	393	303
Long products	68	32	122	67
Semi-finished products	483	200	673	311
Other tubes and pipes, formed shapes.....	178	109	159	106
Colour-coated sheet	36	33	43	39
Total steel products.....	4,353	2,367	4,398	2,632
Iron ore pellets	-	-	39	4
Other and shipping and handling	-	246	-	267
Total sales by products	4,353	2,613	4,437	2,903

(1) Includes intersegment sales.

Hot-rolled and cold-rolled sheets and plates. Severstal Russian Steel sells its sheets and plates primarily to foreign customers in the machinery and pipe industries as well to the spot market.

Semi-finished products. Severstal Russian Steel's exports of semi-finished products are mainly slabs delivered to foreign rerollers producing hot-rolled products such as Marcegaglia and Vítcovice Steel.

Tubes and pipes. Europe is the main export market for Severstal Russian Steel's tubes and pipes. European customers buy tubes and pipes mostly made in Latvia and Poland on SIA Severstal Distribution's facilities and on Cherepovets Steel Mill. The Cherepovets Steel Mill sells significant volumes of pipes to the CIS market.

Metalware. The main international markets for metalware products are the CIS and Europe where Severstal Russian Steel's customers are generally in similar industries to those that buy metalware in the Russian market.

Competition

Both the Russian and the international steel markets are highly competitive due to a large number of key players. Primary competition factors include product sophistication, quality, price, payment terms and customer service. In addition, the development of new technologies has reduced the capital costs associated with steel production and led to increased competition from new entrants to the industry with lower capital requirements. The steel industry also competes with producers of materials that offer an alternative to traditional steel products, such as aluminium or plastic.

The Group has steadily moved Severstal Russian Steel further up the value-chain, producing high value-added, differentiated products and establishing closer relations with end-users. The share of the domestic market in Severstal Russian Steel's total revenue amounted to 64.0 percent in 2017 and 63.0 percent in 2018.

As a result of having well-established sales chains and the required product certifications, Severstal Russian Steel is able to quickly and flexibly redistribute sales between domestic and export markets. Severstal Russian Steel's key competitors in the Russian domestic markets for flat-rolled steel products are MMK and NLMK. The major competitors for long products include Evraz and Metalloinvest. OMK, TMK and Chelpipe compete with Severstal Russian Steel in pipes. The following table presents Severstal Russian Steel's principal competitors.

Principal Competitors of Severstal Russian Steel—Crude Steel Production

Company	Year ended 31 December	
	2017	2018
	(million tonnes)	
NLMK	17.1	17.5
EVRAZ	11.0	10.6
MMK	12.9	12.7
Severstal Russian Steel	11.7	12.0
Metalloinvest	4.9	5.1

Source: Official company data, Metal Expert.

The Russian market is characterised by intensifying competition for customers, raw materials, capital and experienced personnel. The Cherepovets Steel plant is one of the largest complexes in Russia, and is also the most sophisticated in Russia by range of products. The plant has a captive supply of high-quality raw materials, allowing it to ensure a favourable cost baseline even as compared with the largest domestic competitors. Finally, Severstal Russian Steel's relative market strength is underpinned by its proactive marketing strategy and ongoing efforts to increase quality and technical sophistication, which has allowed it to forge long-term relationships with key domestic customers in the pipe production and automotive sector.

Capital Expenditure Programme

Severstal Russian Steel's cash capital expenditures in 2017 and 2018 amounted to US\$347 million and US\$387 million, respectively. The capital expenditure programme is aimed at increasing production and efficiency, implement environmental upgrades, renewal of capital equipment and further changes in the product mix oriented at the production of higher value-added and higher quality products including coated products and cold-rolled products. New developed products include high strength hot rolled products with special application properties such as high wear resistance and improved weldability, cryogenic steel for storing liquefied natural gas, hot rolled pickled and hot dip galvanised dual phase steel of high strength grades for automotive application, rolled products for manufacturing of longitudinally welded pipes for oil and gas industry.

Severstal Russian Steel's capital expenditures allowed the division to introduce the latest technologies and equipment of leading suppliers of the steel industry in cooperation with companies such as Gosa Fom, Zimmerman & Jansen, Primetals, CMI S.A., SMS Siemag AG and others.

The Group expects that the total amount of Severstal Russian Steel's capital expenditure in 2019 will amount to approximately US\$981 million. The capital expenditure programme includes the following major investment projects.

Cherepovets Steel Mill

Coke and hot metal production The main stage of reconstruction of coking battery No.4 with a total investment of US\$85 million was completed in 2018, which will increase coke production from 420,000 to 460,000 tonnes per year while reducing the amount of dust emitted. The purpose of this project is to revamp the coking battery together with the construction of a new control room, a condensation pump house and the reconstruction of auxiliary facilities. This project contributed to an increase of coke output by 57,000 tonnes per year, coke oven gas production by 23 million cubic metres per year and steam generation by 71,000 tonnes per year.

The Group is currently in the process of constructing a new coking battery No.11 with stamp charge advanced technology, which will replace coking batteries No. 8 and No. 9. The project is expected to be completed in 2022. The Group expects that the implementation of this project will improve the quality of coke and reduce production costs. Total estimated capital expenditures on the project amount to approximately US\$512 million.

The Group is also constructing a new blast furnace No.3, which will replace blast furnaces No.1 and No.2 with estimated output capacity of 2.9 million tonnes per year. Blowing-in is planned for 2020. The total capital expenditure is estimated to amount to approximately US\$445 million.

Steelmaking Operations

In relation to the steelmaking operations, capital expenditures are aimed at reducing costs, improving product quality, supporting the development of new products, improving environmental performance as well as asset maintenance. The Group is implementing a number of projects, aimed at increasing the number of heats on converters, including one relating to the introduction of combined steel blowing at converters No.1-3 and a rough grinding machine.

The new ladle furnace No.2 construction project, which was completed by the Group in 2018, is aimed at quality and efficiency improvement (thereby reducing production costs). Total capital expenditure on this project amounted to US\$45 million. The Group is currently in the process of steel vacuum blowing reconstruction aimed at increasing the production of vacuum metal. The Group expects to complete the project in 2021. The estimated capital expenditure amounts to approximately US\$23 million. Furthermore, the Group is entering into a blast furnace No.1 reconstruction project, which it plans to complete in 2020. This would enable the Group to produce electrical furnace steel with a high consumption of liquid iron.

The Group's other upstream investments include the upgrade of shaft furnace No.1 and the increase of the number of castings from 82 to 86 at steelmaking facilities which will allow the Group to increase crude steel production volumes.

Flat Products Operations

The Group aims to implement a number of projects designed to improve consumer properties of rolled products, to develop new products, to reduce costs associated with the production output and to automate its production processes. These projects include the construction of cutting/slitting facilities, the revamping of reheating furnace and short stroke control systems at hot rolling mill.

Cold Rolling Operations

The Group plans to revamp its cold rolling facilities in order to improve quality and increase the output of cold rolled products. It is in the process of completing the construction of a coating shop, including continuous galvanising and colour coating lines. The estimated total capital expenditure on this project amounts to approximately US\$138 million. The project's implementation will enable an increase of output by 400,000 tonnes per year for galvanised products and by 200,000 tonnes per year for colour coated products.

The Group is currently implementing a wide rolling production project aimed at producing a range of products with a width of 1,850 mm for the automotive industry. The completion of the project is scheduled for 2020. The estimated capital expenditure for the project is approximately US\$143 million.

Hot Rolling Operations

The Group is completing a project with respect to baking furnace No.1 and No.2 which is expected to be completed in 2022. To the extent that it is successful, the Group will have facilities with increased uniform slab heating to obtain ½ EN in thickness, and it will also be able to reduce its consumption of natural gas and the cost of stove overhauls. The estimated capital expenditure on the project amounts to approximately US\$99 million. Furthermore, the Group is introducing a number of measures to achieve the quality of rolled products currently present on the market. The total estimated capital expenditure on this project is approximately US\$152 million. Completion is scheduled for 2020.

The Group expects that the installation of a short stroke control system with new main drives will lead to a reduction of the costs associated with plate production and output increase.

Long Products Operations

In 2018, the Group finished constructing a new ball rolling mill No. 2 which is located in the finishing area of the long products shop in order to increase production of steel grinding balls to up to 60,000 tonnes per year. Total capital expenditure on the project was US\$3 million. The first line was built and brought into operation in 2014.

Environmental projects of the Division

The Group is implementing a project for the gas cleaning of shaft furnace No.2 and ladle-furnace No.2, with the aim of reducing emissions into the atmosphere from 11-13 Mg to 10 Mg. The project is expected to be completed in 2021 with total capital expenditure amounting to approximately US\$18 million. The Group performs regular reconstructions of aspiration equipment in impermeability engine analyser -3. In 2018, the Group introduced electrostatic precipitator No.7 and it is currently carrying out construction and installation works for new No. 1 electrostatic filter equipment which is expected to become operational in the first quarter of 2020.

Power production

The Group has adopted an investment programme for the improvement of the reliability of gas, water and electrical energy supply to the main production shops.

A number of projects are expected to result in an increase of in-house power production and a reduction of power consumption.

The Group is constructing an electric transmission line with a 110 kW production capacity. The Group expects that the project will be completed in 2020 and as a result, the Group will no longer use the services of PJSC Interregional Distribution Grid Company of Centre. The estimated capital expenditure on the project is approximately US\$23 million.

Transportation facilities

The Group has adopted an investment programme for transportation shops of Severstal Russian Steel which aims to maintain in-house automotive and railroad infrastructure.

There are several special programmes to upgrade the locomotive fleet, wagons and platforms which the Group expects to complete in 2020. Total estimated expenditure on this project is approximately US\$41 million.

Employees

Average employee numbers for Severstal Russian Steel decreased from 37,018 in 2017 to 36,257 in 2018 in part due to increased labour efficiency and ongoing efficiency improvements.

A new collective bargaining agreement concluded between the Group and the Mining and Metallurgical Trade Union in 2018 in respect of employees at the Company was extended until 2020. Since 1996, Severstal Russian Steel has experienced no material labour disputes, strikes or employee legal actions. Severstal Russian Steel considers its employee relations to be good.

Health, Safety and Environment

The management systems at the Cherepovets Steel Mill, the Izhora Pipe Mill, Severstal-SMC-Vsevolozhsk Services Centre, Severstal Distribution and Karelsky Okatysh are certified to be in conformance with the requirements of OHSAS 18001:2007 and ISO 14001:2015 standards. The total expenditures on occupational health and safety measures at the Severstal Russian Steel in 2016 amounted to approximately US\$43.9 million, compared with approximately US\$21.3 million in 2017 and US\$24 million in 2018. These expenditures were made on items such as safety clothing, boots and other personal safety equipment, improving working conditions, employees' safety training, health and resort treatment and health care. General expenditures on environmental protection amounted to approximately US\$27.6 million in 2016, US\$67.8 million in 2017 and US\$28.6 million in 2018.

During the period between 2016 and 2018, 105 work-related lost time injuries occurred in Severstal Russian Steel, 43 of which occurred in 2016, 25 in 2017 and 37 in 2018. In the six months ended 30 June 2019, 11 work-related lost time injuries occurred. In the years ended 31 December 2016, 2017 and 2018, Severstal Russian Steel's LTIFR amounted to 0.69, 0.40 and 0.61, respectively. For the six months ended 30 June 2019, Severstal Russian Steel's LTIFR amounted to 0.37.

SEVERSTAL RESOURCES

Mining at a glance

Open pit mining

The Group's iron ore production and a minor portion of its coal production come from open pit mining. The open pit mining process consists of four processes: drilling by heavy duty rotary blast hole drills, blasting, loading of materials by hydraulic face shovels and transport by large off-highway rear-dump mining trucks. The size and the quantity of mining equipment and the attendant mine design features vary from mine to mine and are dictated by the rate of production. Ore mining is subject to the beneficiation process. The beneficiation flow process is dependent on the nature of the ore and includes ore crushing, milling, gravity and wet magnetic separation for iron ore.

Underground mining

The majority of coal is mined by means of underground mining techniques using a system of shafts, declines, stopes or faces. The Group uses the following underground mining methods: shearing for softer coal and the transportation of

mined material out of the mine to the processing plant via a conveyor system and skips. The beneficiation process includes crushing, milling, washing and flotation for coal.

Facilities

Iron Ore Facilities

Karelsky Okatysh. Karelsky Okatysh is located in Kostomuksha in the Karelia Republic in the northwest of Russia. It mines magnetite quartzite ores and produces high-quality iron ore pellets with an iron content of 64 to 66.5 percent. Karelsky Okatysh operates two major deposits (Kostomuksha and Korpanga) that have an estimated life of 30 years based on the Group's estimates of JORC reserves plus expected reserves extension. The average total iron content of the reserves at Karelsky Okatysh is approximately 28 percent. The opening of new mines at the Korpanga deposit as well as the implementation of a planned efficiency improvement programme will increase the production capacity of Karelsky Okatysh to 34 million tonnes of iron ore output per year.

Kostomuksha. The arch shaped Kostomuksha deposit consists of three sections, with a total strike extent of approximately 13,000 metres and an open pit depth reaching 360 metres. The average stripping ratio was 0.96 in 2017 and 0.99 in 2018. The iron content in the ore is medium (28.5 percent total iron, 24.2 percent iron magnetite), though it is well suited for wet magnetic beneficiation. The deposit produces high-quality concentrate (up to 68.5 percent iron) and pellets (up to 65.5 percent iron). The Kostomuksha deposit has an iron ore output of 21 million tonnes at 28.5 percent iron per year.

Korpanga. In 2007, a mine opened at the Korpanga deposit, consisting of east and west sections that have strike lengths of 3,800 metres and 3,000 metres, respectively. The ore qualities at Korpanga deposit allow to produce pellets with iron content up to 70 percent. The Korpanga deposit has iron ore output of 15.0 million tonnes at 26.3 percent total iron per year. The average stripping ratio at Karelsky Okatysh was 1.09 in 2017 and 1.09 in 2018.

Extracted ore is delivered to the beneficiation plant by railway. The beneficiation plant is located seven kilometres from the central section of the Kostomuksha deposit and 25 kilometres from Korpanga. The beneficiation plant concentrate output was 12 million tonnes (representing 34.0 million tonnes of input ore, excluding residual ore at transfer stocks and hoppers at the plant) in each of 2017 and 2018. The plant beneficiation process currently consists of two crushing lines and 12 beneficiation circuits equipped with primary magnetic separation equipment.

Cash cost of iron ore pellets (not taking into account the capitalisation of stripping costs) significantly decreased from approximately US\$33.6 per tonne in 2017 to US\$32.7 per tonne in 2018 and Karelsky Okatysh continues to keep costs under control.

The Group's production of iron pellets at Karelsky Okatysh in 2018 was 11.3 million tonnes with a cash cost (not taking into account the capitalisation of stripping costs) of US\$32.7 per tonne and a stripping ratio of 1.09.

Olcon. Olcon is located in the Murmansk region in northwest Russia. It mines magnetite-hematite quartzite ores and produces high-quality iron ore concentrate. Currently, ore mining is carried out in six open pits: Olenegorsky, Kirovogorsky, 15-Letiya Oktyabrya, Kurkenpakh, Vostochny and Komsomolsky in conjunction with the Olenegorsky underground mine.

The current iron content in the Olcon ore is 25.1 percent iron and 19.5 percent iron magnetite. Olcon produces iron ore concentrate with an average iron content of 67.7 percent. The average stripping ratio was 1.17 in 2017 and 1.12 in 2018. The annual iron ore output in the years ended 31 December 2017 and 2018 was 13.9 million tonnes and 14.9 million tonnes, respectively. The ore from the Kirovogorsky, 15-Letiya Oktyabrya, Kurkenpakh, Vostochny and Komsomolsky pits is delivered by railway to a beneficiation plant located approximately 11 kilometres away. The beneficiation plant, consisting of two crushing lines and 10 beneficiation circuits equipped with primary magnetic separation equipment, had a concentrate production of 4.1 million tonnes in 2017 and 4.2 million tonnes in 2018.

Olcon's iron ore concentrate cash cost (not taking into account the capitalisation of stripping costs) was approximately US\$33.6 per tonne and US\$32.7 per tonne in 2017 and 2018, respectively.

The Group's production of iron ore concentrate at Olcon in 2018 was 4.2 million tonnes with a cash cost (not taking into account the capitalisation of stripping costs) of US\$32.7 per tonne and a stripping ratio of 1.12.

Putu Range. Putu Range is located in Liberia, 130 kilometres inland from the coast. According to a report by SRK Consulting, resources at Putu Range amount to 4,690 million tonnes with a significant direct shipping ore component at an average grade 33.53 percent of total iron for all resources. The Putu Range Project is currently suspended due to economic reasons. The Group is currently searching for a strategic investor for the Putu Range Project.

Amapa. Amapa iron ore project is located in the state of Amapa, Brazil. The Group performed a first pass exploration at Amapa in 2011 and 2012, and, currently, the Company is contemplating a sale of its minority stake in the Amapa iron ore project.

Yakovlevskiy Mine. The Yakovlevskiy mine is located 40 km north of Belgorod, near the village of Yakovlevo. It produces iron-mica, iron-mica-martite, martite, martite-hydrohematite and hydro hematite-hydro-goethite ores from underground mining activities. The iron content of the ore depends on the mineral composition. The highest iron content (over 60 percent) is observed in iron-mica and martite-iron-mica ores; whereas the iron content in martite-hydrohematite and goethite ores is lower. The content of iron in the ore ranges from 50 percent to 67 percent. Iron ore products of this quality are used as a raw material for sintering production and other specialised metallurgical industries, corresponding to the best available world analogues, and therefore no additional enrichment of raw materials is made.

A programme to increase the production capacity of the Yakovlevskiy mine is currently being implemented, which is expected to result in an increase in the mine's production capacity to 5 million tonnes of iron ore per year by 2023. Iron ore production at the mine amounted to 0.9 million tonnes in 2017 and to 1.2 million tonnes in 2018. The Group plans to increase the production of iron ore to 2.2 million tonnes in 2019. The Yakovlevskiy mine's cash cost of iron ore (excluding the capitalisation of the ceiling) decreased from approximately US\$50.8 per tonne in 2017 to US\$43.8 per tonne in 2018, and the Yakovlevskiy mine continues to control cost levels.

Coal Facilities

Vorkutaugol. The Vorkutaugol mine is located near the town of Vorkuta in the Komi Republic in the northeast of European Russia. The Vorkutaugol mine operates the Vorkutskoye and Vorgashorskoye coal deposits with an estimated life of 19 and 11 years, respectively. The mining area of Vorkutaugol consists of four underground mines, one open pit and two washing plants. Premium grades of coking coal account for a high proportion of the Vorkutaugol reserves.

There are two principal seams currently under operation at the Vorkutskoye deposit, which comprises three mines: "Komsomolskaya", "Zapolyarnaya" and "Vorkutinskaya". Troinoy and Chetvertiy seam are between 2.9 and 1.4 metres and are suitable to be extracted by conventional longwall shears. Total ROM coal output at Vorkutaugol in the years ended 31 December 2018 was 9.6 million tonnes.

There are two seams of workable thickness at the Vorgashorskoye coal deposit. The total seam thickness is approximately 2.9 metres. The mine has two high productivity faces, with ROM coal output of 8.6 million tonnes and 2.9 million tonnes in 2017 and 2018, respectively. Some ROM coals are processed at the central Pechorskaya plant.

There is one open pit in operation, the Unyaginskoye mine with an annual ROM (without overburden) of 0.7 million tonnes of hard coking coal. There are currently two washing facilities in Vorkuta (Vorkutinskaya, located at the Vorkutinskaya mine, and central Pechorskaya). The washing process reduces ash content to approximately 8 percent, enabling the production of concentrate with a high market value. Coking coal concentrate from Vorkutaugol can be used directly in coke batteries. The most valuable coal is washed on the site at Vorkuta. In 2015, the second stage of modernisation was completed at Pechorskaya, which allowed to reduce production costs and to increase the hourly productivity of the facility to 1,600 tonnes per hour. In 2018, modernisation of Pechorskaya was commenced to further increase its capacity to 9.5 million tonnes in 2021.

The cash cost of hard coking coal (2Zh grade) concentrate amounted to approximately US\$84 and US\$79 per tonne in 2017 and 2018, respectively.

In 2018, the Group started using improved coal concentrate with 8 percent ash content for 2ZH grade coal and gas fat lean coal which resulted in additional efficiency as a result of substitution of premium coal from Kuzbass. Prior to that, the Group used 9 percent ash content concentrate. The Group is continuing to work on reducing ash content in coal concentrate.

In February 2016, an accident occurred at the Severnaya mine and one of the washing plants. The mining operations at Severnaya mine have been suspended since the accident and the Group has taken a decision to seal off Severnaya mine. The Group has decided to extract the Severnaya mine's ore through the adjacent Komsomolskaya mine. The process of such extraction is expected to commence in 2024. See "*Risk Factors—Risk Factors relating to the Group and the Steel and Mining Industries—The Group's mining operations are subject to hazards and risks that could lead to unexpected production delays, increased costs, damage to property, loss of mining assets and injury or death to persons*".

The Group's ROM coal output at Vorkutaugol in 2018 was 9.6 million tonnes and the production of hard coking coal (2Zh grade) concentrate was 3.4 million tonnes with a cash cost of US\$79 per tonne.

Tsentralny field. Tsentralny field is a coal greenfield project in the Tyva Republic of Russia. According to its acquired state licence, it has total resources of approximately 807.8 million tonnes of coking coal of A, B, C1 and C2 categories, according to the Russian Classification. Development of the coalfield depends on the construction of a 400km railroad

connecting Tyva with the existing rail network. The Group decided to suspend any significant investments in the project until the construction of the railroad is certain.

Usinskoye-1 field. The field is located in the Komi Republic 40 kilometres from Vorkuta and the Group's active underground mines. According to its acquired state licence, it has total resources of approximately 537.3 million tonnes of coking coal of A, B, C1 and C2 categories, according to the Russian Classification. The project is currently suspended due to market conditions.

Reserves and Resources

At expected rates of operation, the Group estimates that Severstal Resources' coal and audited (See "*Presentation of financial and other information—Mining reserves*") reserves and resources of iron ore are sufficient for at least twenty years of iron ore and coking coal production. The table below shows the Group's reserves and resources estimation. Estimates for the Karelsky Okatysh, Olcon and Yakovlevskiy mine assets are based on the reports issued by IMC Montan dated February 2013, IMC dated June 2006 and IMC Montan dated September 2008, which were prepared in accordance the JORC reporting standards. Reserves estimates for Vorkutaugol are based on the reports prepared by the Group in 2016 in accordance with the Russian Classification. Reserves and resource estimates for the Putu Range have been developed under the guidelines of Samrec code. The report for the Putu Range Project has been prepared by SRK Consulting (see also "*Industry—Mining Industry—International Reporting Methodologies*").

Estimated Reserves and Resources—Severstal Resources⁽¹⁾

	Reserves	Resources	Resources extension ⁽⁶⁾
Iron Ore			
Karelsky Okatysh ⁽²⁾⁽³⁾⁽⁴⁾	236.3	831.3	55.0
Olcon ⁽⁴⁾⁽⁷⁾	175.5	542.3	95.1
Yakovlevskiy Mine ⁽⁹⁾	66.3	213.16	—
Putu ⁽⁵⁾	—	4,690.0	—
Total	478.1	6,276.76	150.1
Coal			
Vorkutaugol ⁽²⁾⁽³⁾⁽⁴⁾⁽⁸⁾⁽⁶⁾	135.2	—	3.1
Tsentralny (Tyva) ⁽⁶⁾	—	—	807.8
Usinskoye-1 ⁽⁶⁾	—	—	537.3
Total	135.2	—	1,348.2

Source: (see Notes).

Notes:

- (1) All numbers for iron ore and coal are presented in millions of tonnes as at 1 January 2019.
- (2) Proved and Probable reserves based on a report issued by IMC dated June 2006, prepared in accordance with JORC reporting standards.
- (3) Measured and Indicated resources, based on a report issued by IMC dated June 2006, prepared in accordance with JORC reporting standards.
- (4) Audited reserves, adjusted on actual production since the date of reporting, as at 31 December 2018.
- (5) Inferred and Indicated and Measured Resources based on a report issued by SRK Consulting issued in September 2012.
- (6) Resources based on the Russian Classification and legislation: A, B, C1, C2 and P1 categories within current state licences, coal in situ.
- (7) Resources and Reserves audited in 2013 by IMC Montan according to JORC reporting standards.
- (8) Coal reserves for Vorkutaugol are provided according to an estimate based on the Russian Classification, ROM.
- (9) Resources and reserves audited in 2008 by IMC Montan according to JORC reporting standards.

Products

Severstal Resources produces a high proportion of premium products, such as iron ore with high iron content of up to over 60 percent, iron ore pellets from iron ore and coking coal concentrate from coal, for domestic and international customers. In the years ended 31 December 2017 and 2018, iron ore pellets constituted 72.4 percent and 66.6 percent of Severstal Resources' iron ore products sales volume, respectively, whilst pellets with high iron content accounted for 27.6 percent and 33.4 percent of the total iron ore pellets sales volume in 2017 and 2018, respectively. Coking coal concentrate constituted 67.7 percent and 72.0 percent of Severstal Resources' coal sales volume, respectively.

The following table sets out Severstal Resources' sales volumes in 2017 and 2018.

Sales volumes by products —Severstal Resources⁽¹⁾

	Year ended 31 December	
	2017	2018
	(thousand tonnes)	
Coking coal concentrate	3,294	3,374
Steam coal	1,574	1,312
Iron ore pellets	11,133	10,997
Iron ore concentrate	4,251	5,510

(1) Includes intersegment sales.

Raw coking coal and coking coal concentrate. Vorkutaugol's two main products are premium hard coking coal in concentrate form and semi-soft coking coal in concentrate form with an ash content of 9.0 percent.

Steam coal. Vorkutaugol also produces steam coal. It is sold to local heating and power plants in the Komi region, and it is also sold to industrial customers.

Iron ore pellets and concentrate. Karelsky Okatysh produces iron ore pellets. These have an iron content of 65.2 percent for non-fluxed and 66.7 percent for fluxed pellets. Pellets are a high value-added iron ore product, as they can be used directly in the blast furnace without intermediate sintering. They also ensure optimal coke consumption in the furnace and significantly reduce the carbon dioxide emissions in the furnace operation. Olcon produces iron ore fines with an iron content of 67.7 percent. Currently these fines are shipped only to Severstal Russian Steel where they are used as sinter feed, before being blended with coke and loaded into the blast furnace. The Yakovlevskiy mine produces iron ore with an iron content of 50 percent to 67 percent with an average iron content of shipped products of 60 percent. Products of this quality are in demand at the key facility of the group, Cherepovets Steel Mill, as well as at other metallurgical plants worldwide.

Sales, Marketing and Competition

Severstal Resources sells its products internally within the Group as well as to the international and Russian domestic markets. Severstal Resources aims to maintain its domestic market share and expand its international market share with high-quality pellets and coking coal concentrate.

Severstal Resources sales are dominated by iron ore pellets, which accounted for 51.2 percent of sales by revenue in 2017 and 51.8 percent in 2018. Coking coal concentrate accounted for 24.9 percent of sales by revenue in 2017 and 22.1 percent in 2018. All other products represented 23.9 percent of sales by revenue in 2017 and 26.1 percent in 2018.

The following table sets out sales by products for Severstal Resources in 2017 and 2018.

Sales by Products—Severstal Resources⁽¹⁾

Product	Year ended 31 December			
	2017		2018	
	(thousand tonnes)	(US\$ million)	(thousand tonnes)	(US\$ million)
Coking coal concentrate	3,294	430	3,374	421
Steam coal	1,574	40	1,312	35
Iron ore pellets	11,133	885	10,997	989
Iron ore concentrate	4,251	216	5,510	325
Other and shipping	-	156	-	138
Total revenue	20,252	1,727	21,193	1,908

(1) Includes intersegment sales.

Customers. Within the Group, Severstal Resources sells iron ore pellets and coking coal to Severstal Russian Steel.

Severstal Resources total iron ore and coking coal sales were 20.3 million tonnes in 2017 and 21.2 million tonnes in 2018.

Raw material companies contracts. Severstal Resources operates through direct contracts with customers.

The contracts portfolio for coking coal with domestic customers includes both spot and long-term agreements. Contracts for pellets have a one-year term with formula pricing. The majority of export sales are made through one to three-year contracts, with a formula-based price reviewed annually. The higher iron ore concentrate sales in 2018 compared with 2017 partially reflects the consolidation of the Yakovlevskiy mine and a growth in production volumes at Olcon.

Competition

The Group believes that Severstal Resources is favourably positioned on the global cost curve for both iron ore and coking coal, with strong competitive positions in domestic markets and in its core export markets of northern and eastern Europe. This is evident in respect of the pellets produced at Karelsky Okatysh, which has stronger orientation towards the export market and high value-added products.

Severstal Resources has a strong market position in the Russian iron ore and coking coal markets. The following table sets out the principal competitors of Severstal Resources in the Russian markets for coking coal and iron ore as at 31 December 2018.

Principal Competitors of Severstal Resources—Russian Coking Coal Market

Company	Group	Year ended 31 December 2018 (million tonnes)
Raspadskaya	EVRAZ	7.3
Vorkutaugol.....	Severstal	3.4
Yuzhkuzbassugol.....	EVRAZ	6.0
Yakutugol	Mechel.....	3.4
Sibuglemet	Independent producer	6.2
Yuzhny Kuzbass	Mechel.....	2.6
KRU	UMMC	3.3
Other		21.3
Russia		53.5

Source: Metcoal.ru

The Russian coking coal market is less consolidated than the Russian iron ore market, with high competition in low quality coking coals. Severstal Resources' key competitors in this market include Raspadskaya, Yuzhkuzbassugol, Sibuglemet and Yakutugol. Severstal Resources believes that its location provides it with an advantage over its competitors, many of whom are located in the Kuzbass region, which is located over 2,000 kilometres away from the major purchasers of coking coal in the European part of Russia and Ukraine.

Severstal Resources' main competitor in the Russian iron ore pellets market is Metalloinvest, which delivered approximately 16.9 million tonnes of pellets and iron ore concentrate into the Russian domestic market in 2018. Other large producers are Evraz, NLMK and Mechel who predominantly supply iron ore to their own steelmaking operations. The only significant company importing iron ore into the Russian market is the Kazakh producer OAO SSGPO, mostly to MMK (approximately 7.6 million tonnes in 2018). The following table shows principal competitors of Severstal Resources in the Russian iron ore market.

Principal Competitors of Severstal Resources—Russian Iron Ore Market

Company	Group	Year ended 31 December 2018 (million tonnes)
Lebedinsky GOK.....	Metalloinvest.....	22
Mikhailovsky GOK	Metalloinvest.....	17
Stoilensky GOK.....	NLMK.....	17
Karelsky Okatysh	Severstal	12
Kachkanarsky GOK.....	EVRAZ.....	11
Kovdorskiy GOK.....	Eurochem	6
Korshunovskiy GOK	Mechel.....	2
Olcon	Severstal	4
Yakovlevskiy mine	Severstal	1
Others		12
Russia		104

Source: Metalsmining.ru

Capital Expenditure Programme

In 2017 and 2018, Severstal Resources' cash capital expenditure amounted to US\$244 million and US\$301 million, respectively. The Company plans to invest approximately US\$469 million in its Resources division in 2019, of which US\$395 million is planned to be invested in asset development.

One of the main investment areas within Severstal Resources is the development of the Yakovlevskiy mine, in which it expects to invest US\$126 million in 2019 with the aim of increasing mine production capacity to five million tonnes by 2023. Another of Severstal's key investment is the restoration of volumes at Vorkutaugol mines with the aim of increasing production of coking coal concentrate to approximately 5.6 million tonnes of the product by 2023. Among other significant projects are the construction of a conveyor for run-of-mine transportation at Tsentralniy pit, the redesign of the boiler-house with the aim of switching from oil to peat fuel, an increase in pellet quality through the introduction of lime hydrate at Karelsky Okatysh, and others.

The Company will continue to focus on safety and reducing its environmental footprint in 2019 and boost its investment in these areas. The Company plans to invest a further US\$16.67 million in safety improvement measures (almost half of which will be invested into health and safety initiatives – including digital systems – at Vorkutaugol), and an additional US\$12.5 million in environmental projects.

Karelsky Okatysh. In 2017 and 2018 investments in Karelsky Okatysh were focused on enhancing quality, decreasing costs and renewing machinery and equipment. New excavators, dump trucks and large dumpcarts were obtained to improve operating performance. Dry and wet magnetic separation units were upgraded to increase the volume of processed ore and reduce energy consumption. Work on the second line of the tailings thickening complex was launched, which will eventually significantly decrease electricity costs and reduce water discharges from tailing pits. In 2018, Karelsky Okatysh started extracting a turf pit to reduce fuel oil purchases.

Key objectives in 2019 include cost reduction and the provision of even higher quality products. A number of projects will be implemented to upgrade the fleet, such as re-equipping dump trucks with lightweight bodies and acquiring new drilling rigs. In order to cut heating-related energy costs, the enterprise is implementing a project on the partial switching from fuel oil to turf, as well as projects for the modernisation of raw pelletising and the automatising of the technological part of dressing.

Olcon. In 2017, the Company purchased new large dump trucks at an overall cost of US\$6.5 million, including in order to improve performance and equipment reliability and reduce environmental impact. A new crushing and sorting unit was installed at Olcon, producing high quality gravel for internal usage and supplying to third parties.

In 2018, Olcon continued to work on improving the quality of the concentrate. The high quality of the concentrate made it possible to increase efficiency at the first steel repartition. In addition, an updated strategy of the plant's work up to 2038 was adopted, providing for the development of existing quarries and the opening of new ones. Currently new methods are being introduced into beneficiation technology at Olcon processing plant which should increase iron ore content in the concentrate to 70 percent.

Yakovlevskiy mine. In 2018, a capital expenditure of about US\$21.9 million took place involving the purchasing of 30 units of equipment and the setting up of a ventilation unit for the mines. A health and safety programme was launched, including the establishment of regulations; the publishing of an extended list of personal protective equipment; and the replacement of tools for safer ones during the course of 2019. In 2019, the Yakovlevskiy mine aims to increase iron ore extraction to 2.2 million tonnes, raise staff levels to almost 2,000 people, and carry out an investment programme of more than US\$126 million. Another priority will be to increase the quality of the Yakovlevskiy mine's iron ore.

Vorkutaugol. In 2017 and 2018, capital expenditure amounted to US\$155 million. In 2018, Vorkutaugol completed various significant projects, including in relation to the establishment of a multifunctional security system "Strata" (for which capital expenditure amounted to US\$11.8 million) and the carrying out of a production capacity maintenance programme. In particular, Vorkutaugol purchased new equipment for the assembly of a lava mine of the Zapolyarnaya mine for a total amount of US\$15.5 million, which will allow the carrying out of mining work simultaneously on two fourth layers. In 2019, Vorkutaugol anticipates that it will make investments worth US\$86 million in order to complete large capital construction projects. Vorkutaugol completed a project on ventilation shaft no. 4 at the Zapolyarnaya mine in relation to the mining of the reserves of the Southern block of the mine with the coal grade 2Zh – expenditure amounted to US\$21.4 million. It also completed a project on the commissioning of the inclined conveyor shaft complex at the Vorgashorskaya mine, with a budget of US\$56 million. This was related to the mining of the reserves of the South-West block of the mine with the coal grade 1Zh.

As regards potential large-scale projects after 2019, Vorkutaugol intends to participate in the auction for the acquisition of licences for the 43rd and 53rd new blocks and the implementation of the first stage of geological exploration work for a

total cost of US\$2.6 million. In the event that Vorkutaugol is successful in the auction and achieves good quality and geology indicators after the geological exploration phase, it will be able to produce an additional 19.4 million tonnes of rock mass with a total capital investment until the end of mining block reserves of US\$190 million. This would extend the service life of the Vorgashorskaya mine until 2029.

Employees

The number employees in Severstal Resources increased from 12,444 in 2017 to 13,410 in 2018 (excluding Yakovlevskiy mine with 1,296 employees, which was acquired in December 2017). The reduction in headcount is due to retirement, outsourcing of certain low-qualified work, corporate restructuring and implementation of optimisation programmes. Karelsky Okatysh and Vorkutaugol entered into the collective bargaining agreements which expire at the end of 2019. Karelsky Okatysh and Olcon extended the collective bargaining agreement until 2022. Such agreements are in line with the best practices in the coal industry and provide for compensation and benefits to all employees.

Health, Safety and Environment

The business of mining, particularly underground mining, can be dangerous. All underground mines are hazardous production facilities in compliance with the national regulation. Severstal Resources is required to comply with a range of health and safety laws and regulations, for which the Group has established a significant health, safety and environmental protection system for its mining operations. Each mine has an environmental specialist and a health and safety specialist to focus on compliance with law and the Group's own objectives. Total expenditures on occupational health and safety measures amounted to approximately US\$55.1 million in 2017 and US\$38.8 million in 2018. Expenditures on the implementation of environmental protection measures amounted to approximately US\$27.3 million in 2017 and US\$20.8 million in 2018. Management believes that any injuries, occupational diseases and other operational incidents can be prevented and that all employees of the Group are responsible for preventing such occurrences. The Group's mining operations have experienced significant accidents in the past, including accidents that have resulted in fatalities and disruptions to operations. In particular, on 11 February 2013, there was an accident involving an explosion at the Vorkutinskaya mine that resulted in 19 fatalities. Further, on 25 February 2016, a series of methane explosions at Vorkutaugol's Severnaya mine resulted in the deaths of 30 miners and a further methane explosion occurred on 28 February 2016 during the rescue operation that caused the death of five rescue workers and one miner. The mining operations at Severnaya mine have been suspended since the accident, and Severnaya mine has been sealed off to prevent further underground fires and explosions in the mine. The decision to seal off the mine was made by a commission of Vorkutaugol representatives and Russian authorities and the mine is currently non-operational. The Group intends to extract the Severnaya mine's ore through the adjacent Komsomolskaya mine starting from 2024. Criminal proceedings were initiated by Russian authorities to establish any criminal wrongdoing in connection with the accidents at the Vorkutinskaya and Severnaya mines. The criminal proceedings in relation to Severnaya mine are ongoing, whereas the proceedings relating to Vorkutinskaya mine were discharged due to the expiration of the statutory limitation period. See *"Risk Factors—Risk Factors relating to the Group and the Steel and Mining Industries—The Group's mining operations are subject to hazards and risks that could lead to unexpected production delays, increased costs, damage to property, loss of mining assets and injury or death to persons"*.

In order to prevent any similar accidents in the future the Group has developed and implemented a new multifunctional system, which allows the central control room to: (i) observe and track employees' underground position and employees' real-time position, (ii) monitor harmful gases (methane and carbon oxide) content, (iii) individually provide information to each employee with confirmation of the data receipt, including in connection with emergency situations, and (iv) receive SOS signals from an employee in case of any incidents. In addition, the Group established a combined dust and explosion protection by engaging mechanical rock-dusting machines and installed automatic systems to prevent any methane or coal dust explosion spreading throughout the mine openings.

During the period between 2016 and 2018, 205 work-related lost-time injuries occurred at the Severstal Resources' facilities, 106 of which occurred in 2016, 55 in 2017, 44 in 2018. In the six months ended 30 June 2019, 20 work-related lost time injuries occurred. In the years ended 31 December 2016, 2017, 2018, and six months ended 30 June 2019, Severstal Resources' LTIFR amounted to 5.79, 3.08, 2.21 and 1.85, respectively.

MANAGEMENT

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The annual general meeting of shareholders is the Company's highest governing body and has exclusive powers to take certain decisions by a vote of the shares represented at the meeting. The powers of the Company's shareholders, acting through the general meeting of shareholders, are derived from, and their scope is limited to, the powers set out in the Federal Law dated 26 December 1995 No. 208-FZ "On Joint Stock Companies", as amended (*Federal Law on Joint Stock Companies*), and the Company's charter effective as at the date of this Base Prospectus (*Charter*). Voting at a general meeting of shareholders is generally based on the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which must be done through cumulative voting.

The competence of the general meeting of shareholders includes:

- the introduction of amendments into the Company's Charter or the approval of a new version of the Company's Charter;
- the reorganisation of the Company;
- the liquidation of the Company, appointment of the liquidation commission and approval of intermediate and final liquidation balance sheets;
- the determination of the number of members of the Company's Board of Directors, election of members of the Board of Directors and early termination of their powers;
- the determination of quantity, face value, category (type) of the declared shares and the rights given by these shares;
- the increase of the charter capital of the Company by increasing the face value of shares or by placing additional shares;
- the reduction of the charter capital of the Company by reducing the face value of shares, the repurchase by the Company of a portion of shares with a view of reducing their total number, or the redemption of the shares acquired or repurchased by the Company;
- the formation of the Company's executive body and early termination of its powers;
- the approval of the Company's independent auditor;
- the payment (declaration) of dividends for the results of the first quarter, half year and nine months of the reporting year;
- the distribution of profits, including the payment (declaration) of dividends with the exception of the payment (declaration) of dividends for the results of the first quarter, half year and nine months of the reporting year and distribution of the Company's loss at the end of the reporting year;
- determination of the proceedings of the general meetings of shareholders;
- the splitting and consolidation of the Company's shares;
- the granting of a consent on entering into, or the subsequent approval of, transactions in the cases stipulated by article 83 of the Federal Law on Joint Stock Companies;
- the granting of a consent on entering into, or the subsequent approval of, major transactions in the cases stipulated by article 79 of the Federal Law on Joint Stock Companies;
- acquisition by the Company of placed shares due to the reduction of the charter capital of the Company;
- the decision whether or not to participate in financial and industrial groups, associations and other groupings of commercial entities;
- the approval of internal documents which regulate the operations of the Company's bodies;

- the decision whether or not to submit an application for the delisting of the Company's shares and/or the Company's issuable securities which are convertible into shares; and
- decisions on other matters stipulated by the Federal Law on Joint Stock Companies and the Charter.

The matters referred to the competence of the general meeting of shareholders cannot be resolved by the Company's executive body or the Company's Board of Directors, except for the matters stipulated by the Federal Law on Joint Stock Companies.

Ordinarily, a majority vote of the voting shares present at a general meeting of shareholders is required for a decision of the general meeting of shareholders to be valid, unless otherwise provided by applicable law. However, a three quarter majority vote of the voting shares present at a general meeting of shareholders is required to approve certain decisions.

Issues for which a three quarter majority vote is required include:

- the introduction of amendments into the Charter or the approval of a new version of the Charter;
- the reorganisation of the Company;
- the liquidation of the Company, appointment of the liquidation commission and approval of the interim and final liquidation balance sheets;
- the determination of the quantity, face value and category (type) of the declared shares and the rights given by these shares;
- the consent to the conclusion or subsequent approval of major transactions in the cases stipulated by article 79 of the Federal Law on Joint Stock Companies (which sets out procedures for the approval of major deals);
- the acquisition of placed shares in cases provided for by the Federal Law on Joint Stock Companies;
- decisions relating to the delisting of Severstal's shares and/or Severstal's issuable securities convertible to shares;
- any issue of shares, or securities convertible into shares, by a closed subscription on the basis of the decision of the general meeting of shareholders;
- the increase of the Company's share capital by issuing additional shares, or securities convertible into shares;
- the issue of ordinary shares by means of an open subscription if the shares would constitute over 25.0 percent of the total number of ordinary shares issued prior to such issue;
- the issue of securities convertible into ordinary shares by means of an open subscription if the shares into which the securities would be converted would constitute over 25.0 percent of the total number of ordinary shares issued prior to such issue; and
- the reduction of the Company's share capital by way of a reduction of the face value of the Company's shares.

A quorum for a general meeting of shareholders of the Company is achieved if the holders of more than 50.0 percent of the issued outstanding voting shares are attending in person or by proxy. If a 50.0 percent quorum is not achieved, the quorum shall be at least the holders of 30.0 percent of the issued outstanding voting shares attend (in person or by proxy) a meeting duly reconvened to consider the same agenda.

The annual general meeting of shareholders must be convened by the Board of Directors between 1 March and 30 June of each year, and the agenda must include the following items:

- election of the members of the Board of Directors;
- the distribution of profits (announcement of dividends) and losses for the results of the financial year; and
- the appointment of an independent auditor.

A shareholder owning, individually or collectively with other shareholders, at least 2.0 percent of the issued voting shares may propose items for the agenda of the annual general meeting of shareholders and may nominate candidates to the

Board of Directors pursuant to the Charter of the Company. Any agenda items or nominations must be submitted to the Company no later than 60 calendar days after the end of the financial year.

An extraordinary general meeting of shareholders may be convened by the Board of Directors on its own motion or at the request of the independent auditor or any shareholder owning, individually or collectively with other shareholders, at least 10.0 percent of the issued voting shares at the date of the request.

A general meeting of shareholders may be held in person or by absentee ballot. A general meeting of shareholders held in person involves the adoption of resolutions by the general meeting of shareholders through the personal attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues on the agenda, provided that if the ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the Company without personally attending the meeting. A general meeting of shareholders held by absentee ballot involves the determination of shareholders' opinions on the issues on the agenda by means of a written poll.

Information and communication technologies may be used at the general meeting of shareholders in the format of a meeting (joint attendance of shareholders to discuss items of the agenda and make decisions on the issues put to a vote) if technically feasible. This allows for the remote participation of shareholders to the general meeting who can discuss agenda items and make decisions on the issues put to a vote, without being physically present in the location of the general meeting of shareholders.

If technically feasible, the persons entitled to participate in a general meeting of shareholders may also fill out voting ballots electronically on the website in the information and telecommunication network "Internet", whose address is indicated in the general meeting of shareholders notice. Shareholders may fill out the electronic form on the website for the general meeting of shareholders if they did not exercise their right to participate in the meeting in any other way.

The possibility of remote participation in the general meeting of shareholders and the use of electronic ballot papers at the site in the information and telecommunication network "Internet" are determined by the Company's Board of Directors as matters related to the preparations for the general meeting of shareholders. The website address in the information and communication network "Internet", on which shareholders may be logged in to participate in the general meeting of shareholders and use electronic ballot papers, is determined by the Company's Board of Directors and shall be specified in the general meeting of shareholders notice.

The following issues cannot be decided by absentee ballot:

- the election of members of the Board of Directors; and
- the appointment of an independent auditor.

Notice and Participation

According to the Company's Charter, the notice on holding the general meeting of shareholders shall be made available no later than 30 days prior to the date of the meeting. If the agenda of the extraordinary general meeting of shareholders contains an item on the election of the Company's Board of Directors, the notice on holding the General meeting of shareholders shall be made available no later than 50 days prior to the date of the meeting. According to the Company's Charter, the notice to the shareholders is to be posted on the Company's official website (www.severstal.com).

The list of persons entitled to participate in a general meeting of shareholders is to be compiled on the basis of the data in the Company's share register on the date determined by the Board of Directors. The list of persons entitled to participate in a general meeting of shareholders may not be compiled earlier than 10 days of the date of adoption of the Board resolution to hold such meeting and may not be more than 25 days before the date of the general meeting of shareholders or, in the case of an extraordinary general meeting of shareholders to elect the Board of Directors, 55 days before the date of the general meeting of shareholders. Generally, the right to participate in a general meeting of shareholders may be exercised by a shareholder as follows:

- by personal attendance;
- by proxy;
- by absentee ballot; or
- by delegating the right to vote using the absentee ballot to a duly authorised representative.

Ballots for voting on items on the general meeting of shareholders agenda should be forwarded to the Company's shareholders by registered mail no later than 20 days before the general meeting of shareholders.

As required by applicable Russian law, the resolutions passed at the general meeting of shareholders and the voting results may be announced at the general meeting of shareholders at which the voting was carried out, and should be made available to shareholders in the form of a Voting Results Report within four business days from the date of the general meeting of shareholders. The Company discloses the resolutions passed at the general meeting of shareholders in the form of Corporate Action Notice as required by applicable laws.

BOARD OF DIRECTORS

The Company's Board of Directors is responsible for the review and approval of its strategy and business model, and closely monitoring its financial and business operations both by segment and as a whole. The Board of Directors is also responsible for approval of annual, half-year and quarterly results, the issue of any securities, establishing dividend policy and recommendation of dividends. It is also responsible for establishing Company's risk management, system of internal control, governance, monitoring executive performance and succession planning. The Board reviews standards of ethics and policy in relation to health, safety, environment, social and community obligations. The responsibilities of the Board of Directors are listed in the Company's Charter.

The Board of Directors is authorised to deal with matters relating to the most important aspects of the Company's activity, except for those which are resolved by the general meeting of shareholders.

All members of the Board of Directors must be individuals. Members of the Board of Directors shall:

- act in good faith and in a responsible manner in the interest of all shareholders and the Company as a whole;
- have the necessary professional skills;
- devote sufficient attention to the performance of their duties as members of the Board of Directors;
- stop representing interests of any groups of persons in any way related to the Company after their election and act only in the best interest of all shareholders and the Company as a whole; and
- disclose in good faith all information on any potential interest in any transactions, effected by the Company.

The Members of the Board of Directors are elected by the Company's shareholders through cumulative voting at the general meeting of shareholders.

Key responsibilities of the Board of Directors include:

- strategic direction of the Company;
- issues relating to calling and holding the general meeting of shareholders, other than in certain cases provided by the Federal Law on Joint Stock Companies;
- placement of the Company's additional shares, bonds and other issued securities other than cases reserved for the exclusive competence of the general meeting of shareholders;
- approval of the price (estimated value) of assets, the price of placement or procedure for its determination and redemption of issued securities;
- acquisition of shares placed by the Company, bonds and other securities other than cases reserved for the exclusive competence of the general meeting of shareholders;
- formation of Board committees and approval of internal documents regulating Board committees' activity and insider relations;
- determination of principles and approaches to the Company's risk management, internal control and audit, and approval of internal documents regulating governance risk and internal controls;
- determination of fees to be paid to independent auditor;

- recommendation on the amount of dividends to be paid and the procedure for the payment thereof;
- use of the emergency fund and other funds of the Company;
- approval of the Company's Corporate Governance Code and internal documents regulating Board committees' activity and insider relations;
- approval of the annual report, annual accounting (financial) statements of the Company;
- opening of the Company's branches and representative offices and their liquidation;
- approval of major transactions and transactions with interested parties as required by applicable law;
- approval of the Company's registrar and contract relations with it;
- approval of transactions with an amount exceeding 10 percent of the book value of the Company assets on the date such transactions are agreed;
- approval of transactions to acquire: (i) shares or participation interests, or rights to manage such shares or participation interests, (ii) fixed or intangible assets if the amount of the transaction specified in sub-clauses (i) or (ii) exceeds the equivalent of US\$500 million;
- review of the consolidated budget and submission of appropriate recommendations;
- review of the appointment and compensation policy applicable to the Company's senior executives and the recommendations regarding such policy;
- submitting an application for listing of the Company's shares and (or) issuable securities convertible to shares;
- determining the Company's opinion as participant on the meeting of subsidiary company; and
- other matters provided for by Russian law and the Company's Charter.

The Board of Directors consists of 10 persons, including: five Independent Directors (Sakari Tamminen, Alun Bowen, Philip Dayer, Vladimir Mau and Aleksandr Auzan), one Non-Executive Director (Alexey Mordashov) and four Executive Directors Aleksandr Shevelev, Alexey Kulichenko, Andrey Mityukov, Agnes Ritter). The ratio of Independent Directors to the total number of members of the Board of Directors guarantees equal protection of interests of all shareholders.

Alexey Mordashov was elected Chairman of the Board of Directors at a Board meeting on 14 September 2018 while Sakari Tamminen was appointed Senior Independent Director and Chairman of the Remuneration and Nomination Committee. Alun Bowen, an Independent Director, was elected Chairman of the Audit Committee and Philip Dayer, an Independent Director, was elected Chairman of the Health, Safety and Environmental Committee.

The Board reviews the independence of all Independent Directors annually, and has determined that all such directors are independent, in line with the UK Corporate Governance Code and have no cross-directorships or significant links, which could materially interfere with them exercising their independent judgment. The Company's Independent Directors play a leading role in corporate accountability and governance through their membership and participation in the Board's committees.

New directors to the Board of Directors participate in an induction programme when they take office. This presents details of the Company's operations and procedures as well as information on what is required from them in their role according to the Company's internal corporate documents. This includes the Company's Charter, Corporate Governance Code and other internal corporate documents, applicable corporate governance law, and descriptions of best practice to help ensure their early effective contribution to the Company.

The Board of Directors' activity is regulated under the applicable Russian law, the Company's Charter and Regulations for the Board of Directors.

The business address to contact each member of the Board of Directors is Ulitsa Mira 30, Cherepovets, Vologda Region, 162608, Russia and the telephone number is +7 8202 53 09 00. As at 31 December 2018, the active membership of the Board of Directors is as follows:

Name	Year of Birth	Current position/biography and outside memberships	Since
Alexey A. Mordashov	1965	<p>Chairman of the Board of Directors, Member of the Health, Safety and Environmental Committee.</p> <p>Alexey Mordashov has been working for Severstal since 1988. He started his career as a Senior Economist, becoming Chief Financial Officer in 1992. In December 1996, he was appointed as Severstal's Chief Executive Officer. Between 2002 and 2006, he served as Chief Executive Officer of Severstal Group and was Chairman of Severstal's Board of Directors. Between December 2006 and December 2014, Mr. Mordashov was Chief Executive Officer of Severstal. From December 2014 until May 2015, Mr. Mordashov served as CEO of AO Severstal Management, the managing company of PAO Severstal. Mr. Mordashov was elected Chairman of the Board of Directors of PAO Severstal in May 2015.</p> <p>Mr. Mordashov earned his undergraduate degree from the Leningrad Institute of Engineering and Economics. He also holds an MBA degree from Business School of Northumbria University (Newcastle, UK). Mr. Mordashov was granted an honorary doctorate from the Saint-Petersburg State University of Engineering and Economics in 2001 and from the University of Northumbria, UK in 2003.</p> <p>Mr. Mordashov's outside activities include the following:</p> <ul style="list-style-type: none"> – Member of the Supervisory Board (since June 2010) of the Non-Profit Partnership Consortium Russian Steel (currently – Association Russian Steel), President of the Non-Profit Partnership Consortium "Russian Steel" (from 2013 to 2015), and from 2016 to 2017 – Chairman of the Supervisory Board; – Member of the Executive Committee of the World Steel Association headquartered in Brussels, Belgium. Prior to that Chairman (from 2012 to 2013) and Vice-Chairman (from 2013 to 2015) of World Steel Association; – Head of the Russian Union of Industrialists and Entrepreneurs' (RSPP) Committee on Integration, Trade and Customs Policy and WTO; – Co-Chairman of the Northern Dimension Business Council; – Vice-President of the Russian-German chamber of commerce and member of the Russian-German workgroup responsible for strategic economic and finance issues; – Chairman of the Board of PAO Power Machines; – Member of the Board of Directors of Nordgold S.E.; – Chairman of the Board of Directors of Lenta Ltd; – Member of the Board of Directors of TUI AG; and – Member of the Strategic Council for Investments in New Industries under the direction of the Minister for Trade Industry of the Russian Federation. 	1996
Aleksandr A. Shevelev	1974	<p>CEO of AO Severstal Management,</p> <p>Member of the Health, Safety and Environment Committee</p> <p>Aleksandr Shevelev started his career at the Cherepovets Steel Mill as a repairman in the repair-tool shop in 1997. He later worked as a shift foreman, lead economist, deputy head of strategic planning department and head of the production development department at the OAO Cherepovets Steel Mill. From 2002 to 2004, he worked as a Technical Support Director of the Cherepovets Steel Mill. In 2012 Mr. Shevelev became executive director of the Cherepovets Steel Mill (currently Severstal-Metiz). From 1 July 2012, he was appointed First Deputy Mayor of Cherepovets and in June 2013, Deputy Governor of the Vologda region. From July 2013 to March 2016, he was CEO of Severstal-Metiz. From April 2016 to December 2016, he was CEO of SVEZA Group. In December 2016, Mr. Shevelev was appointed CEO of and elected to the Board of Directors of Severstal Management.</p>	2016

Mr. Shevelev graduated from the Vologda National Economic Academy with a degree in Mechanical Engineering and from the National Technical University in St. Petersburg where he obtained a masters in economics and management. Mr. Shevelev also holds an MBA degree from the Northumbria Business School (Newcastle, UK).

Mr. Shevelev does not carry out any outside activities.

Alexey G. Kulichenko	1974	CFO of Severstal Management.	2009
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Between 1996 and 2003 Alexey Kulichenko worked for Sun Interbrew, starting his career there as a cash flow economist at the Rosar plant in Omsk and ending it as Efficiency Planning and Managing Director of Sun Interbrew. Between 2003 and 2005 Mr. Kulichenko worked as CFO at Unimilk. From December 2005 to July 2009, he worked as CFO of Severstal Resource. In July 2009, Alexey Kulichenko was appointed CFO of OAO Severstal. From 8 November 2016 till 11 December 2016 he was CEO of Severstal Management.

Mr. Kulichenko graduated from the Omsk Institute of World Economy with a degree in Economics.

Mr. Kulichenko is also a Non-executive Director of Lenta Ltd.

Andrey A. Mityukov	1967	Senior Vice President of Human Resources and Business System of LLC Severgroup	2017
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Andrey Mityukov held various HR management positions at the Henkel-Russia plant from 1997 to 2000. In 2000, he worked at Sun Interbrew as Human Resources Director at the Povolzhye plant and from 2001 as Regional Human Resources Director. In 2003, Mr. Mityukov joined Severstal Group as Human Resources Director of Sveza. From 2005 to 2015, he held the role of Senior Vice President Human Resources at Severstal.

In 1988, Mr. Mityukov graduated from the Leningrad PVO Military Political Academy. In 2001-2002 he studied Human Resources Management under a joint programme run by the Higher School of Economics (Moscow) and Harvard University. In 2012, he studied at the European Institute of Business Administration (INSEAD) under the "Strategy for HR leaders" programme.

Mr. Mityukov does not carry out any outside activities.

Agnes A. Ritter	1982	Chief Technical Officer at Severstal Management, member of the Health, Safety and Environmental Committee	2018
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Before joining Severstal, Agnes Ritter worked as a consultant for The Boston Consulting Group (BCG) and worked in operational and organisational efficiency in the heavy and oil industries. Mrs. Ritter joined Severstal in 2010. From 2010 to 2013 she was Head of Production at Severstal Resources. In September 2013, she was appointed Director of Production at AO Severstal Management. In September 2018, she was elected to the Board of Directors of Severstal.

Mrs. Ritter graduated in Vienna, Austria with a degree in sales and marketing, and then furthered her studies at the College of Europe. In 2013, she studied TGM (transition to general management) at European Institute of Business Administration (INSEAD), Fontainebleau and Singapore.

Mrs. Ritter does not carry out any outside activities.

Veikko Sakari Tamminen	1953	Senior Independent Director, Chairman of the Remuneration and Nomination Committee, Member of the Audit Committee	2015
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Sakari Tamminen has extensive relevant experience at Board level within steel and metals companies, including being the President and CEO of the Finnish steel and metal construction company Rautaruukki Corporation from 2003 to 2014. Mr. Tamminen is currently a member of the Board at steel company Ovako Ab and has been the Vice Chairman of the Board of Sanoma Corporation from 2002 to 2013. Mr. Tamminen has held a board membership in Danske Bank plc. from 2014 to 2017. Mr. Tamminen is Chairman of the Board of Directors of Versowood Oy and M.J.Paasikivi Oy. He has also held roles as Executive Vice President and CFO of Metso Corporation (1999–2003) and Rauma Corporation Plc (1991–1999).

Mr. Tamminen studied at Tampere University. He holds a degree of Master of Science (Economics).

Mr. Tamminen's outside activities include the following:

- Member of the Board of Directors of Ovako Ab;
- Chairman of the Board of Directors of Versowood Oy; and
- Chairman of the Board of Directors of M.J. Paasikivi Oy.

David Alun Bowen	1955	Independent Non-Executive Director, Chairman of the Audit Committee, Member of the Remuneration and Nomination Committee	2014
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David Alun Bowen spent almost 37 years working for KPMG in London, Sydney, Cardiff, Hong Kong and Kazakhstan. He has extensive relevant experience both at Board level and in advisory roles. Having joined Peat, Marwick & Mitchell & Co (subsequently KPMG) in 1976, he was appointed a partner in 1988, and subsequently managed a number of practice areas including as Managing Partner of KPMG Kazakhstan from 2008 to 2013. He was a member of the audit committees of The Institute of Chartered Accountants in England and Wales (2004 to 2007), Business in the Community (2003 to 2005) and The Prince's Trust (2001 to 2007). From 2014 till 2017, Mr. Bowen was a member of the Supervisory Board of JSC Eurasian Bank.

Mr. Bowen holds a Master of Arts degree from Trinity College, Cambridge, where he studied Metallurgy and Materials Science, and he is a Fellow of the Institute of Chartered Accountants in England and Wales.

Mr. Bowen's outside activities include the following:

- Non-Executive Director, Chairman of the Risk and Conduct Committee and member of the Audit Committee of Julian Hodge Bank Limited;
- Non-Executive Director, Chairman of the Risk and Conduct Committee and member of the Audit Committee of Hodge Life Assurance Company Limited;
- Non-Executive Director, Chairman of the Risk and Conduct Committee and member of the Audit Committee of Hodge Limited; and
- Trustee and Director of the Jane Hodge Foundation.

Philip John Dayer	1951	Independent Non-Executive Director, Chairman of the Health, Safety and Environmental Committee, Member of the Remuneration and Nomination Committee.	2014
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Philip Dayer has extensive experience in advising international companies, including in the CIS. Mr. Dayer sits on the Board of several listed companies in the energy, software and financial services sectors. Mr. Dayer qualified as a Chartered Accountant and pursued a corporate finance career in investment banking providing capital markets advice, including on mergers and acquisition transactions and flotations. Over the past five years he has also held Non-Executive Directorships at Hurricane Exploration plc, Cadogan Petroleum plc, Dana Petroleum plc, Arden Partners plc, Navigators Underwriting Agency Limited, IP Plus plc and AVEVA Group plc.

Mr. Dayer graduated from King's College London in law and he is a Fellow of the Institute of Chartered Accountants in England and Wales.

Mr. Dayer's outside activities include the following:

- Non-Executive Director, Chairman of the Audit Committee and member of the Remuneration Committee of JSC VTB Capital Holding;
- Chairman of the Board of Directors and member of the Remuneration Committee of VTB Capital plc; and
- Independent Director, Chairman of the Audit Committee, Chairman of the Health, Safety, Environment and Sustainable Development Committee, member of the Strategy and Innovations Committee, member of the Nomination and Remuneration Committee, member of the Finance Committee of JSC National Company KazMunayGas;
- Non-Executive Director and Chairman of the Audit Committee of The Parkmead Group plc.

Vladimir A. 1959 Independent Non-Executive Director, 2015
Mau

Member of the Audit Committee

Vladimir Mau is an honoured Russian economist. Since 1991 he participated in the economic reforms in Russia, including working as Advisor to the Chairman of the Russian Government from 1992 to 1993. From 1997 through 2002 Mr. Mau was the Head of the Working Center for Economic Reforms of the Russian Government. In 2002 he became the Rector of the Academy of National Economy of the Russian Government (ANE), and since September 2010 he has been the Rector of the Russian Presidential Academy of National Economy and Public Administration (RANEPA).

Mr. Mau is a Doctor of Economics, Professor, PhD (Université Pierre Mendes France), Honoured Economist of the Russian Federation. Mr. Mau graduated from the Moscow Institute of National Economy in 1981.

Mr. Mau's outside activities include the following:

- Independent member of the Supervisory Board, Chairman of the Audit Committee, member of the Nomination and Remuneration Committee, Deputy Chairman of the Supervisory Board of Sberbank of Russia;
- Member of the Trustees Board of Yegor Gaidar Foundation;
- Member of the Board of Directors, member of the Audit Committee, member of the Nomination and Remuneration Committee of PAO Gazprom;
- Member of the Board of Directors, member of the Committee for Corporate Governance, nominations and remunerations of PAO TRANSCAPITALBANK;
- Member of the Management Board of Foundation for Social and Economic Research and Education;
- Member of the Board at the Centre for Strategic Development Foundation; and
- Chairman and member of the Board of Directors of AO Academia Prosvescheniye Foundation.

Aleksandr A. 1954 Independent Non-Executive Director, 2015
Auzan

Member of the Health, Safety and Environmental Committee

Aleksandr Auzan is Dean of the Faculty of Economics at Lomonosov Moscow State University, a professor, and the founder of the National Projects Institute. He is one of Russia's leading economists. In the late 1980s, he took part in the establishment of consumer protection associations and has been a Member of the Executive Bureau of the Council of Consumers International (Worldwide Consumers Association). In 2005–2011 he was President of the Association of Russian Economic Think Tanks (ARETT). Mr. Auzan was also a member of the President's Commission for the Modernisation and Technological Development of the Russian Economy and the President's Council for the Development of Civil Society and Human Rights. He is currently a member of the Presidential Economic Council. He has written numerous papers on the Modernisation of Russia, national values and the dynamics of the social contract. His work involves economic and development consulting for national and regional governments, including his participation in the development of the "Strategy-2020" for Russia in 2011–2012. In 2015 he headed the working group on the preparation of proposals for the structure, direction, resource provision and plan for the social and economic development strategy of Russia up to 2030.

Mr. Auzan graduated from Moscow State University and holds a PhD in Economics.

Mr. Auzan's outside activities include the following:

- Independent Director and member of the Strategic Planning Committee of AO RVK;
- Senior Independent Director of PAO Rostelecom; and
- Member of the Board of Directors of OOO VEB Innovations.

There are no current or potential conflicts between the private interests and duties of the members of the Board of Directors or the Chief Executive Officer and the duties of those officers to the Company.

In the previous five years, no member of the Board of Directors has been convicted of any fraudulent offence; served as a director, partner, founder or senior manager of any organisation that has been the subject of any bankruptcies, receiverships or liquidations; was subject to any official public incrimination or sanctions by statutory or regulatory authorities, including designated professional bodies, or has been disqualified by a court from acting as a director of an issuer or from acting in the management or conduct of the affairs of any issuer.

Company's Board of Directors includes the following committees:

- the Audit Committee;
- the Remuneration and Nomination Committee; and
- the Health, Safety and Environmental Committee.

The Board Committees serve as consultative and advisory bodies that deal with issues raised by the Board of Directors. The Committees are also responsible for the preliminary study of various issues to be considered at meetings of the Board of Directors. Committees may not act on behalf of the Board and are not considered to be management bodies of the Company. They have no powers in relation to managing the Company.

Committee meetings are held as and when required with respect to issues raised by the Board of Directors that require preliminary analysis before further approval by the Board of Directors. They are held separate from the Board meetings so that extra attention can be given to discussing issues which actually require preliminary Board consideration prior to approval by the Board of Directors members, and ultimately the Board of Directors' approval.

Decisions of each Committee are taken by a majority vote of all Committee members taking part in the meeting. Each member has one vote and the Committee Chairman has no casting vote in the event of a tie.

AUDIT COMMITTEE

The Audit Committee assists the Board of Directors in monitoring the Company's risk management processes and control environment, and in reviewing the Company's annual and quarterly financial statements and audit.

The Audit Committee consists of three Independent Non-Executive Directors. Currently they are:

- Alun Bowen (Chairman),
- Sakari Tamminen, and
- Vladimir Mau.

The Audit Committee has sufficient recent relevant financial experience, as well as the overall skills required for financial statements, business risk analysis and financial management. No senior executive of the Company can be a member of the Audit Committee.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee's role is to help the Company engage qualified professionals to manage the Company, and create the incentives necessary to ensure their successful work for the Company. It also reviews remuneration and compensation for the Company's senior managers and Independent Board members.

The Remuneration and Nomination Committee consists of three Independent Non-Executive Directors. Currently they are:

- Sakari Tamminen (Chairman);
- Philip Dayer; and
- Alun Bowen.

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

The Health, Safety and Environmental Committee is responsible for assisting the Board of Directors in obtaining assurance that appropriate systems are in place to deal with the management of health, safety and environmental risks.

The functions of the Health, Safety and Environmental Committee include:

- advising the Board of Directors on safety policy and the establishment of safety procedures including the reporting system to the Company's executive body and through the executive body to the Board of Directors;
- reviewing the safety performance of the Company and its constituent parts against targets as established either by the Company's Board of Directors or its executive body;
- reviewing major safety incidents and advise on lessons learnt and/or sanctions to be applied;
- initiating and reviewing comparisons with best safety and environmental practice;
- advising the Board of Directors on environmental policies, the establishment of procedures and practices and the reporting system on environmental performance to the Company's executive body and through the executive body to the Board of Directors;
- reviewing the environmental performance of the Company and its constituent parts against targets as established by the Board of Directors or its executive body, as well as compliance with legal obligations or objectives and restrictions set by the authorities; and
- reviewing major environmental incidents or breaches of compliance and advise on lessons learnt and/or sanctions to be applied.

The Health, Safety and Environmental Committee currently consists of:

- Philip Dayer (Chairman);
- Alexey Mordashov;
- Aleksandr Shevelev;
- Agnes Ritter; and
- Alexander Auzan.

Details of the abovementioned Committee members can be found in their biographies.

SOLE EXECUTIVE BODY

The authority of the Company's Sole Executive Body is exercised by the Chief Executive Officer / General Director of the Company.

Following the resolution of the Company's shareholders dated 10 September 2014, the powers and responsibilities of Severstal's CEO were transferred to the managing company, Severstal Management, with effect from 1 January 2015. This change was in line with the Company's stated strategic focus of optimising its management structure and further enhancing management efficiency and transparency. Severstal Management achieved this by reducing management layers, centralising certain administrative functions and removing work duplication.

The managing company has the authority to manage all issues in the Company's current operations, except for those issues specifically reserved for the Company's general meeting of shareholders and the Board of Directors.

Alexander Shevelev was appointed CEO of Severstal Management with effect from 12 December 2016.

EXTERNAL AUDITORS

KPMG conducts the statutory audit of the Company's standalone accounts produced under Russian Accounting Standards. The appointment of KPMG as the statutory auditors of the Company is approved by the annual general meeting of shareholders.

An external auditor is appointed annually by the general meeting of shareholders. The external auditor's role is to review the Company's financial and reporting performance. The auditor's fee is subject to approval by the Board.

Full name of the audit firm:	KPMG
Location (legal address):	16, Olympiysky prospect, building 5, floor 3, office I, room 24e, Moscow 129110
Postal address:	10, Presnenskaya Naberezhnaya, Block C, floor 31, Moscow 123112
State registration:	Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585 Included in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.
Membership in a self-regulating auditors' organisation:	Member of the Self-regulated organisation of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203
Taxpayer Identification Number	7702019950

Audits of the Company's financial and reporting performance are conducted on the basis of the Company's annual results, but may also be carried out at any time at the resolution of the general meeting of shareholders, the Board of Directors or any shareholder owning a total of at least 10 percent of the Company's voting shares.

COMPENSATION OF SENIOR MANAGERS, EXECUTIVE OFFICERS AND DIRECTORS

Key management's remuneration for the year ended 31 December 2018, consisting of salaries and bonuses, totalled US\$11 million (2017: US\$11 million). Additionally, in 2018, a provision for key management's long-term cash-settled share-based incentive programmes of US\$4 million was accrued (2017: US\$1 million). This provision is subject to further adjustments, dependent on a range of the Group's financial and non-financial indicators.

Upon a decision of the general meeting of shareholders, the remuneration may be paid to members of the Company's Board of Directors during execution of their duties and/or by way of compensation of their expenses connected to their functions as members of the Company's Board of Directors. The amount of such a remuneration and/or compensation is established by the decision of the general meeting of shareholders.

PRINCIPAL SHAREHOLDERS

The table below sets out certain information regarding the ownership of the Company as at 30 June 2019 according to the Company's share register:

Shareholder	Percentage of shares
ASTROSHINE LIMITED	16.35
ASTROSHINE INVESTMENTS LIMITED	5.00
RAYGLOW LIMITED.....	18.15
LORANEL LIMITED	21.35
PEARLGREEN LIMITED	15.99
Other persons ⁽¹⁾	23.16
Total	100.0

Note:

(1) Includes, among others, holders of the Company's shares in the form of Global Depositary Receipts admitted to trading on the regulated main market of the London Stock Exchange.

As at 30 June 2019, approximately 77.02 percent of the Company's share capital was indirectly controlled by Alexey Mordashov, Chairman of the Board of Directors.

RELATED PARTY TRANSACTIONS

The following is a summary of the Group's most significant transactions with related parties for the six months ended 30 June 2019 and for the years ended 31 December 2018, 2017 and 2016. For further details of these transactions, see Note 12 to the Annual Financial Statements for the years ended 31 December 2018, 2017 and 2016 and Note 4 of the Interim Financial Statements for the six months ended 30 June 2019 and 2018.

In the ordinary course of its business, the Group has engaged, and continues to engage, in transactions with parties that are under common control with the Group or that are otherwise related parties to the Group. Transactions with entities under common control with the Group constitute transactions with parties that have the same beneficial owners as the Company, or who are also members of the Board of Directors. See "Principal Shareholders". Other than the transactions with entities under common control described herein, the Group did not engage in any transactions with members of its Board of Directors during the period under review.

The Group has transactions with related parties in respect of revenue, purchases, financing and other types of transactions. Because of the varying ownership percentages of its Majority Shareholder in such related parties, as well as other factors, there may be incentives for transactions between the Group and its related parties to be effected on other than arm's length basis, which could result in subsidies or other transfers of value and could have a material adverse effect on the Group's business, results of operations and financial condition.

REVENUE

As disclosed in the Interim Financial Statements, the Group's revenue from related parties totalled US\$78 million for the six months ended 30 June 2019. As disclosed in the Annual Financial Statements, the Group's revenue from related parties totalled US\$144 million, US\$122 million and US\$104 million for the years ended 31 December 2018, 2017 and 2016, respectively.

Revenue from associates and joint ventures amounted to US\$56 million in the six months ended 30 June 2019 and US\$111 million, US\$98 million and US\$71 million for the years ended 31 December 2018, 2017 and 2016, respectively, and mainly comprised revenue of the Severstal Russian Steel segment from JSC Air Liquide Severstal, Severstal-Gonvarri-Kaluga LLC and Rutgers Severtar LLC.

Revenue from other related parties amounted to US\$22 million in the six months ended 30 June 2019 and US\$33 million, US\$24 million and US\$33 million for the years ended 31 December 2018, 2017 and 2016, respectively, and mainly comprised revenue of the Severstal Russian Steel segment.

JSC Air Liquide Severstal, an associate of the Group, is an industrial gas producer with a production capacity of 5,000 kg/h of liquid oxygen. Severstal has a 25.0 percent ownership plus one share in Air Liquide Severstal, which was established jointly with Air Liquide. Air Liquide Severstal has been set up within the Cherepovets steel complex in the Vologda region, Russia.

Severstal-Gonvarri-Kaluga LLC is designed to produce 170,000 tonnes of rolled metal products per year for the automotive and electrical industries.

Rutgers Severtar LLC, a joint venture with Rutgers, based at the Cherepovets Steel Mill plant, produces vacuum pitch, technical oils and naphthalene.

Such transactions were undertaken as part of divisions' normal business operations and are expected to continue in the foreseeable future.

PURCHASES

As disclosed in the Interim Financial Statements for the six months ended 30 June 2019 and 2018, the Group's purchases from related parties amounted US\$64 million for the six months ended 30 June 2019. As disclosed in the Annual Financial Statements, the Group's purchases from related parties totalled US\$124 million, US\$114 million and US\$89 million for the years ended 31 December 2018, 2017 and 2016, respectively.

The main part of the Group's purchases is represented by purchases from associates and joint ventures totalling US\$34 million for the six months ended 30 June 2019 and US\$69 million, US\$76 million and US\$60 million for the years ended 31 December 2018, 2017 and 2016, respectively, and mainly comprised purchases by the Severstal Russian Steel segment from Air Liquide Severstal.

Such transactions were undertaken as part of divisions' normal business operations and are expected to continue in the foreseeable future.

FINANCING

The Group's cash flows have been used, from time to time, to finance the development of various companies.

For the six months ended 30 June 2019 the Group's interest income from related parties is not significant.

As disclosed in the Annual Financial Statements, the Group's interest income from related parties totalled US\$1 million, US\$3 million and US\$14 million for the years ended 31 December 2018, 2017 and 2016, respectively. In 2016, interest income from related parties was mainly received on deposits placed to the related party bank JSC Metcombank. Starting from October 2016, JSC Metcombank is no longer a related party to the Group.

ADDITIONAL INFORMATION

For additional information and certain financial statement amounts with respect to various related party transactions for the six months ended 30 June 2019 and 2018 and the balances as of those dates, refer to the corresponding parts of the Interim Financial Statements for the six months ended 30 June 2019 and 2018, and in particular the following:

Consolidated interim condensed income statements

Consolidated interim condensed statements of financial position

Notes to the consolidated interim condensed financial statements:

Note 4—Related party transactions

Note 5—Related party balances

For relevant disclosures for the years ended 31 December 2018, 2017 and 2016 and the balances as at such date, refer to the following parts of the Annual Financial Statements for the years ended 31 December 2018, 2017 and 2016:

Consolidated income statements

Consolidated statements of financial position

Notes to the consolidated financial statements:

Note 12—Related party transactions

Note 13—Related party balances

Note 20—Investments in associates and joint ventures

Note 29—Subsidiaries, associates and joint ventures

REGULATORY MATTERS

REGULATION OF THE STEEL AND MINING INDUSTRIES IN RUSSIA

Russia has not enacted any specific legislation governing the operation of the steel industry and the business of steel manufacturing companies. The production, sale and distribution of steel in the Russian Federation is regulated by general civil legislation and administrative and special legislation relating to quality standards, industrial safety, environmental, employment and other rules.

The Ministry of Industry and Trade of the Russian Federation on 5 May 2014 approved the “Strategy for Development of Ferrous Metal Manufacturing Industry of the Russian Federation for the Period from 2014 until 2020 and until 2030” and the “Strategy for Development of Non-Ferrous Metal Manufacturing Industry of the Russian Federation for the Period from 2014 until 2020 and until 2030” (the *Strategies*). The Strategies supersede the “Strategy for Development of Metal Manufacturing Industry of the Russian Federation for the Period until 2020” dated 18 March 2009. The Strategies, *inter alia*, outlined the key trends and factors relevant for the development of national ferrous and non-ferrous metallurgy, set out four stages of development of the Russian metallurgy (2014-2016, 2017-2020, 2021-2025 and 2026-2030) and determined that promotion of investments and development of innovation technologies would be the state priorities in the sphere of metal manufacturing industry. Other targets for development of Russian steel industry (including, among others, import substitution, promotion of internal demand for metal products and protection of Russian exporters on foreign markets) are set out in the Programme “Metal Manufacturing Industry” of the State Programme for Development of Industry and Increase of Its Competitive Abilities approved by the Government of the Russian Federation on 15 April 2014, as well as the Industrial Plan of Measures for Import Substitution in Ferrous Metal Manufacturing Industry and the Industrial Plan of Measures for Import Substitution in Non-Ferrous Metal Manufacturing Industry both approved by the Ministry of Industry and Trade of the Russian Federation on 31 March 2015.

The Federal Law “On Technical Regulation” No. 184-FZ dated 27 December 2002, as amended (the *Technical Regulation Law*), established rules relating to the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation.

Under the Technical Regulation Law, technical rules and regulations relating to industrial safety and environmental protection can be enacted only by treaties to which the Russian Federation is a party, decrees of the Russian president, resolutions of the Russian Government and by-laws adopted by state authorities responsible for technical regulation.

In those cases where the Technical Regulation Law provides for mandatory confirmation of product conformity to the established technical regulations (standards), companies are obliged to obtain certificates of compliance evidencing that their products meet the requirements of technical regulations, standardisation documents, codes of practice or terms and conditions of contracts. Where Russian laws and regulations relating to industrial safety provide for the mandatory issuance of permits to use technical equipment at hazardous production facilities, companies are obliged to obtain the required permits which prove that their products meet the relevant industrial safety requirements. Where certification is not mandatory, a company may elect voluntary certification by applying for a compliance certificate from the relevant authorities. Following the issuance of that certificate, the applicant has the right to use the relevant compliance mark on its products.

Federal, Regional and Local Regulatory Authorities Governing the Steel Industry

At the federal level, regulatory authority over the steel industry is divided primarily between the Ministry of Industry and Trade and the Ministry of Natural Resources and Ecology. The Ministry of Industry and Trade is responsible for the development of governmental policy in, and regulation of, the industry. In addition, it regulates certain aspects of Russian exports and imports of steel products. The Ministry of Natural Resources and Ecology is responsible for the development of governmental policy and regulation in the sphere of natural resources, including subsoil. Particularly, the Ministry of Natural Resources and Ecology passes regulations, *inter alia*, setting safety requirements to the process of exploration, development of natural resources, the order of re-issuance and transfer of subsoil licenses, the rules of access to the geological information, which belongs to the state, and establishes rules of accounting for natural resources on the state balances and of classification and evaluation of natural resources.

The federal ministries in Russia are not responsible for compliance control or management of state property and provision of services, which are directed by the federal services and the federal agencies, respectively. The federal services and agencies that are relevant to the Group’s activities include:

- The Federal Service for Environmental, Technological and Nuclear Supervision, which sets procedures for, and oversees compliance with, industrial safety and environmental rules and issues licences for certain industrial activities and activities relating to safety and environmental protection;

- The Federal Agency for Subsoil Use, which organises auctions and issues licences for subsoil use and approves design documentation for geological survey activities;
- The Federal Agency for Technical Regulation and Metrology, which determines and oversees levels of compliance with obligatory state standards and technical regulations; and
- the Federal Service for the Supervision of the Use of Natural Resources (*Rosprirodnadzor*), which exercises supervision over the observance of environmental legislation (including legislation relating to handling of hazardous wastes), controls geological exploration, the rational use and protection of subsoil (including compliance with the relevant terms and conditions of subsoil licenses) and exercises the land control.

Aside from the federal executive bodies mentioned above, which are directly involved in regulating and supervising the steel sector in Russia, there are a number of other federal regulators that, together with their structural subdivisions, have authority over general issues relevant to the Russian steel industry, such as defence, internal affairs, security, border services, justice, tax enforcement, rail transport and other matters.

Generally, regional and municipal authorities with jurisdiction over the specific territory in which a steel producing enterprise is located have authority in certain matters, in particular with regard to land-use allocations.

Licensing of Operations

The Group is required to obtain numerous licences, authorisations and permits from Russian governmental authorities for its operations. The Federal Law No. 99-FZ “On Licensing of Certain Types of Activities” of 4 May 2011, as amended (the *Licensing Law*), as well as other laws and regulations, set out the activities subject to licensing and establish procedures for issuing licences. Some of the Group’s Russian companies require licences to carry out certain activities, including, *inter alia*:

- the use of subsoil, which is described in more detail below in “—*Subsoil Licensing*”;
- the exploitation of chemically hazardous, explosive and flammable industrial objects of hazardous classes from I to III;
- the collection, transportation, processing, utilisation, deactivation and disposing of hazardous waste of hazard classes from I to IV;
- the collection, storage, processing and sale of ferrous steel scrap;
- the handling of explosives for industrial use;
- surveying works; and
- transportation activities.

These licences are usually issued for an indefinite term. Licences for carrying out of certain types of geological survey may be issued for a period of 10 years. Licences for the use of natural resources may be issued for shorter or longer periods.

The requirements imposed by regulatory authorities may be costly and time-consuming, which may result in delays in the commencement or continuation of exploration or production operations. Accordingly, the licences that the Group needs may not be issued in a timely fashion, or may impose requirements that restrict its ability to conduct its operations or to do so profitably.

As part of the Group’s obligations under licensing regulations and the terms of its licences and permits, the Group must comply with numerous industrial standards, employ qualified personnel, provide advanced training, maintain certain equipment which meets the applicable normative requirements and a system of quality controls, monitor operations, maintain and make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect their activities. Failure to comply with these requirements may result in suspension and subsequent revocation of the licenses by the court order. Special rules apply to suspension and revocation of subsoil licenses.

Subsoil Licensing

In Russia, mining minerals requires a subsoil licence with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land where such licensed mineral deposit is located. In addition, as discussed above, operating permits are required with respect to specific mining activities.

The licensing regime for use of subsoil for geological survey, exploration and production of mineral resources is established primarily by the Federal Law of the Russian Federation “On Subsoil” No. 2395-1 dated 21 February 1992, as amended (the **Subsoil Law**). The procedure for subsoil use licensing, as well as certain rules of exploration and production of mineral resources was established by Resolution of the Supreme Soviet of the Russian Federation No. 3314-1 dated 15 July 1992, as amended (the **Licensing Regulation**).

There are two major types of licences: (1) an exploration licence, which is a non-exclusive licence granting the right of geological exploration and assessment within the licence area, and (2) a production licence, which grants the licensee an exclusive right to produce minerals from the licence area. In practice, some of the licences are issued as combined licences, which grant the right to explore, assess and produce minerals from the licence area.

There are four major types of payments with respect to the use of subsoil: (1) a lump-sum payment for granting the right to use the subsoil, (2) periodic payments for geological exploration under the Subsoil Law, (3) fees for the right to participate in tenders and auctions, and (4) the minerals extraction tax under the Tax Code. Failure to make these payments could result in refusal to grant the right to use the subsoil or in the suspension or termination of the subsoil licence.

Issuance of subsoil licences. Subsoil licences are issued by the Federal Agency for Subsoil Use. Most of the currently existing production licences owned by companies derive from (1) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state owned enterprises that were subsequently reorganised in the course of post-Soviet privatisations; or (2) tender or auction procedures held in the post-Soviet period. The Subsoil Law and the Licensing Regulation set out the major requirements relating to such tenders and auctions.

Production licences and combined exploration and production licences are generally awarded by tender or auction conducted by the Federal Agency for Subsoil Use. While the auction or tender commission may include a representative of the relevant region, the separate approval of regional authorities is not required in order to issue subsoil licences. The winning bidder in the tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. The Subsoil Law provides that, in a tender, the main criteria for determining the winning bidder are the scientific and technical levels of the programmes for geological subsoil exploration and the exploitation of subsoil plots, the fullness of extraction of natural resources, the level of contribution to the socioeconomic development of the respective territory, the period of implementation of the respective programmes, the efficiency of measures aimed at preserving the subsoil and the environment, and the ensuring of national defence and security. At the auction, the success of the bid is determined by the attractiveness of the financial proposal.

Exploration licences are generally awarded without a tender or auction by the special commission formed by the Federal Agency for Subsoil Use, which includes the representatives of the relevant regional executive authority. The Ministry of Natural Resources and Ecology maintains an official list of deposits in respect of which exploration licences can be issued. The company may obtain a license for geological exploration (which will be conducted at the company’s own expense) of the deposit included into the above mentioned list by filing an application with the Federal Agency for Subsoil Use (or its regional department). Unless there is more than one application with respect to the same deposit (in which case the Federal Agency for Subsoil Use sets up an auction for combined exploration and production license for the deposit) the special commission makes the decision to grant the license upon examination of the application.

The Subsoil Law allows for production licences to be issued without a tender or auction procedure only in limited circumstances, such as instances when a mineral deposit is discovered by the holder of an exploration licence at its own expense during the exploration phase. In those circumstances, as a matter of practice, the production licence will be issued to the holder of the exploration licence, but, legally, the right of the holder of the exploration licence to receive the production licence in the event of discovery is not guaranteed.

Regional authorities may issue production licences for “common” mineral resources, such as clay, sand or limestone. A recipient of a licence from a regional authority is also usually granted rights to use the land surrounding the licence area.

Extension of subsoil licences. The term of any subsoil licence is set out in the licence and runs from the date the licence is registered. Prior to January 2000, exploration licences could have a maximum term of five years, production licences a maximum term of 20 years, and combined exploration, assessment and production licences a maximum term of 25 years. After amendment of the Subsoil Law in January 2000 and in July 2013, exploration licences may still have a maximum

term of five years (except for exploration licences in relation to certain regions of Russia, which may be issued for a period of up to 7 years, and exploration licences in relation to inland sea waters, territorial sea and continental shelf, which may be issued for a period of up to 10 years); production licences may have a one-year term in a limited number of special cases, but are generally granted for a term of the expected operational life of the field based on a feasibility study; and combined exploration, assessment and production licences can be issued for the term of the expected operational life of the field based on a feasibility study. These amendments did not affect the terms of licences issued prior to January 2000, but permit licensees to apply for extensions of such licences for the term of the expected operational life of the field in accordance with the amended Subsoil Law.

The Subsoil Law permits a subsoil licensee to request an extension of a production licence in order to complete the production from the subsoil plot covered by the licence or the procedures necessary to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the licence and the relevant regulations.

In practice, the factors that may affect a company's ability to obtain the approval of licence amendments include its compliance with the licence terms and conditions and its management's experience and expertise relating to subsoil issues, including experience in amending licences.

Maintenance and termination of subsoil licences. A licence granted under the Subsoil Law is generally accompanied by the terms and conditions for use of subsoil which are attached to the licence. The terms and conditions for use of subsoil are executed by the Federal Agency for Subsoil Use and are obligatory for the licensee once the licence is granted.

Under the terms and conditions for use of subsoil, the licensee makes certain environmental, safety and production commitments, including extracting annually an agreed target amount of reserves; conducting agreed mining and other exploratory and development activities; protecting the environment in the licence areas from damage; providing geological information and data to the local authorities; submitting on a regular basis formal progress reports to relevant authorities and making all obligatory payments when due. Most of the conditions set out in a licence are based on mandatory rules contained in Russian law, and the terms and conditions for use of subsoil are generally not negotiable. The Group expects that it will be able to meet the commitments set out in the terms and conditions for use of subsoil.

The fulfilment of a licence's conditions is a major factor in the good standing of the licence. If the subsoil licensee fails to fulfil the licence's conditions, upon notice, the licence may be terminated by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set out in a licence, it may apply to amend the relevant licence conditions, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for licence termination. A licensee can be fined or the licence can be limited, suspended or terminated for the reasons noted above, for repeated breaches of the law, upon the occurrence of a direct threat to the lives or health of people working or residing in the local area, or upon the occurrence of certain emergency situations. A licence may also be limited, suspended or terminated for violations of "material" licence terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for suspension or termination of licences. Consistent underproduction and failure to meet obligations to finance a project or to submit data reports (as required by law) would also likely constitute violations of material licence terms. In addition, certain licences provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for limiting, suspending or terminating the licence.

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to a licence limitation, suspension or termination or the refusal to reissue an existing licence, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases of termination, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such a three-month period, no termination or other action may be taken.

Licences may be transferred only under certain limited circumstances that are identified in the Subsoil Law, including the reorganisation of the licence holder or in the event that an initial licence holder transfers its licence to its subsidiary, provided that the transferee possesses the equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred licence.

Land Use Rights

Land use rights are needed and granted for the portions of the licence area actually being used, including the plot being mined, access areas and areas where other mining related activity is occurring.

Under the Land Code of the Russian Federation No. 136-FZ of 25 October 2001, as amended (the ***Land Code***), legal entities may generally have the rights of ownership or lease with regard to land plots in the Russian Federation.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal bodies, which can sell, lease or grant other rights to land to private users.

Legal entities may also have a so-called “right of perpetual use” of land plots, provided such type of title was obtained by them prior to the enactment of the Land Code; however, the Federal Law on Introduction of the Land Code of 25 October 2001, with certain exceptions, requires legal entities using land plots on the right of perpetual use to purchase or to lease the respective land plot from the relevant federal, regional or municipal authority by 1 July 2012.

The Group’s mining subsidiaries (composing Severstal Resources) generally have a property right to their plots or a long-term lease. There are also several land plots in perpetual use that are currently in the process of being transferred to long-term lease or to ownership. The Land Code establishes that a lessee of a plot of state or municipal land does not generally have priority rights to enter into new land lease agreements, save for the cases when a plot of land has been leased without conducting an auction. Any lease agreement for a period of one year or more must be registered with the relevant state authorities.

Environmental Considerations

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law “On Environmental Protection” No. 7-FZ of 10 January 2002, as amended (the ***Environmental Protection Law***), as well as by a number of other federal and local legal acts.

Pay-to-pollute. The Ministry of Natural Resources and Ecology, the Federal Service for the Supervision of the Use of Natural Resources and other government agencies establish guidelines for setting limits for different types of permissible impact on the environment, including the emission, disposal of substances and waste disposal.

According to the Environmental Protection Law, every entity making a negative impact on the environment or disposing of waste is obliged to pay fees calculated by a payer itself on the basis of relevant statutory limits on emissions and effluents. The Russian Government has established fees for pollution in excess of these limits which may be increased by statutory approved multiples. For instance, multiples of up to 25 for emissions and effluents in excess of statutory limits will be effective until 31 December 2019 under the Environmental Protection Law. Starting from 1 January 2020, the highest multiple will be increased to 100 and will apply to companies exceeding such pollution limits and having a significant negative environmental impact. Fees are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest ratio is applied to disposal of waste subject to reutilisation by its producer, intermediate ratio is applied to pollution within the statutory limits, enhanced ratio is applied to pollution within the individually approved limits, and the highest ratio is applied to pollution exceeding such limits.

Payments of such fees do not relieve a company of its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Additionally, in July 2019, Russian authorities adopted the Federal Law No. 195-FZ “On Implementation of Experiment on Pollution Emission Quota Allocation and Introduction of Amendments to Separate Legal Acts of the Russian Federation in Part of Reduction of Hazardous Air Pollution” introducing a quota system in relation to pollution emissions for a period from 2020 to 2024 in twelve Russian cities, in particular, Bratsk, Krasnoyarsk, Lipetsk, Magnitogorsk, Mednogorsk, Nizhny Tagil, Novokuznetsk, Chelyabinsk, Cherepovets and Chita. In 2020, upon recommendation of local authorities the Government of Russia should approve programmes aimed at reducing air pollutant emissions in each respective city. Companies with facilities that will be affected by the experimental quota system shall develop their own programmes for reducing air pollutant emissions. In case the company is not able to comply with the quota allocation programme, compensatory measures will be triggered.

Environmental approval. Starting 1 January 2019, production facilities are divided into four categories depending on their negative environmental impact. Companies with category I facilities (significant impact) are required to obtain a complex environmental approval from Rosprirodnadzor whereas category II facilities (moderate impact) only require a declaration of negative impact to be filed with Rosprirodnadzor. No such documents need to be obtained or filed in relation to other facilities. Previously obtained environmental approvals are effective until the date of their expiry and, until then or until 1 January 2025 (whichever is sooner), no complex approval or declaration is required to be obtained or filed. In order to obtain the complex environmental approval, the relevant entities are to develop technological emissions standards which comply with the technological standards for the best available technologies set out pursuant to the Environmental Protection Law. In the event that the technological standards of the facilities do not comply with said standards, a temporary emissions approval has to be obtained from Rosprirodnadzor for a period of no longer than seven

years, during which the relevant company has to modernise its facilities to comply with the best available technologies. As a condition to such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. The Environmental Protection Law also provides for stimuli for companies to apply the best available technologies in their category I and II facilities. In particular, from 1 January 2020, companies which have implemented the best available technologies are not required to pay any charges for a negative impact on the environment within the emissions range set out under technological standards for the best available technologies.

Ecological approval. Certain activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with the Federal Law “On Ecological Expert Examination” No. 174-FZ of 23 November 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described in “—*Environmental liability*”.

Enforcement authorities. The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources and certain other federal authorities (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and the Ministry of Natural Resources and Ecology are responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability. If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or its employees that fail to comply with the requirements of applicable environmental laws and regulations may be subject to administrative and/or civil liability, while individuals may also be subject to criminal liability. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines.

Subsoil licences generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low.

Health and Safety

Due to the nature of the Group’s business, much of its activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Federal Law “On Industrial Safety of Dangerous Industrial Facilities” No. 116-FZ of 21 July 1997, as amended (the **Safety Law**). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines and high pressure devices are used, where alloys of ferrous and non-ferrous metals flammable, toxic and explosive substances are produced, used, stored, processed and transported and where certain types of mining are done. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used.

There are also regulations that address safety rules for coal mines, the production and processing of ore, the blast furnace industry, steel smelting, alloy production and nickel production. Additional safety rules also apply to certain industries, including metallurgical and coke chemical enterprises, and the foundry industry.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia effective 1 February 2002, as amended (the **Labour Code**). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programmes, create systems to cope with and inform the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility.

The Federal Service for Environmental, Technological and Nuclear Supervision has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of the Federal Service for Environmental, Technological and Nuclear Supervision conducts a technical investigation of the cause. The company operating the hazardous industrial facility where the accident took place bears all costs of an investigation. The officials of the Federal Service for Environmental, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Federal Service for Environmental, Technological and Nuclear Supervision may suspend the operations of a company or impose administrative fines for non-compliance with industrial safety rules.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health related damages.

Investments in Russian Companies of Strategic Importance

The Federal Law "On the Procedure for Making Foreign Investments in the Companies of Strategic Importance for the Defence and Security of the State" No. 57-FZ dated 24 April 2008, as amended (the **Strategic Investments Law**), establishes certain restrictions for foreign investments into Russian companies which are deemed strategically important for the defence and security of the Russian Federation (the **Strategic Companies**). The Strategic Investments Law provides for the list of activities that have strategic importance for the national defence and security. This list *inter alia* includes (a) exploration and production of subsoil of federal land plots and/or the exploration and the extraction of minerals from the federal subsoil property and, generally, (b) activities of those companies that have a market share in a particular segment in excess of 35 percent.

Under the Strategic Investments Law an establishment by foreign entity (or any other person that is a member of the group with the participation of a foreign entity) (a **Foreign Investor**) of direct or indirect control over a Strategic Company requires a permit of the Government Commission of Russia. Therefore, *inter alia*, a direct or indirect acquisition by a Foreign Investor of a stake in a Strategic Company which vests an acquirer with right to exercise certain percentage of voting rights (ranging from over 5 to over 50 percent depending on type of the Foreign Investor and type of the Strategic Company) in the charter capital of the Strategic Company, requires obtaining a prior permit of the competent state authority. Both, sovereign foreign investors (such as foreign governments, foreign governmental organisation or international organisations) and Foreign Investors which do not disclose information on their beneficiaries or legal entities controlled by any of them are barred from obtaining control over a Strategic Company and in particular from acquiring 50 percent (or 25 percent for certain types of Strategic Companies) of the total voting rights in that Strategic Company. If an acquisition of a stake over the relevant percentage happens without obtaining such prior permit, the acquisition transaction is void under Russian law and the Foreign Investor may be deprived from voting rights which correspond to the stake acquired in the Strategic Company. Completion of the transaction without a prior permit of the competent state authority may also result in fines imposed on the Foreign Investor. Moreover, in accordance with the amendments to the Federal Law "On Foreign Investment in the Russian Federation" No. 160-FZ dated 9 July 1999, as amended (the **Foreign Investment Law**), starting from 30 July 2017, any acquisition by a Foreign Investor of a stake in any Russian company (not only a company deemed to be a Strategic Company) may require a prior approval of the Government Commission of Russia if the chair of the Government Commission (*i.e.*, the Prime Minister of Russia) decides that such transaction may threaten national defence and the state security of Russia.

Competition and Mergers Control

Federal Law No. 135-FZ "On the Protection of Competition" dated 26 July 2006, as amended (the **Competition Law**), establishes a merger control regime and requires that the FAS be notified of certain transactions.

Under the Competition Law, an investor or several entities constituting "a group of entities and/or individuals" should apply for the prior consent of the FAS or submit to it a post-completion notification in relation to:

- an initial acquisition of more than 25.0 percent of the voting shares in a Russian joint stock company, or 33.3 percent of the participation interest in a Russian limited liability company, provided that the acquirer did not

have any shares (participation interest) in such company or had less than the above threshold before the acquisition;

- a subsequent acquisition of the voting shares in a Russian joint stock company or participation interests in a Russian limited liability company such that the level of their holding of the company's shares (participation interest) passes the threshold of 50.0 percent or 75.0 percent of the voting shares in a joint stock company or 50.0 percent or 66.6 percent of the participation interests in a limited liability company;
- acquisition or lease of production or intangible assets (other than land and non-industrial buildings, constructions, premises and parts thereof or constructions in progress) located in Russia if the book value of such assets exceeds 20.0 percent of the production or intangible assets of the seller (transferor);
- an acquisition of (direct or indirect) rights to determine the terms of the business of a Russian entity (e.g. rights to give binding instructions or control the decision-making process in such entity) or to exercise the powers of its executive body;
- an acquisition of certain blocks of shares, resulting in the acquirer and its group holding in total over 50.0 percent of the voting shares in a foreign company if its Russian turnover in the preceding year exceeded RUB1 billion; and
- an acquisition of (direct or indirect) rights to determine the terms of the business of a foreign company (through shareholdings, agreements, voting arrangements, rights etc.) if its Russian turnover in the preceding year exceeded RUB1 billion.

A prior FAS clearance for an acquisition is required if (i) either the aggregate balance value of assets of the acquirer and the target and the companies of their respective groups exceeds RUB7 billion or the aggregate value of revenues of the same entities in the last calendar year exceeds RUB10 billion and, simultaneously, (ii) the aggregate value of assets of the target and the companies of its group exceeds RUB400 million. Under the Competition Law, a transaction without prior FAS approval or post-notification may be invalidated by a court resolution held upon the FAS claim, provided that such transaction has led or may lead to the restriction of competition, for example, by strengthening a dominant position in the relevant market. Russian law envisages fines to be imposed on the acquirer for completion of the notifiable transaction without the FAS clearance.

More generally, Russian law provides for civil, administrative and criminal liability for the breach of anti-monopoly law.

Intra group transfers are subject to merger control. They may be exempt from the prior approval requirement and may be subject to post-completion notification if:

- an intra group transfer is made to a transferee (a) in which the transferor holds more than 50.0 percent of voting shares or (b) which holds more than 50.0 percent of voting shares in the transferor; or
- not later than 1 month prior to completion a list of group members is disclosed to the FAS in accordance with Article 31 of the Competition Law. The list should specify the grounds for including each of the group members in the group. The list submitted to the FAS will be published on the FAS website.

The Competition Law expressly provides for its extraterritorial application to transactions and actions which are made outside of Russia between Russian and/or foreign entities if such transactions or actions relate to production and/or intangible assets located in the territory of Russia or to the shares (participation interests) in, or rights in relation to, companies operating in the territory of Russia as well as those of non-Russian entities that, during the year preceding the transaction that is subject to merger control, imported to Russia products with a total value in excess of RUB1 billion.

As part of its competition monitoring activities, the FAS keeps a Register of Entities Holding a Dominant Position or Entities with a Market Share Exceeding 35.0 percent (the *Register*). As a major Russian steel producer, the Company appears on the Register in relation to certain types of steel products.

The FAS may rule that even certain companies do not appear on the Register they have a dominant position in the market. Such companies are subject to more rigorous governmental regulation including the imposition of price controls. Generally, the FAS has ample powers to investigate perceived violations of the Competition Law, has become active in policing marketing, sales and supply strategies of major participants of the Russian steel industry and has previously brought charges against certain market participants alleging concerted actions in violation of the Competition Law. If the Group's activities are found to be in violation of the Competition Law, the Group could be subject to penalties or ordered to change its business operations. See *"Risk Factors—Risk Factors Relating to Russia—The Group is subject to anti-*

monopoly laws enforced by the FAS, which may result in certain limitations being imposed on the Group's activities, the violation of which may result in civil, administrative and even criminal liability”.

Employment and Labour

Labour matters in Russia are primarily governed by the Labour Code.

Employment contracts. As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties as well as in other cases expressly identified by federal law.

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labour Code, including:

- liquidation of the company or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence, confirmed by appraisal;
- systematic failure of the employee to fulfil his or her duties without a fair excuse if this employee was subject to prior disciplinary action and if a warning or reprimand imposed on the employee has not been withdrawn by the employer;
- any single gross violation by the employee of his or her duties as it is defined in the Labour Code; and
- provision by the employee of false documents or misleading information prior to entry into the employment contract.

An employee dismissed from a company due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, average salary payments for a certain period of time.

The Labour Code also provides protections for specified categories of employees. For example, except in cases of liquidation of a company, an employer cannot dismiss the employees being on a sick-leave, business trip or on a holiday and pregnant women. Mothers with a child under the age of three, single mothers with a child under the age of 14 or disabled child under the age of 18 or other persons caring for a child under the age of 14 or disabled child under the age of 18 without a mother may not be dismissed by the employer unless for guilty actions. Dismissal of minors, except for dismissal due to liquidation of a company, requires prior approval by the State Labour Inspectorate or by the respective Minor Inspectorate.

Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid average salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work time. The Labour Code generally sets the regular working hours at 40 per week. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. Employees who perform underground and open-pit mining works or other work in harmful conditions may be entitled to additional paid vacation ranging from 7 to 36 working days.

Prior to 1 January 2019, the retirement age in the Russian Federation was generally 60 years for males and 55 years for females. Starting from 1 January 2019, the retirement age in Russia is being gradually raised from 60 to 65 years for men and from 55 to 60 years for women by 2028. At the same time, the retirement age thresholds applicable to certain categories of individuals have remained unchanged following the reform discussed above. In particular, the retirement age for male miners who have worked in underground mines for at least 10 years, and females who have worked in underground mines for at least seven years and six months, is 50 years and 45 years, respectively. Persons who have worked as miners in open-pit mines and/or underground mines for at least 25 years or who have worked for some leading mining professions for at least 20 years may also retire, regardless of age.

Salary. The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is RUB11,280 as at 1 January 2019.

Strikes. The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike after it has been determined as illegal may be adequate grounds for termination of an employment contract.

Trade Unions. Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. In this regard, the Group's management routinely interacts with trade unions, in particular the Mining and Metallurgical Trade Union, in order to ensure the appropriate treatment of employees and the stability of its business. See "*Business—Russian Steel—Employees*".

The activities of trade unions are generally governed by the Federal Law on Trade Unions, Their Rights and Guaranties of Their Activity of 12 January 1996, as amended (the **Trade Union Law**). Other applicable legal acts include the Labour Code of Russia, which provide for more detailed regulations relating to activities of trade unions.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

- legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consideration of reasoned opinion of the management of the trade union and, in certain circumstances, the consideration of reasoned opinion of the relevant trade union association;
- retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal at the employer's initiative due to some dismissal grounds for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions should present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

The Trade Union Law provides that those who violate the rights and guaranties provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability. The Code of Administrative Delinquencies

of Russia of 30 December 2001 specifies that such violations may lead to the imposition of an administrative fine or, in certain circumstances, administrative suspension of activities for up to 90 days. Although the Criminal Code of the Russian Federation of 13 June 1996 currently has no provisions specifically relating to these violations, general provisions and sanctions may be applicable.

Collective Bargaining Agreements

The Labour Code provides that a collective bargaining agreement applies to all employees of a company whether members or non-members of the trade union. A collective bargaining agreement may be concluded either for the company on the whole, or for its branches, representative offices and other structural subdivisions. A collective bargaining agreement may be concluded for a term not exceeding three years and may be extended for another three years. It is not possible to include in the collective bargaining agreement a provision worsening the employees' standing under the general rule of law, as such provisions would be null and void.

Trade Barriers and Anti-Dumping Regulations

Steel producing countries generally view their steel industries as strategically important and therefore requiring protection from foreign competition. In addition, the governments of some emerging economies employ non-market methods to try to protect and develop their steel industries, and, while those governments seek to achieve the desired balance in their economies between production levels and product mix and consumption, they may resort to protectionist measures against imports from third countries.

Exports of steel from Russia are primarily regulated by the Federal Law "On Fundamentals of State Regulation of Foreign Trade Activities" No. 164-FZ dated 8 December 2003 (as amended) and bilateral agreements between Russia and its trading partners. Following the establishment of the Eurasian Economic Union, export from and import of steel to the Russian Federation are subject to regulation by the Agreement on the Eurasian Economic Union and its implementing regulations. In addition, following the Russian Federation's accession to the WTO on 22 August 2012, exports of steel from the Russian Federation are also subject to the relevant WTO agreements, including the Accession Protocol of Russia and the GATT 1994.

General. In general, the recent trend worldwide has been for the increase of import restrictions and expansion of trade investigations. The largest importers of the Company's products are countries in the EU and North America.

United States. Russia was granted "market economy" status by the United States with effect from 1 April 2002. Russian steel producers, including Severstal Russian Steel, are currently able to sell in the US market hot-rolled steel plates in accordance with a suspension agreement which establishes minimum prices without quotas based on information about the costs and expenses of Russian exporters. Russian exporters entered into this market economy cost-based agreement with the US Department of Commerce on 20 December 2002, replacing the non-market economy agreement that had been in force since 1997. As far as the Group is aware, it is the only exporter from Russia which cooperates with the US Department of Commerce and sells hot-rolled steel plate in the US market pursuant to this agreement.

In 2018, the US President adopted additional import duties for steel and aluminium products with additional 25 percent duties imposed on the Group's products. These restrictions are based on an affirmative determination of steel and aluminium products imported into US as ones that "threaten to impair national security". In July 2019, the Russian Federation requested WTO dispute consultations with the US concerning the continued application of US anti-dumping duties on imports of carbon-quality steel from Russia. The request for consultations formally initiates a dispute in the WTO. Consultations give the parties an opportunity to discuss the matter and to find a satisfactory solution without proceeding further towards litigation. After 60 days, if consultations have failed to resolve the dispute, the complainant may request adjudication by a panel. Nevertheless, there can be no assurance that any such request or proceeding will be successful or that further US anti-dumping duties will not be introduced. See *"Risk Factors—Risk Factors Relating to the Group and the Steel and Mining Industries—An increase in existing trade barriers or the imposition of new trade barriers in the Group's principal export markets could cause a significant decrease in the demand for its products in those markets"*.

EU. Russia was granted "market economy" status by the EU in November 2002. Starting from the date of the Russian Federation's formal accession to the WTO, 22 August 2012, Russian steel exporters have been able to operate in the European Union market without any formal restrictions.

In 2019, the European Commission introduced safeguard measures with regards to imports of 28 steel products as a part of response to the US trade restrictions on steel products. The purpose of these safeguard measures is to remedy or prevent serious injury to the domestic steel industry occurring as a result of increased imports. The measures take the form of country-specific tariff-rate quotas (except for product category 1 for which an overall tariff-rate quota is foreseen) for each product category. The size of the tariff-rate quotas was determined based on average yearly imports

between 2015 and 2017 with an additional mark-up of 5 percent. The size of the tariff-rate quota should be increased by 5 percent. The European Commission publishes information on the fill rates of the tariff-rate quota. Once the tariff-rate quotas are filled, the EU will levy an additional duty of 25 percent on imports. These measures should remain effective until 2021, but can be reviewed in case of changed circumstances.

Ukraine. The President of Ukraine included the Company into the sanctions list in the decree dated 19 March 2019 restricting trade operations and prohibiting the Group from managing and using its property in Ukraine and withdrawing capital therefrom for three years; Ukraine also applies anti-dumping duties on rebars, wire rod and galvanised coils.

Anti-Dumping and Safeguard Proceedings

Some of the Group's products which it exports to foreign markets (including the EU, the Group's principal export market) are subject to various trade barriers. The table below shows certain anti-dumping and safeguard measures, in particular anti-dumping duties imposed by various countries and trading blocs against the Group's products in certain regions.

Anti-Dumping and Safeguard Restrictions against the Group's Products⁽¹⁾

State or Trading Block	Product	Anti-Dumping/Safeguard Duty	Tariff-Rate Quota	Effective Period	
<i>Europe</i>					
EU	Cold-rolled steel.....	34%	specific tariff-rate quota ⁽³⁾	2021	
	Hot-rolled steel.....	€17.6 per tonne		2022	
	28 steel product categories ⁽²⁾	25%		2021	
Ukraine	Welded tubes and pipes with external diameter not exceeding 168.3 mm	20.5%		2021	
	Rebar and wire rod	15.21%	2023		
	Rolled steel with corrosion resistant coating	47.57%	2024		
<i>North and Central America</i>					
United States	Hot-rolled coils and sheets	184.56%	100,000 tonnes	2021	
	Hot-rolled plates.....	53.81%		2020 ⁽³⁾	
	Steel wire rods.....	436.8%		2023	
	Steel products.....	25%		unlimited	
Canada	Heavy plate	20%		2021	
Mexico	Hot-rolled steel plate in coils (thickness 4.75-10 mm).....	29.3%		2021	
	Hot-rolled coils (thickness less than 4.75 mm)....	21%		2020	
	Alloy and non-alloy carbon steel plate in sheets..	36.8%		2020	
	Cold-rolled coils.....	15%	under review ⁽⁴⁾		
<i>North Africa and Middle East</i>					
Egypt	Semi-finished products of iron or non-alloy steel	15% ⁽⁵⁾	146,410 tonnes	2019	
Morocco	Steel rebar (bars, rods and coils)	25% ⁽⁵⁾		2019	
	Cold-rolled sheets in coils or cut, and plated or coated sheets	15.5%		2021	
	Wire rods	additional duty of DH 0.55/kg		2021	
Gulf Cooperation Council	Reinforcing bars.....	additional duty of DH 0.55/kg		96,631 tonnes	2021
	PPGI (colour-coated plates)	US\$153 per tonne			2021
	<i>South-East Asia</i>				
Vietnam	Semi-finished and finished products alloy steel products.....	17.3%		10,502 tonnes	2020
	Bars and rods of iron or non-alloy steel.....	10.9%	2020		
	Colouring steel products (colour-coated plates) .	19%	2021		
India	Hot-rolled flat products of alloy or non-alloy steel in coils.....	difference ratio between US\$489 ⁽⁶⁾	2021		
	Hot-rolled flat products of alloy or non-alloy steel in coils.....	difference ratio between US\$561 ⁽⁶⁾	2021		
	Indonesia	Hot-rolled products	5.58%	2024	
Thailand	Flat-rolled products of iron or non-alloy steel in coils and not in coils	35.17%		2020	
	Non-alloy hot rolled steel flat products in coils and not in coils	20.74% ⁽⁴⁾		2020	

(1) As at 30 June 2019.

(2) List of 28 steel product categories is defined in Notice of initiation of a safeguard investigation concerning imports of steel products dated 26 March 2018, as amended by extension notice dated 28 June 2018.

(3) Commission Implementing Regulation (EU) 2019/159 dated 31 January 2019 imposes a specific tariff-rate quota system based on average imports over the last three years. The data on the tariff-rate quota usage can be found at the following web address: http://ec.europa.eu/taxation_customs/dds2/taric/quota_consultation.jsp.

(4) The duties are suspended pursuant to the agreement dated 10 December 2002 between the US and the Russian Federation suspending the anti-dumping investigation of certain cut-to-length carbon steel plate from the Russian Federation.

(5) The anti-dumping rate is applicable to the cost, insurance and freight value of certain product.

(6) The anti-dumping rate is equivalent to the difference between the specified amount and the landed value of the subject goods.

In addition, there are currently ongoing investigations against steel products from Russia and other countries which could result in the introduction of anti-dumping duties on such products, thus leading to a loss in competitiveness on the affected markets. For example, in May 2019, the Ministry of Industry, Investment, Trade and the Digital Economy of Morocco launched safeguard investigation concerning hot-rolled sheet imports at the same time as the National Tariff Commission of Pakistan initiated anti-dumping investigations into the alleged dumping of flat-rolled products of iron or non-alloy steel, cold-rolled coils, sheets and strips exported from Canada and Russia. See “*Risk Factors—Risk Factors Relating to the Group and the Steel and Mining Industries—An increase in existing trade barriers or the imposition of new trade barriers in the Group’s principal export markets could cause a significant decrease in the demand for its products in those markets*”.

The Group, along with other Russian steel producers, continues to participate in those proceedings and reviews that it regards as important to its business. The Company intends to continue to participate actively in all inter-governmental consultations relating to Russian steel exports to the United States, the EU and other international markets.

REGULATION OF THE STEEL AND MINING INDUSTRIES

Overview

Steel and mining operations and activities in Europe are extensively regulated at both the national and local level in Europe. Federal, national, regional, state and local authorities in the EU regulate a variety of matters, including employee health and safety; royalties; permitting and licensing requirements; environmental impact assessment, planning and development; and environmental compliance (including, for example, compliance with the regulatory regimes governing waste and waste water treatment and disposal; waste transportation; emissions and discharges; protection of species and habitats; decommissioning, reclamation and restoration of properties used for mining or other activities; surface subsidence from underground mining and the effects that mining and other activities have on surface and/or groundwater quality and availability).

Activities and operations involved in the mining and steel production industries generate hazardous and non-hazardous wastes, effluent and emissions, require waste transportation and treatment, and have other environmental impacts which require various environment related permits and approvals to be held or received. Licences may also be required for the abstraction of the relevant natural resources. Such permits and licences are subject, in certain situations or on the occurrence of certain events, to modification or addition of conditions (including monitoring, upgrading, improvement, decommissioning and aftercare requirements), or revocation by issuing authorities. The carrying out of such activities and operations is also subject to various restrictions and other requirements under environmental, health and safety laws. Violations of health and safety laws relating to a mine or a steel factory, or a failure to comply with the instructions of relevant health and safety authorities, may result in the temporary or permanent shutdown of steel or mining operations in the United States or Europe, as well as the imposition of fines, or penalties corrective procedures.

Steel and mining businesses in Europe are also required in many cases to prepare and present to national, federal, regional, state and/or local authorities information pertaining to the anticipated effect or impact that proposed exploration, mining or production activities may have upon the environment. The preparation and presentation of this information in many cases requires a substantial commitment of personnel and financial resources. In response to such presentations, the national, federal, regional, state and/or local authorities are empowered to determine that mining operations must be suspended or decommissioned.

Climate Change

In December 1997, in Kyoto, Japan, the signatories to the United Nations Convention on Climate Change established individual, legally binding targets to limit or reduce greenhouse gas emissions by developed nations in the period 2008-2012. This international treaty, known as the Kyoto Protocol, came into force in the Russian Federation on 16 February 2005. The Kyoto Protocol enables the emissions reductions to be achieved by a variety of means including emissions trading and investment in overseas emissions reduction projects. Discussions are ongoing as to a possible successor to the Kyoto Protocol. It is currently unclear what emission reduction targets will be adopted, but in light of recent scientific and economic reports on the impact of climate change, these may be more stringent than those adopted in the Kyoto Protocol.

In a separate development, in July 2005 Australia, China, India, Japan, South Korea and the United States formed the Asia-Pacific Partnership on Clean Development and Climate. Members of the partnership cooperate on the development and transfer of technology with a view to reducing greenhouse gas emissions.

In 2016, the Paris Agreement within the United Nations Framework Convention on Climate Change, dealing with greenhouse-gas-emissions mitigation, adaptation, and finance was signed. The Paris Agreement's long-term goal is

to keep the increase in global average temperature to below 2°C above pre-industrial levels; and to limit the increase to 1.5 C, since this would substantially reduce the risks and effects of climate change. Under the Paris Agreement, each country determines, plans, and regularly reports on the contribution that it undertakes to mitigate global warming.

As of August 2019, the Paris Agreement has been signed by 195 states and ratified or otherwise joined by 179 states representing 89 percent of countries contributing to global emissions. Russia is a signatory to the Paris Agreement and government officials have indicated Russia's intent to ratify it by the end of 2019.

In Europe, greenhouse gas emissions are subject to two different types of regulation, standards, or maximum emission regulation and the EU Emissions Trading System (*EU ETS*). This regime aims at attributing a market-based cost to pollution, in line with the “polluter pays principle”, through a cap-and-trade system. The EU ETS system is the flagship instrument of the EU in the fight against industrial greenhouse gas emissions, and it is seen as a model for emissions trading systems around the world.

A growing number of jurisdictions are implementing or planning to implement a carbon tax or an emission trading system—a total of 57 initiatives as of April 2019, and this number is presumed to increase, according to countries' climate pledges.

In the past, such legislative and research initiatives have involved additional market regulatory measures such as emissions trading, switching to cleaner forms of energy and/or introducing emissions curbing technologies.

DESCRIPTION OF THE COMPANY

The Company's Charter states in clause 4.1 that the main aim of the Company is to earn profits and use profits in the interests of the Company.

The Company is a public joint stock company incorporated under the laws of the Russian Federation and domiciled in Cherepovets, Russia. The Company's registration number is 1023501236901 and its registered address is 30 Mira Street, Cherepovets, Vologodskaya Oblast, 162608, Russian Federation. The telephone number of the Company's Moscow office is +7 495 926 7766.

The Company has not guaranteed any of the Notes that may be issued under the Programme nor are any of the Notes an obligation of the Company. Noteholders will have no direct recourse to the Company. For further information see "*Risk Factors—Noteholders have no direct recourse against the Company*".

THE ISSUER

GENERAL

The Issuer is a public limited liability company (*société anonyme*) of unlimited duration that is incorporated, exists and operates under the laws of Luxembourg, in compliance with the Companies' Act 1915, other applicable regulations and its Articles of Incorporation. The Issuer was incorporated on 11 May 2006 and is registered with the Luxembourg Trade and Companies' Register (*Registre de Commerce et des Sociétés*) under registration number B 116975. The registered office of the Issuer is 14, rue Edward Steichen, L-2540 Luxembourg, Grand Duchy of Luxembourg. The telephone number of the registered office of the Issuer is +352422229 and its fax number is +35 2426443. The Articles of Incorporation of the Issuer have been published in the *Mémorial, Journal Officiel du Grand Duché de Luxembourg, Recueil des Sociétés et Associations C-No 1522* on 9 August 2006.

The Issuer is a special purpose vehicle and is operated for the purpose of issuing asset backed securities.

The Issuer has entered into an administrative services and domiciliation agreement on 12 May 2006, as novated in accordance with a Deed of Novation dated 15 July 2018, under which Vistra (Luxembourg) S.à r.l. provides in Luxembourg certain domiciliary, management, administrative, accounting and related services in relation to the Issuer's business.

The Issuer's share capital, as of the date of this Base Prospectus, is €31,000 divided into 310 registered shares with a par value €100, each of which is fully paid.

The Issuer's Financial Statements have been audited by PricewaterhouseCoopers Société cooperative, Luxembourg, acting as auditor to the Issuer. PricewaterhouseCoopers Société cooperative, Luxembourg has its registered office at 2, rue Gerhard Mercator, B.P. 1443, L-1014 Luxembourg.

SHAREHOLDERS

Stichting Steel Capital Luxembourg, a foundation organised under the laws of the Netherlands owns 309 shares in the capital of the Issuer and Stichting Participatie Vistra, a foundation organised under the laws of the Netherlands, owns 1 share.

Stichting Steel Capital Luxembourg is a foundation incorporated in the Netherlands having its registered office at Strawinskyalaan 3127, 8th Floor, 1077 ZX Amsterdam, the Netherlands. It is registered with the handelsregister van de Kamers van Koophandel of Amsterdam under number 34247473. The objectives of Stichting Steel Capital Luxembourg are, among others, to incorporate, manage and hold shares in the share capital of the Issuer and to exercise all rights attached to such shares.

Stichting Participatie Vistra is a foundation incorporated in the Netherlands, having its registered office at Strawinskyalaan 3127, 8th Floor, 1077 ZX Amsterdam, the Netherlands. It is registered with the handelsregister van de Kamers van Koophandel of Amsterdam under number 34148998. The objectives of Stichting Participatie Vistra are, among others, to acquire and hold shares in the capital of companies and to take all actions connected therewith.

STATUTES

Article 4 of the Articles of Incorporation provides that the principal objects of the Issuer are the issue of loan participation notes for the purpose of financing loans to PAO Severstal and to its affiliates, the granting of security interests over its assets in relation to the issuance of the loan participation notes and the making of deposits at banks or with other depositaries.

The Issuer may further carry out any transaction, whether commercial or financial, which are directly or indirectly connected with its corporate object at the exclusion of any banking activity. In general, the Issuer may carry out any operation which it may deem useful or necessary to the accomplishment and the development of its corporate purpose.

MANAGEMENT

The Issuer is managed by its board of directors (the *Issuer's Board of Directors*), who are appointed by the shareholders. The current directors of the Issuer are as follows:

Name	Business Address
Ms. Laura Schlag	14, rue Edward Steichen, L-2540 Luxembourg
Ms. Agnieszka Katarzyna Szczepankiewicz	14, rue Edward Steichen, L-2540 Luxembourg
Mr. Tarvesh Kumar Panchoo.....	14, rue Edward Steichen, L-2540 Luxembourg

The Issuer's directors do not perform any principal activities outside of the Issuer that are significant with respect to the Issuer.

There are no current or potential conflicts between the private interests and duties of the members of the Issuer's Board of Directors and the duties of those officers to the Issuer.

OTHER

The Issuer is not aware of any governmental, legal, or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), during the last 12 months, which may have, or have in the recent past, significant effects on the Issuer's financial position or profitability.

FACILITY AGREEMENT

The following is the text of the Facility Agreement entered into between the Company and the Issuer as amended dated 3 September 2019. In the context of each Loan, the Facility Agreement should be read in conjunction with, and is qualified in its entirety by, the relevant Loan Supplement for such Loan.

This Amended and Restated Facility Agreement is made on 3 September 2019 **between:**

- (1) **PAO SEVERSTAL**, a public joint stock company established under the laws of the Russian Federation whose registered office is Ul. Mira 30, 162608 Cherepovets, Vologda Region, Russian Federation (“**Severstal**”); and
- (2) **STEEL CAPITAL S.A.**, a *société anonyme* incorporated in Luxembourg with limited liability whose registered office is at 14, rue Edward Steichen, L-2540 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B116975 (the “**Lender**”, which expression, where the context so admits, includes any successor Lender pursuant to the terms of this Agreement and the Lender acting in its capacity as issuer of the agreed funding).

Whereas:

- (A) Pursuant to an amended and restated facility agreement dated 14 February 2017 (the “**Original Facility Agreement**”) the Lender at the request of Severstal agreed to make available to Severstal a loan facility in the maximum amount of U.S.\$4,500,000,000 or its equivalent in other currencies, on the terms and subject to the conditions of the Original Facility Agreement, as amended and supplemented in relation to each Loan (as defined below) by a loan supplement dated the relevant Closing Date (as defined below) substantially in the form set out in Schedule 1 hereto (each, a “**Loan Supplement**”).
- (B) It was intended that, concurrently with the extension of any Loan under this loan facility, the Lender will enter into agreed funding in the same nominal amount and bearing the same rate of interest as such Loan.
- (C) The parties hereto wish to amend and restate the Original Facility Agreement as set out below.

Now it is hereby agreed as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Facility Agreement (including the recitals), the following terms shall have the meanings indicated:

“**Account**” means an account in the name of the Lender with the Principal Paying and Transfer Agent as specified in the relevant Loan Supplement.

“**Accounting Standards**” means IFRS, U.S. GAAP or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the relevant regulators for the time being.

“**Affiliate**” of any specified person means (i) any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person or (ii) any other person who is a director or officer (a) of such specified person, (b) of any Subsidiary of such specified person or (c) of any person described in (i) above. For the purpose of this definition, “**control**” when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “**controlling**” and “**controlled**” have meanings correlative to the foregoing.

“**Agency**” means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body.

“**agreed funding**” shall mean the Indebtedness (including in the form of securities) that may be incurred to the agreed funding source from time to time by the Lender under the Programme, each such series of agreed funding corresponding to a Loan and, in relation to a Loan, as defined in the relevant Loan Supplement;

“**agreed funding agreements**” shall mean any debt instrument or facility or guarantee thereof, trust deed, agency agreement or subscription agreement entered into in connection with any agreed funding and any side or fee letters ancillary thereto;

“**agreed funding source**” shall mean any person to whom the Lender owes any Indebtedness (including securities), which Indebtedness was incurred to fund a Loan (including a designated representative or trustee of such Person or any assignee or transferee appointed in connection with the agreed funding source);

“**Auditors**” means the auditors of Severstal’s consolidated financial statements (prepared in accordance with applicable Accounting Standards) for the time being or, if they are unable or unwilling promptly to carry out any action requested of them under this Agreement, such other internationally recognised firm of accountants as may be approved in writing by the Lender for this purpose.

“**Average Life**” means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness multiplied by the amount of such payment by (2) the sum of all such payments.

“**Base Prospectus**” means, unless defined in the relevant Loan Supplement in relation to a Loan, the base prospectus relating to the agreed funding dated 3 September 2019.

“**Broken Amount**” has the meaning set out in the Loan Supplement.

“**Business Centre**” has the meaning set out in the Loan Supplement.

“**Business Day**” means:

- (i) save in relation to Clause 4, a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency, and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating (a “**TARGET Business Day**”), and (d) in relation to a Loan corresponding to any agreed funding to be sold pursuant to Rule 144A under the Securities Act, banks and foreign exchange markets are open for business generally in New York City; and
- (ii) in relation to Clause 4, (a) in the case of a Specified Currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such Specified Currency; and/or (b) in the case of euro, a TARGET Business Day; and/or (c) in the case of any Specified Currency where one or more Business Centres is specified in the relevant Loan Supplement a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“**Calculation Agent**” has the meaning specified in the relevant Loan Supplement.

“**Calculation Amount**” has the meaning specified in the relevant Loan Supplement.

“**Capital Stock**” means, with respect to any person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a person other than a corporation; in each case whether now outstanding or hereafter issued.

“**Closing Date**” means the date specified as such in the relevant Loan Supplement.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Loan for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual**” or “**Actual/Actual-ISDA**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period

falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

- (ii) if “**Actual/365 (Fixed)**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;
- (iii) if “**Actual/360**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;
- (iv) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30.

- (v) if “**30E/360**” or “**Eurobond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30

- (vi) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30

(vii) if “**Actual/Actual-ICMA**” is specified in the relevant Loan Supplement:

- (a) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (i) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (ii) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date.

“**Determination Date**” means the date(s) specified in the relevant Loan Supplement or, if none is so specified, the Interest Payment Date(s).

“**Disqualified Stock**” means, with respect to any person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

- (a) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;
- (b) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or
- (c) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part,

in each case on or prior to the date which is six months after the Stated Maturity of the agreed funding; provided, however, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such person to purchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the date which is six months after the Stated Maturity of the agreed funding shall not constitute Disqualified Stock if:

- (i) the “asset sale” or “change of control” provisions applicable to such Capital Stock are not more favourable to the holders of such Capital Stock than the terms applicable to the agreed funding and described under Clause 10.2; and
- (ii) any such requirement only becomes operative after compliance with such terms applicable to the agreed funding, including the purchase of any agreed funding tendered pursuant thereto.

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined; provided, however, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such person.

“**Dollars**”, “**U.S. dollars**”, “**\$**” and “**U.S.\$**” means the lawful currency of the United States of America.

“**Domestic Relevant Indebtedness**” means any Relevant Indebtedness which is not quoted, listed or ordinarily dealt in or traded on any stock exchange or any public or institutional securities market, in each case outside the Russian Federation.

“**Early Redemption Amount**” means 100% of the principal amount of the Loan to be redeemed plus accrued and unpaid interest thereon, if any, to the Redemption Date or such other amount as may be specified in the relevant Loan Supplement.

“**Environmental Laws**” means all laws, rules, regulations, ordinances, judgments, orders, decrees and agreements with, and licences, permits or franchises from, governmental entities, and all other regulatory restrictions (whether or not having the force of law) in existence at the date of each Loan Agreement that (i) have been, are or may become applicable to Severstal or any of its Material Subsidiaries or any properties or business now owned, leased, occupied or operated by Severstal or any of its Material Subsidiaries and (ii) relate to the environment, health and safety, the use, possession, collection, storage, processing, treatment, emission, release, discharge, disposal, transfer or transport of Materials of Environmental Concern, or similar matters, or the remedying of any of the foregoing.

“**euro**” or “**€**” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome, as amended.

“**Euro-zone**” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“**Event of Default**” has the meaning assigned to such term in Clause 11.1 hereof.

“**Fitch**” means Fitch Ratings Limited or any successor to its ratings business.

“**Fixed Amount**” has the meaning set out in the Loan Supplement.

“**Fixed Rate Loan**” means a Loan specified as such in the relevant Loan Supplement.

“**Floating Rate Loan**” means a Loan specified as such in the relevant Loan Supplement.

“**Group**” means Severstal and its Subsidiaries taken as a whole.

“**Guarantee**” means any financial obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Indebtedness of any other person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other

manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term **“Guarantee”** will not include endorsements for collection or deposit in the ordinary course of business. The term **“Guarantee”** used as a verb has a corresponding meaning.

“IFRS” means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (**“IASB”**) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time).

“incur” means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a person existing at the time such person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by such Subsidiary at the time it becomes or is so merged into a Subsidiary.

“Indebtedness” means any indebtedness, in respect of any person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of Disqualified Stock; and any amount raised under any other transaction having the economic or commercial effect of a borrowing; and, without duplication of any of the foregoing, the amount of any liability in respect of any Guarantee or indemnity for any of the items referred to above. For the avoidance of doubt the following amounts shall not constitute **“Indebtedness”**: (i) trade accounts payable, (ii) advances received from customers, (iii) operating lease liabilities, (iv) amounts payable to employees, (v) government grants, (vi) contingent liabilities other than with respect to items of Indebtedness described in the preceding sentence and (vii) other accounts payable and advances received, to the extent that such amounts described in sub-clauses (i) through (vii) arise in the ordinary course of business.

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which in the case of Fixed Rate Loans and unless otherwise specified in the relevant Loan Supplement shall mean the Fixed Amount or Broken Amount specified in respect of any Loan as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“Interest Commencement Date” means the Closing Date or such other date as may be specified in the relevant Loan Supplement.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling both two Business Days in London and two Business Days for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Payment Date” means the date(s) specified as such in the relevant Loan Supplement, or, in the event of a prepayment in whole (but not in part) in accordance with Clauses 5.2 or 5.3 the date set for such redemption in respect of the Loan.

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified in the relevant Loan Supplement.

“Interest Rate Agreement” means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates.

“ISDA Definitions” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement.

“Loan” means each loan to be made pursuant to, and on the terms specified in this Facility Agreement and the relevant Loan Supplement, and includes each Fixed Rate Loan and Floating Rate Loan.

“Loan Agreement” means this Facility Agreement and (unless the context requires otherwise), in relation to a Loan, means this Facility Agreement as amended and supplemented by the relevant Loan Supplement.

“Make Whole Amount” means the excess of (a) the present value at such Redemption Date of the Loan, plus any required interest payments that would otherwise be due to be paid on such Loan from such Redemption Date through to the Repayment Date, together with any accrued and unpaid interest as of such Redemption Date, if any, calculated using a discount rate equal to the Treasury Rate at such Redemption Date plus the number of basis points specified as the Make Whole Premium in the relevant Loan Supplement, over (b) the principal amount of the Loan, provided that if the value of the Make Whole Amount at any time would otherwise be less than zero, then in such circumstances for the purpose of this Loan Agreement, the value of the Make Whole Amount will be equal to zero.

“Margin” has the meaning set out in the Loan Supplement.

“Material Adverse Effect” means a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or immediate prospects of Severstal or the Group; (b) Severstal’s ability to perform or comply with its obligations under a Loan Agreement or (c) the validity or enforceability of a Loan Agreement or the rights or remedies of the Lender thereunder.

“Material Subsidiary” means, at any given time, a Subsidiary of Severstal which:

- (a) has gross revenues (excluding intra-group revenues between entities in the Group) for the six months period from the date of the most recent published financial statements of Severstal representing 10 per cent. or more of the consolidated gross revenues of the Group; or
- (b) has total assets representing 10 per cent. or more of the consolidated total assets of the Group,

in each case calculated on a consolidated basis in accordance with Accounting Standards to which the then most recent published audited consolidated financial statements of Severstal comply, as consistently applied.

Compliance with the conditions set out in paragraphs (a) and (b) above shall be determined by reference to the latest consolidated annual or, as the case may be, interim financial statements of that Subsidiary prepared in accordance with the accounting policies of the Group and the latest consolidated annual or, as the case may be, interim financial statements of the Group, provided, however, that a report based on the above criteria by the Auditors (if such report is requested by the Lender), that a Subsidiary is, or is not, a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

“Materials of Environmental Concern” means any toxic, ignitable, corrosive, reactive, radioactive or caustic substance, and any other substance considered a pollutant, contaminant or hazardous or potentially hazardous substance or waste.

“Maximum Rate of Interest” has the meaning set out in the Loan Supplement.

“Minimum Rate of Interest” has the meaning set out in the Loan Supplement.

“Moody's” means Moody's Investors Service Limited or any successor to its ratings business.

“Notification Time” means the time and date specified as such in the relevant Loan Supplement.

“Officers’ Certificate” means a certificate signed on behalf of Severstal by two officers of Severstal at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of Severstal.

“Payment Time” means the time and date specified as such in the relevant Loan Supplement.

“Permitted Security Interest” means:

- (a) any Security Interests:
 - (i) existing as at the date of the relevant Loan Agreement; or
 - (ii) securing Refinancing Indebtedness in respect of any Relevant Indebtedness existing as at the date of the relevant Loan Agreement, provided that such Security Interests are limited to all or part of the assets, undertaking, property or revenues that secured the original Relevant Indebtedness and that the aggregate principal amount of such Refinancing Indebtedness secured over such assets does not exceed the sum of (x) the aggregate principal amount of the Relevant Indebtedness being refinanced; (y) accrued and unpaid interest on such Refinancing Indebtedness and (z) fees, premiums and other costs and expenses incurred in connection with such Refinancing Indebtedness;
- (b) any Security Interest created or existing in respect of Domestic Relevant Indebtedness;
- (c) any Security Interest created in respect of Relevant Indebtedness in the form of, or represented by, notes, debentures, bonds or other debt securities exchangeable or convertible into Treasury Shares or shares in any other company listed on a stock exchange, including American depository receipts and global depository receipts or other depository receipts (as the case may be) representing rights in respect of such shares;
- (d) any Security Interests in respect of Relevant Indebtedness:
 - (i) existing on any undertaking, property, assets or revenues of any person at the time such person becomes a Subsidiary (as defined below) or such undertaking property, assets or revenues are acquired by Severstal or any Subsidiary provided that such Security Interest was not created in contemplation of such event and that no such Security Interest shall extend to other undertaking property, assets or revenues of such person or the Group; or
 - (ii) securing Refinancing Indebtedness in respect of the Relevant Indebtedness specified in paragraph (d)(i) above provided that such Security Interests are limited to all or part of the undertaking, assets, property or revenues that secured the original Relevant Indebtedness and that the aggregate principal amount of such Refinancing Indebtedness secured over such assets does not exceed the sum of (x) the aggregate principal amount of the Indebtedness being refinanced; (y) accrued and unpaid interest on such Refinancing Indebtedness and (z) fees, premiums and other costs and expenses incurred in connection with such Refinancing Indebtedness; or
- (e) any Security Interest on the property, income or assets of Severstal or any of its Subsidiaries securing Relevant Indebtedness of Severstal or such Subsidiaries incurred in an aggregate principal amount outstanding at any one time not to exceed the higher of U.S.\$500,000,000 or 20 per cent. of the total consolidated assets of the Group (determined by reference to the most recent publicly available consolidated annual or interim financial statements of Severstal prepared in accordance with those Accounting Standards to which the then most recent published audited consolidated financial statements of Severstal comply as may be adopted from time to time by Severstal); or
- (f) any Security Interest created or existing in respect of any Indebtedness or other obligation or liability that is not Relevant Indebtedness;

“person” means any individual, company, corporation, firm, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any Agency or political subdivision thereof or any other entity.

“Potential Event of Default” means any event which is, or after notice or passage of time or after making any determination under a Loan Agreement (or any combination of the foregoing) would be, an Event of Default.

“Principal Trust Deed” means the amended and restated principal trust deed dated 15 March 2013 between the Issuer and the Trustee, as amended, supplemented or replaced from time to time.

“Programme” means the programme for the issuance of agreed funding.

“Programme Limit” means U.S.\$4,500,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of agreed funding that may be issued and outstanding at any time under the Programme as may be increased in accordance with the agreed funding agreements.

“Put Settlement Date” has the meaning specified in the relevant Loan Supplement.

“Rate of Interest” has the meaning specified in the relevant Loan Supplement.

“Rating Agency” means Fitch, Moody's or Standard & Poor's or if Fitch, Moody's or Standard & Poor's cease to publish ratings of securities, any other internationally recognised statistical rating organisation.

“Reference Rate” means the rate specified as such in the relevant Loan Supplement.

“Refinancing Indebtedness” means Indebtedness that Refinances any Indebtedness of Severstal or any Subsidiary of Severstal existing on the relevant Closing Date or incurred in compliance with a Loan Agreement, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that:

- (a) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;
- (b) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced;
- (c) such Refinancing Indebtedness has an aggregate principal amount (or if incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if incurred with original issue discount, the aggregate accreted value) then outstanding (plus accrued interest, fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and
- (d) if the Indebtedness being Refinanced is subordinated in right of payment to the a Loan, such Refinancing Indebtedness is subordinated in right of payment to such Loan at least to the same extent as the Indebtedness being Refinanced.

“Relevant Indebtedness” means any Indebtedness which: (a)(i) is in the form of or represented by any bond, note, debenture stock, loan stock, certificate or other debt instrument (but for the avoidance of doubt, excluding term or revolving loans (whether syndicated or unsyndicated), credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities or credit agreements other than loans specified in (a) (ii) below) which is listed or quoted on any stock exchange or (ii) is in the form of a loan to Severstal which is financed by the issuance of any of the foregoing forms of debt in (a)(i) above, where such issuance is by a special purpose company or a bank or any other entity and the rights to payment of the holders of such forms of debt are limited to payments actually made by Severstal pursuant to such loan; and (b) in the case of the debt referred to in (a)(i) above or the debt financing a loan referred to in (a)(ii) above, was initially issued and distributed (as to more than 50 per cent. of the original principal amount of such debt) outside the Russian Federation;

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Loan Supplement.

“Relevant Time” means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time.

“Repayment Date” means the date specified as such in the relevant Loan Supplement.

“Reserved Rights” has the meaning assigned to such term in the agreed funding agreements.

“RUR” or **“Roubles”** means the lawful currency of the Russian Federation.

“Sale/Leaseback Transaction” means an arrangement relating to property now owned or hereafter acquired whereby Severstal or any Material Subsidiary of Severstal transfers such property to a person and Severstal or such Material Subsidiary leases it from such person.

“Same-Day Funds” means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the

country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in Brussels of the type contemplated hereby.

“Screen Rate Determination” has the meaning set out in Clause 4.3 and the relevant Loan Supplement.

“Securities Act” means the U.S. Securities Act of 1933.

“Security Interest” means any mortgage, charge, pledge, lien or other form of security interest securing any obligation of any person.

“Severstal Account” means an account in the name of Severstal as specified in the relevant Loan Supplement for receipt of Loan funds.

“Specified Currency” means the currency specified as such in the relevant Loan Supplement.

“Standard & Poor's” means Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc, or any successor to its ratings business.

“Stated Maturity” means, with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final payment of principal of such Indebtedness is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such Indebtedness at the option of the holder or lender thereof upon the happening of any contingency unless such contingency has occurred).

“Subscription Agreement” means the agreement specified as such in the relevant Loan Supplement.

“Subsidiary” of any specified person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock is held by such first-named person and/or any of its Subsidiaries and such first-named person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business or entity, with respect to which such first-named person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if (in the case of each of (a) and (b)) in accordance with Accounting Principles, as consistently applied, such entity would be fully consolidated with the first-named person for financial statement purposes.

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET 2) System which was launched on 19 November 2007 or any successor thereof.

“Treasury Rate” means a rate equal to the yield, as published by the Treasury Publisher specified in the relevant Loan Supplement, on the actively traded Reference Treasury specified in the relevant Loan Supplement with a maturity comparable to the remaining life of the Loan, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary Reference Treasury dealers in the Business Centre specified in the relevant Loan Supplement selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in the Business Centre specified in the relevant Loan Supplement preceding the Redemption Date.

“Treasury Shares” means any ordinary shares in the charter capital of Severstal and any American Depositary Receipts, Global Depositary Receipts or other depository receipts (as the case may be) representing rights in respect of such shares, as may be owned by Severstal or any of its Subsidiaries.

“Trustee” has the meaning assigned to such term in the Principal Trust Deed.

“U.S. GAAP” means generally accepted accounting principles, standards and practices in the United States of America.

“Voting Stock” means, in relation to any person, Capital Stock entitled (without the need for the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

“Warranty Date” means the date hereof, the date of each Loan Supplement, each Closing Date, each date on which the Base Prospectus or any of the agreed funding agreements is amended, supplemented or replaced and each date on which the Programme Limit is increased.

“Wholly Owned Subsidiary” means a Subsidiary all the Capital Stock of which (other than directors’ qualifying shares or shares of Subsidiaries required to be owned by third parties under applicable law) is owned by Severstal or one or more other Wholly Owned Subsidiaries.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Facility Agreement which are not defined in this Facility Agreement but which are defined in, or are defined by cross-reference to definitions in, or other provisions of, any agreed funding agreements, shall have the meanings assigned to such terms therein, provided that in the case of terms defined or references herein to documents to which Severstal is not a party, Severstal has been sent an up-to-date copy of such documents as soon as reasonably practicable (including any amendments thereto that may affect the meaning or interpretation of any such term or reference).

1.3 Interpretation

Unless the context or the express provisions of this Facility Agreement otherwise require, the following shall govern the interpretation of this Facility Agreement:

- 1.3.1 All references to “Clause” or “sub-Clause” are references to a Clause or sub-Clause of this Facility Agreement.
- 1.3.2 The terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean the relevant Loan Agreement as a whole and not any particular part hereof.
- 1.3.3 Words importing the singular number include the plural and vice versa.
- 1.3.4 All references to “taxes” include all present or future taxes, levies, imposts and duties of any nature and the terms “tax” and “taxation” shall be construed accordingly.
- 1.3.5 The table of contents and the headings are for convenience only and shall not affect the construction hereof.
- 1.3.6 References to “Russia” and “Russian” shall mean the Russian Federation.
- 1.3.7 Any reference herein to a document being in “agreed form” means that the document in question has been agreed between the proposed parties thereto, subject to any amendments that such parties may agree upon prior to the respective effectiveness date.
- 1.3.8 Unless otherwise stated, whenever an amount in one currency needs to be converted into an amount in another currency for the purposes of determining compliance with any provision under this Agreement, such calculation shall be determined in good faith on the basis of reasonable exchange rates by a responsible financial or accounting officer of Severstal and, for the avoidance of doubt, whenever it is necessary thereafter to determine whether Severstal complied with any such provision, such determination shall be made on the basis of the conversion rate applied in compliance with the foregoing provisions hereof.

1.4 Amendment and Restatement

This Agreement amends and restates the Original Facility Agreement. Any Loans made on or after the date hereof shall have the benefit of this Agreement. The amendments set out herein do not affect any Loans made prior to the date of this Agreement.

2 Loans

2.1 Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to Severstal Loans up to the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Loan will be used for general corporate purposes (unless otherwise specified in the relevant Loan Agreement), but the Lender shall not be concerned with the application thereof.

2.3 Separate Loans

It is agreed that with respect to each Loan, all the provisions of this Facility Agreement and the Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Loan and the expressions “**Account**”, “**agreed funding**”, “**Arrangement Fee**”, “**Closing Date**”, “**Day Count Fraction**”, “**Interest Payment Date**”, “**Loan Agreement**”, “**Rate of Interest**”, “**Repayment Date**”, “**Specified Currency**”, together with all other terms that relate to such a Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that each such Loan shall be made pursuant to this Facility Agreement and the relevant Loan Supplement, together comprising the Loan Agreement in respect of such Loan and that, unless expressly provided, events affecting one Loan shall not affect any other.

3 Drawdown

3.1 Drawdown

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on the Closing Date thereof the Lender shall make a Loan to Severstal and Severstal shall make a single drawing in the full amount of such Loan.

3.2 Loan Arrangement Fee

In consideration of the Lender’s undertaking to make a Loan available to Severstal, Severstal hereby agrees that it shall pay to the Lender, in Same-Day Funds, an Arrangement Fee (as defined in the relevant Loan Supplement) in connection with *inter alia*, the arrangement and financing of the relevant Loan, and the negotiation, preparation and execution of the relevant Loan Agreement and the other agreed funding agreements and other costs connected with and necessary for the provision of such Loan. Severstal shall pay the Arrangement Fee promptly following receipt of an invoice from the Issuer providing for the amount due. Following payment of the Arrangement Fee to the Lender by Severstal, Severstal and the Lender shall enter into and sign a delivery and acceptance act as provided in Clause 6.10. To the extent the Arrangement Fee is paid prior to the relevant Closing Date, in the event that following payment of the Arrangement Fee by Severstal to the Lender, closing of the issue of any agreed funding does not take place in accordance with the relevant agreed funding agreements, the Lender shall return the Arrangement Fee to Severstal less certain amounts to be deducted pursuant to arrangements entered into by Severstal in respect of the Loan in relation to costs due in such circumstances, within 3 Business Days of the determination of such amounts by the Lender (and the Lender shall determine such amounts as soon as reasonably practicable). The Arrangement Fee may be paid by Severstal directly to the account of the Lender or in full or in part upon the Lender’s instruction to the accounts of contractors under the agreed funding agreements executed by the Lender or to the accounts of other persons as specified by the Lender in respect of expenses incurred in accordance with this Clause 3.2 (“third parties”). Severstal may pay the Arrangement Fee directly to such third parties and prior to making any such payment Severstal shall be entitled to request from such third parties documents confirming that such third parties are, or, at the time of such payment, will be, tax residents of countries that have entered into a double taxation treaty with the Russian Federation. In addition, Severstal may (but is not obliged to), independently of the Lender, conclude such separate agreements as may be necessary to arrange and fund the relevant Loan. In such case, payments under such agreements shall be made by Severstal directly and the corresponding expenses shall not be included by the Lender in the calculation of the Arrangement Fee or in a delivery and acceptance act specified in Clause 6.10.

3.3 Disbursement

Subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on each Closing Date the Lender shall transfer the amount of the relevant Loan to the Severstal Account specified in the relevant Loan Supplement, or such other bank account that is notified in writing to the Lender by Severstal at least one Business Day prior to the Closing Date, in Same-Day Funds.

3.4 Ongoing Fees and Expenses

In consideration of the Lender establishing and maintaining the Programme and agreeing to make Loans to Severstal, Severstal shall pay on demand to the Lender as and when such amounts are due an amount equal to all ongoing fees and costs (which, for the avoidance of doubt, shall include all ongoing costs, charges, liabilities and

expenses incurred by the Lender in relation to the agreed funding agreements and the agreed funding as well as in relation to the maintenance of its good standing). Payments to the Lender referred to in this Clause 3.4 shall be made by Severstal promptly following receipt of the relevant invoice from the Lender. In addition, following each payment of such fees and expenses to the Lender by Severstal, Severstal and the Lender shall enter into and sign a delivery and acceptance act as provided in Clause 6.10.

For the avoidance of doubt, the ongoing fees and expenses referred to in this Clause shall also include all expenses incurred by the Lender in the course of the purchase and cancellation of the agreed funding in accordance with Clause 5.4. Payment by Severstal of the ongoing fees and expenses may be made directly to the Lender's account or in full or in part upon the Lender's instruction to the accounts of contractors under the agreed funding agreements or to the accounts of such third parties as specified by the Lender in respect of expenses incurred in accordance with this Clause 3.4. Severstal may pay the ongoing fees and expenses directly to such third parties if, at the time of such payment, it has documents confirming that such third parties are located in countries that have entered into a double taxation treaty with the Russian Federation. In addition, Severstal may (but is not obliged to) independently, in its own name and without the Lender's involvement, conclude such separate agreements as may be necessary to maintain and service the agreed funding. In such case, payments under such agreements shall be made by Severstal directly and the corresponding expenses shall not be included by the Lender in the ongoing fees and expenses or in a delivery and acceptance act specified in Clause 6.10.

4 Interest

4.1 Rate of Interest for Fixed Rate Loans

Each Fixed Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the applicable Rate of Interest.

4.2 Payment of Interest for Fixed Rate Loans

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear by Severstal to the Account not later than the relevant Payment Time prior to each Interest Payment Date. The amount of interest payable shall be determined in accordance with Clause 4.6.

4.3 Interest for Floating Rate Loans

4.3.1 *Interest Payment Dates:* Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, which interest shall be paid in arrear by Severstal to the relevant Account not later than the relevant Payment Time prior to each Interest Payment Date. The amount of interest payable shall be determined in accordance with Clause 4.6. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 *Business Day Convention:* If any date referred to in the relevant Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each such subsequent date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 *Rate of Interest for Floating Rate Loans:* The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Loan Supplement.

(i) ISDA Determination for Floating Rate Loans

Where ISDA Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (i), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (a) the Floating Rate Option is as specified in the relevant Loan Supplement;
- (b) the Designated Maturity is a period specified in the relevant Loan Supplement; and
- (c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Supplement.

For the purposes of this sub-paragraph (i), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Loans

Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (a) the offered quotation; or
- (b) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, only one of such quotations) and the lowest (or, if there is more than one such lowest quotation, only one of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Loans is specified in the relevant Loan Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Floating Rate Loans will be determined as provided in the relevant Loan Supplement.

- (x) if the Relevant Screen Page is not available or if, sub-paragraph (a) applies and no such offered quotation appears on the Relevant Screen Page or if sub paragraph (b) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (y) if paragraph (b) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference

Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of Severstal and the Lender suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

4.4 Accrual of Interest

Interest shall cease to accrue on each Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the applicable Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made.

4.5 Margin, Maximum/Minimum Rates of Interest and Rounding

- 4.5.1 If any Margin is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- 4.5.2 If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.
- 4.5.3 For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 Calculations

The amount of interest payable per Calculation Amount in respect of any Loan for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified on such Loan, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Loan for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

4.7 Determination and Publication of Rates of Interest and Interest Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date to be notified to Severstal, the Lender, the agreed funding source and the party designated as principal paying agent by the agreed funding agreements and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to sub-Clause 4.3.2, the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of Severstal and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under Clause 11, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously in accordance with this Clause but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Lender otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 Calculation Agent and Determination or Calculation by the agreed funding source

Severstal shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in a Loan Supplement and for so long as any amount remains outstanding under a Loan Agreement. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if it does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount in relation to a Floating Rate Loan or comply with any other requirement, the Lender and Severstal agree that:

- 4.8.1 the Lender shall (with the prior written approval of Severstal) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place; failing which
- 4.8.2 such determination or calculation may be made by or at the direction of the agreed funding source as set out in the conditions of the corresponding agreed funding and such determination or calculation shall be deemed to have been made by the Calculation Agent. The parties acknowledge that in doing so, the agreed funding source shall apply or shall have applied the foregoing provisions of this sub-Clause 4.8.2, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both Severstal and the Lender agree that such successor Calculation Agent will be appointed on the terms of the agreed funding agreement in relation to the agreed funding.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein and in the applicable Loan Supplement, Severstal shall repay each Loan not later than the relevant Payment Time prior to the Repayment Date.

5.2 Prepayment in the event of Taxes or Increased Costs

If, as a result of the application of or any amendments or clarification to, or change (including a change in interpretation or application) in, or determination under, the double tax treaty between the Russian Federation and Luxembourg or the laws or regulations of the Russian Federation or Luxembourg or of any political subdivision thereof or any authority therein having power to tax (each, a “**Taxing Jurisdiction**”) or the enforcement of the security provided for in the agreed funding agreements, Severstal would thereby be required (i) to increase

the payment of principal or interest or any other payment due pursuant to a Loan Agreement as provided in Clause 6.2 or 6.3, or if (for whatever reason) Severstal would have to or has been required (ii) to pay additional amounts pursuant to Clause 8, and in any such case such obligation cannot be avoided by Severstal taking reasonable measures available to it, then Severstal may (without premium or penalty), upon not less than 30 days' notice to the Lender (which notice shall be irrevocable), prepay the Loan relating to such Loan Agreement in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Loan, or at any time, in the case of a Fixed Rate Loan.

No such notice of prepayment shall be given earlier than 90 days prior to the earliest date on which Severstal would be obliged to pay such additional amounts or increase such payment if a payment in respect of the Loan were then due.

Prior to giving any such notice in the event of an increase in payment pursuant to Clause 6.2, Severstal shall deliver to the Lender an Officers' Certificate confirming that Severstal would be required to increase the amount payable, supported by an opinion of an independent tax adviser addressed to the Lender, any trustee or representative for the agreed funding source and Severstal.

5.3 Prepayment in the event of Illegality

If, at any time the Lender reasonably determines that it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any Agency of any state or otherwise for the Lender to allow all or part of the relevant Loan or the corresponding agreed funding agreements to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Loan or the agreed funding or the agreed funding agreements relating thereto and/or to charge or receive or to be paid interest at the rate then applicable to such Loan (an "**Event of Illegality**"), then upon notice by the Lender to Severstal in writing, Severstal and the Lender shall consult in good faith as to a basis which eliminates the application of such Event of Illegality; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 calendar days of the date on which it so notified Severstal. If such a basis has not been determined within the 30 calendar days, then upon written notice by the Lender to Severstal, Severstal shall prepay such Loan in whole (but not in part) on the next Interest Payment Date therefor, in the case of a Floating Rate Loan, or, in the case of a Fixed Rate Loan, on the next Interest Payment Date or on such other date as the Lender (acting reasonably) shall certify to be necessary to comply with such requirements.

5.4 Reduction of a Loan Upon Cancellation of corresponding agreed funding

Severstal or any Subsidiary or affiliate of Severstal or any other company acting for the benefit of Severstal may from time to time purchase any agreed funding (or may provide funding to the Lender to purchase the agreed funding in the open market, by tender or by private agreement) at any price and on such other terms as Severstal may determine. Such agreed funding purchased by Severstal or affiliate of Severstal or any other company acting for the benefit of Severstal may be held, reissued or resold. Alternatively, Severstal (or any Subsidiary or affiliate of Severstal) may from time to time surrender to the Lender for cancellation agreed funding having an aggregate principal value of at least U.S.\$1,000,000 (or its equivalent in a Specified Currency), together with an authorisation addressed to the agent of the Lender designated for such purpose (or instruct the Lender to cancel the agreed funding it has purchased at request of Severstal), whereupon the Lender shall have the relevant agreed funding cancelled and the principal amount of the Loan corresponding to the principal amount of such agreed funding is deemed to have been repaid by Severstal for all purposes as of the date of such cancellation and no further payments shall be made by Severstal in respect of such amounts. For the avoidance of doubt, each purchase and cancellation of agreed funding shall result in the reduction of Severstal's debt obligations to the Lender under the corresponding Loan to the extent of the reduction in the outstanding principal amount of the corresponding Loan.

5.5 Payment of Other Amounts

If a Loan is to be prepaid by Severstal pursuant to any of the provisions of Clauses 5.2 or 5.3 or pursuant to the terms of the relevant Loan Agreement, Severstal shall, simultaneously with such prepayment, pay to the Lender, accrued interest on the Loan to the date of actual payment and all other sums payable by Severstal pursuant to this Agreement in connection with the prepaid amount. For the avoidance of doubt, if the principal amount of such Loan is reduced pursuant to the provisions of Clause 5.4, then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which such Loan is so reduced and Severstal shall not be entitled to any interest in respect of the cancelled agreed funding.

5.6 Optional Prepayment under Call Option

If Call Option is specified in the relevant Loan Supplement, Severstal may, at its option at any time prior to the Repayment Date on giving not less than 30 nor more than 60 days' (or such other time periods as specified in the relevant Loan Supplement) irrevocable notice to the Lender, in whole or in part, repay the Loan at the Early Redemption Amount plus the Make Whole Amount. The notice to be given shall specify the date(s) for repayment of the Loan and the date(s) for the redemption of the agreed funding (the "**Optional Redemption Date(s)**"), which, unless otherwise specified, shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of such notice, the Lender shall forward it to the agreed funding source and the party designated as principal paying agent by the agreed funding agreements. The Loan shall be repaid on the date specified in such notice.

5.7 Optional Repayment under Put Option

If Put Option is specified in the relevant Loan Supplement, following not less than 30 nor more than 60 days' (or such other time periods as specified in the relevant Loan Supplement) notification from the Lender, Severstal shall prepay the Loan (without premium or penalty), to the extent of the aggregate principal amount of the agreed funding to be extinguished as specified in such notice, at the relevant Payment Time on or prior to the Put Settlement Date.

5.8 Notices Irrevocable

Any notice of cancellation or prepayment given under this Clause 5 shall be irrevocable and, unless a contrary indication appears in this Facility Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.

5.9 Provisions Exclusive

Severstal shall not prepay or repay all or any part of any Loan except in accordance with the express terms of the relevant Loan Agreement. Any amount prepaid or repaid may not be reborrowed under such Loan Agreement.

6 Payments

6.1 Making of Payments

All payments of principal, interest and other amounts (other than those in respect of Reserved Rights) to be made by Severstal under each Loan Agreement shall be made unconditionally by credit transfer to the Lender not later than the relevant Payment Time prior to each Interest Payment Date or the Repayment Date (as the case may be) or such other date as may be specified in the relevant Loan Supplement in Same-Day Funds to the relevant Account or as the agreed funding source may otherwise direct following the occurrence of a Relevant Event.

Severstal shall, before the relevant Notification Time prior to each Interest Payment Date or the Repayment Date or such other date (as the case may be), procure that the bank effecting such payments on its behalf confirms to the party designated as principal paying agent by the agreed funding agreements by tested telex or authenticated SWIFT the payment instructions relating to such payment.

The Lender agrees with Severstal that it will not deposit any other monies into such Account and that no withdrawals shall be made from such Account other than as provided for and in accordance with the relevant agreed funding agreements.

For the avoidance of doubt, the parties to any other agreed funding agreement are intended by the parties to this Facility Agreement to have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce the terms of this Clause 6.1.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by Severstal under each Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any taxes. If Severstal shall be required by applicable law to make any deduction or withholding from any payment under a Loan Agreement for or on account of any such taxes, it shall increase any payment due under such Loan Agreement to such amount as may be necessary to ensure that the Lender receives on the relevant date a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such taxes, shall promptly account to the relevant authorities for the relevant amount of such taxes so withheld or deducted and shall deliver to the Lender without undue delay customary evidence of

such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such taxes including penalties or interest, Severstal shall reimburse the Lender in the Specified Currency for such payment on demand.

6.3 Withholding on agreed funding

Without prejudice to the provisions of Clause 6.2, if the Lender notifies Severstal that it has become obliged to make any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Luxembourg or any political subdivision or any authority thereof or therein having the power to tax from any payment which it is obliged to make under or in respect of any agreed funding, Severstal agrees to pay to the Lender, not later than the relevant Payment Time prior to the date on which payment is due to the agreed funding source of such agreed funding in Same-Day Funds to the relevant Account, such additional amounts as are equal to the additional amounts which the Lender would be required to pay in order that the net amounts received by the agreed funding source, after such withholding or deduction, will equal the respective amounts which would have been received by the agreed funding source in the absence of such withholding or deduction; provided, however, that the Lender shall immediately upon receipt from any paying agent of the Lender of any reimbursement of the sums paid pursuant to this provision, to the extent that the agreed funding source of such agreed funding is not entitled to such additional amounts pursuant to the terms and conditions of such agreed funding, pay such amounts received by way of such reimbursement to Severstal (it being understood that neither the Lender, nor any paying agent of the Lender shall have any obligation to determine whether the agreed funding source of such agreed funding is not entitled to any such additional amount).

Any notification by the Lender to Severstal in connection with this Clause 6.3 shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction. The Lender shall, as soon as reasonably practicable following request by Severstal, provide Severstal with reasonable detail in writing as to the reasons for such withholding or deduction.

6.4 Reimbursement

6.4.1 To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which Severstal has made a payment pursuant to this Clause 6 it shall pay to Severstal so much of the benefit it received as will leave the Lender in substantially the same position as it would have been in had no additional amount been required to be paid by Severstal pursuant to this Clause 6; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to Severstal, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender, provided that the Lender shall notify Severstal promptly upon determination that it has received any such benefit. The Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it and the Lender shall in no circumstances be obliged to disclose to Severstal any information regarding its tax affairs or computations.

6.4.2 If as a result of a failure to obtain relief from deduction or withholding of any taxes referred to in Clause 6.2, (i) such taxes are deducted or withheld by Severstal and pursuant to Clause 6.2 an increased amount is paid by Severstal to the Lender in respect of such deduction or withholding and (ii) following the deduction or withholding of taxes as referred to above, Severstal applies on behalf of the Lender to the competent taxing authority for a withholding tax refund and such withholding tax is refunded or repaid by the relevant taxing authority to the Lender, the Lender shall as soon as reasonably practicable notify Severstal of the receipt of such withholding tax refund and promptly transfer the actually received amount of the withholding tax refund in the currency actually received and less any applicable costs to a bank account of Severstal specified for that purpose by Severstal.

6.5 Representations of the Lender

The Lender represents, and on each Warranty Date shall be deemed to represent, that (a) it is a company which is a resident of Luxembourg, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its board of directors or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg and it will be able to receive certification to this effect from the Luxembourg taxing authorities; (b) it does not have a permanent establishment in the Russian Federation; (c) it does not have any current intentions to effect, during the term of any Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Luxembourg or ceasing to be subject to taxation in Luxembourg; and (d) it is not a holding company within the meaning assigned by specific laws of the Grand Duchy of Luxembourg governed by the law of 31 July 1929 and the decree of the Grand Duke dated 17 December 1938 (as abrogated

by the Grand Duchy of Luxembourg law dated 22 December 2006), nor a company in the Grand Duchy of Luxembourg governed by any similar tax law.

The Lender shall make reasonable and timely efforts to assist Severstal to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between the Russian Federation and Luxembourg, including, without limitation, its obligations under Clauses 6.6 and 6.9. The Lender makes no representation as to the application or interpretation of any double taxation treaty between the Russian Federation and Luxembourg.

6.6 Notification and Substitution

6.6.1 The Lender agrees upon becoming aware of such, promptly to notify Severstal if it ceases to be tax resident in Luxembourg or opens a permanent establishment in Russia or if any of the representations set forth in Clause 6.5 are no longer true and correct.

6.6.2 If the Lender ceases, as a result of the Lender's actions, to be tax resident in a jurisdiction for the purposes of a double taxation treaty between the Russian Federation and such jurisdiction, and such cessation results in Severstal being required to make payments pursuant to Clause 6.2, Clause 6.3 or Clause 8 then, except in circumstances where the Lender has ceased to be tax resident in such jurisdiction by reason of any change of law (as described in Clause 5.2) (including, without limitation, a change in a double taxation treaty or in such law or treaty's application or interpretation), Severstal may require the Lender to seek the substitution of the Lender as borrower of the agreed funding and as lender under any Loan. Severstal shall bear all costs and expenses relating to or arising out of such substitution.

6.7 Evidence of Debt

The entries made in the relevant Account shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of Severstal's obligations to pay amounts thereto, as recorded therein.

6.8 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of Severstal to make any deduction, withholding or payment as described in Clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or Severstal's obligations under any of the above mentioned provisions, the Lender shall, upon becoming aware of the same, notify Severstal thereof and, in consultation with Severstal and to the extent it can lawfully do so and without prejudice to its own position, take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; provided that the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might reasonably be expected to have any adverse effect upon its business, operations or financial condition or might be in breach of any provision of the agreed funding agreements.

6.9 Tax Treaty Relief

The Lender shall at Severstal's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, use commercially reasonable efforts to obtain and to deliver to Severstal no later than 25 Business Days before the first Interest Payment Date and thereafter no later than 25 Business Days prior to the first Interest Payment Date in each calendar year, a certificate issued by the competent taxing authority in Luxembourg (the "**Relevant Tax Jurisdiction**") confirming that the Lender is tax resident in such Relevant Tax Jurisdiction and such other information or forms as may need to be duly completed and delivered by the Lender to enable Severstal to apply to obtain relief from deduction or withholding of Russian taxes after the date of this Facility Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. The Lender shall, at the request of Severstal and at Severstal's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, from time to time use its commercially reasonable efforts to obtain and to deliver to Severstal any other information or additional duly completed application forms as may need to be duly completed and delivered by the Lender to enable Severstal to apply to obtain relief from deduction or withholding of Russian taxes or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. The certificate and, if required, other forms referred to in this Clause 6.9 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent taxing authority in the Relevant Tax Jurisdiction, if applicable. Together with any such certificate and, if required, other forms, the Lender shall deliver to Severstal a copy of the same, certified by an appropriate notary to be a true and up to date copy of the original document. Any such notary's certificate shall be apostilled or otherwise legalised. If a relief from deduction or withholding of Russian taxes under this Clause 6.9 has not been obtained and further to an application of Severstal to the relevant Russian taxing authorities the latter requests the Lender's rouble bank

account details, the Lender shall at the request of Severstal (a) use its commercially reasonable efforts, at Severstal's cost, to procure that such rouble bank account of the Lender is duly opened and maintained, and (b) thereafter furnish Severstal with the details of such rouble bank account. Severstal and the Lender (using its best endeavours and in accordance with the law) agree that, should the Russian legislation regulating the procedure for obtaining relief from Russian income tax withholding or the interpretation thereof by the relevant competent authority change then the procedure referred to in this Clause 6.9 will be deemed changed accordingly.

6.10 Acts of Acceptance

In connection with all payments to be made by Severstal under each Loan Agreement, Severstal and the Lender shall, within 30 days of such payment becoming due or, if appropriate, such indemnity claim having been made, execute a delivery and acceptance act (which Severstal shall prepare) with respect to the amounts to be paid by Severstal. Such delivery and acceptance acts shall specify (i) the net amount due, (ii) any applicable Russian income tax withholding, (iii) any applicable Russian value added tax and (iv) the resulting total amount inclusive of tax. In addition, delivery and acceptance acts (if applicable) shall separately specify any amount(s) paid by Severstal pursuant to the Lender's instruction as part of the Arrangement Fee or as part of the ongoing fees and expenses specified in Clause 3.4, to the accounts of contractors under agreed funding agreements and to the accounts of such third parties as specified by the Lender in respect of expenses incurred in accordance with Clauses 3.2 and 3.4. The execution of a delivery and acceptance act shall be considered the Lender's instruction to Severstal to make payments to the specified third parties.

7 Conditions Precedent

The obligation of the Lender to make each Loan shall be subject to the conditions precedent that as of the relevant Closing Date, (a) the representations and warranties made and given by Severstal in Clause 9.1 shall be true and accurate as if made and given on the relevant Closing Date with respect to the facts and circumstances then existing, (b) no event shall have occurred that constitutes an Event of Default or a Potential Event of Default, (c) the relevant agreed funding agreements shall have been executed and delivered, and (d) the Lender shall have received the full amount of the subscription moneys for the corresponding agreed funding.

8 Change in Law or Increase in Cost

8.1 Compensation

In the event that after the date of a Loan Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Lender in respect of any Loan Agreement or any Loan with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central bank or other fiscal, monetary or other authority, Agency or any official of any such authority, which:

- 8.1.1 subjects or will subject the Lender to any taxes with respect to payments of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any taxes referred to in Clauses 6.2 or 6.3); or
- 8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any taxes referred to in Clauses 6.2 or 6.3); or
- 8.1.3 imposes or will impose on the Lender any other condition affecting such Loan Agreement or such Loan, and if as a result of any of the foregoing:
 - (i) the cost to the Lender of making, funding or maintaining such Loan is increased; or
 - (ii) the amount of principal, interest or other amounts payable to or received by the Lender under such Loan Agreement is reduced; or
 - (iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from Severstal hereunder or makes

any payment or foregoes any interest or other return on or calculated by reference to the gross amount of such Loan,

then subject to the following, and in each such case:

- (a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to Severstal, together with a certificate describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and all relevant supporting documents evidencing the matters set out in such certificate; and
- (b) Severstal shall, in the case of sub-Clauses 8.1.3(i) and 8.1.3(iii) above, on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of sub-Clause 8.1.3(ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return, provided however, that the amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to such Loan.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1 then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or Severstal's obligations under the above mentioned provision, the Lender shall, upon becoming aware of the same, notify Severstal thereof and, in consultation with Severstal and to the extent it can lawfully do so and without prejudice to its own position, take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; provided that the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might reasonably be expected to result in a breach of any provision of the agreed funding agreements or the agreed funding.

9 Representations and Warranties

9.1 Severstal's Representations and Warranties

Severstal represents and warrants to the Lender, and on each Warranty Date shall be deemed to represent and warrant to the Lender, in each case with the intent that such shall form the basis of each Loan Agreement, that:

- 9.1.1 it and each of its Material Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation and has the power and legal right to own its property, to conduct its business as described in the Base Prospectus and in the case of Severstal only to enter into and to perform its obligations under each Loan and to borrow Loans thereunder; that it has taken all necessary corporate, legal and other action required to authorise the borrowing of Loans on the terms and subject to the conditions of each Loan Agreement and to authorise the execution and delivery of each Loan Agreement and all other documents to be executed and/or delivered by it in connection with each Loan Agreement, and the performance of each Loan Agreement in accordance with its respective terms;
- 9.1.2 each Loan Agreement including in relation to a Loan, the Loan Supplement in relation thereto, has been duly executed and delivered by and constitutes a legal, valid and binding obligation of Severstal enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and other laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity (ii) to the fact that the gross-up provisions contained in Clauses 6.2 or 6.3 may not be enforceable under Russian law and (iii) with respect to the enforceability of a judgment, to the laws of the relevant jurisdiction where such judgment must be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments;
- 9.1.3 the execution, delivery and performance of each Loan Agreement by Severstal, including in relation to a Loan, the Loan Supplement in relation thereto, will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of Severstal or any of its

Material Subsidiaries, or (iii) any agreement or other undertaking or instrument to which Severstal or any of its Material Subsidiaries is a party or which is binding upon Severstal or any of its Material Subsidiaries or any of their respective assets (except in the case of sub-paragraph (iii) where such breach or violation does not have a Material Adverse Effect), nor result in the creation or imposition of any Security Interests (other than Permitted Security Interests) on any of their respective assets pursuant to the provisions of any such agreement or other undertaking or instrument;

- 9.1.4 all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation required by Severstal in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of each Loan Agreement have been obtained or effected and are and, in relation to a Loan, shall remain up to and including the relevant Closing Date, in full force and effect;
- 9.1.5 no event has occurred that constitutes an Event of Default, a Potential Event of Default or a default under any agreement or instrument evidencing any Indebtedness of Severstal or any Material Subsidiary (unless such default does not have a Material Adverse Effect), and no such event will occur upon the making of each Loan;
- 9.1.6 save as disclosed in the Base Prospectus, there are no judicial, arbitral or administrative actions, proceedings or claims (including, but without limitation to, with respect to taxes) which have been commenced or are pending or, to the knowledge of Severstal, threatened, against Severstal or any of its Subsidiaries, the adverse determination of which could reasonably be expected to have a Material Adverse Effect;
- 9.1.7 Severstal and each of its Material Subsidiaries has good title to its property (except, in each case, where the failure to so have would not have a Material Adverse Effect) free and clear of all Security Interests (except for Permitted Security Interests) and Severstal's obligations under each Loan rank at least *pari passu* with all its other unsecured and unsubordinated Relevant Indebtedness, save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application;
- 9.1.8 save as disclosed in the Base Prospectus, since the date of the last published audited financial statements of the Group, neither it nor any of its Material Subsidiaries has made any loans, granted any credit (save in the ordinary course of business) or given any Guarantee or indemnity (save in the ordinary course of business) to or for the benefit of any person (other than another member of the Group) or otherwise assumed any liability, whether actual or contingent, in respect of any obligation of any person (other than another member of the Group), which loans, credits, Guarantees or indemnities are material to the Group;
- 9.1.9 save as disclosed in the Base Prospectus, there has been no material adverse change since the date of the last published audited financial statements of the Group in the condition (financial or otherwise), results of business, operations or immediate prospects of Severstal or any of its Material Subsidiaries or on Severstal's ability to perform its obligations under each Loan Agreement;
- 9.1.10 the execution, delivery and enforceability of each Loan Agreement is not subject to any tax, duty, fee or other charge, including, but without limitation to, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim, petition or other application filed with a Russian court);
- 9.1.11 neither Severstal nor any Material Subsidiary nor their respective property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to each Loan Agreement;
- 9.1.12 Severstal and each Material Subsidiary is in compliance with all applicable provisions of law, except where a failure to do so does not and will not have a Material Adverse Effect;
- 9.1.13 save as disclosed in the Base Prospectus, there are no strikes or other employment disputes against Severstal or any Material Subsidiary which have been started or are pending or, to the knowledge of Severstal, threatened, that could reasonably be expected to have a Material Adverse Effect;
- 9.1.14 in any proceedings taken in the Russian Federation in relation to each Loan Agreement, the choice of English law as the governing law of each Loan Agreement and any arbitration award obtained in

England in relation thereto will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and subject to all other legal requirements in Russia;

- 9.1.15 subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any taxes is required to be made from any payment by Severstal under each Loan Agreement (save for VAT that may be payable with respect to the reimbursement of costs and expenses);
- 9.1.16 all licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable Severstal or any of its Material Subsidiaries to own their respective assets and carry on their respective businesses as described in the Base Prospectus are in full force and effect, except for those an absence of which do not and would not have a Material Adverse Effect;
- 9.1.17 save as disclosed in the Base Prospectus, Severstal and its Material Subsidiaries (i) have, duly complied with, and have operated, used and only permitted the use of all properties and businesses owned, leased, occupied or operated by them in compliance with, all Environmental Laws, unless a failure to do so does not and would not have a Material Adverse Effect, (ii) after due inquiry, are not aware and have no reason to suspect that any property or business now owned, leased, occupied or operated by them is or may be contaminated by, or is adjacent to any property that may be contaminated by, or used in connection with, any Material of Environmental Concern where this has or would have a Material Adverse Effect or that any such property or business was used or operated by any prior owner, lessee, occupant or operator or other third party (with or without permission) in any way that constituted or is now capable of constituting a violation of any provision of any Environmental Law that has or would have a Material Adverse Effect, (iii) have not received any notice of any material violation or alleged material violation of any provision of any Environmental Law for which they may be held responsible and (iv) to the best of Severstal's knowledge, have no obligations with which they are not complying or liabilities, contingent or absolute, relating to the use, possession, collection, storage, processing, treatment, emission, release, discharge, disposal, transfer or transport of Materials of Environmental Concern, or the remediation of any of the foregoing, except in each case where such non-compliance or liability does not and would not have a Material Adverse Effect;
- 9.1.18 it is subject to civil and commercial law with respect to its obligations under each Loan Agreement, and its execution of each Loan Agreement constitutes, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial acts done and performed for private and commercial purposes; and
- 9.1.19 Severstal and each Material Subsidiary has no overdue tax liabilities other than those which (i) have been disclosed in the Base Prospectus, (ii) Severstal or the relevant Material Subsidiary (as the case may be) is contesting in good faith and by appropriate proceedings or (iii) the failure to pay or discharge will not have a Material Adverse Effect.

9.2 Lender's Representations and Warranties

The Lender represents and warrants to Severstal, and on each Warranty Date shall be deemed to represent and warrant to Severstal, as follows:

- 9.2.1 the Lender is duly incorporated and validly existing under the laws of and is resident for Luxembourg taxation purposes in Luxembourg and has full power and capacity to execute this Facility Agreement, each Loan Agreement, including in relation to each Loan, the relevant Loan Supplement, and the agreed funding agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same;
- 9.2.2 the execution of this Facility Agreement, each Loan Agreement, including in relation to each Loan, the relevant Loan Supplement, and the agreed funding agreements and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or any agreement or instrument to which it is a party or by which it is bound;
- 9.2.3 this Facility Agreement, each Loan Agreement, including in relation to each Loan, the relevant Loan Supplement, and the agreed funding agreements have been duly executed by and constitute or, as the case may be, will be before the relevant Closing Date duly executed by and will constitute legal, valid and binding obligations of the Lender subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity;

- 9.2.4 all authorisations, consents and approvals required by the Lender for or in connection with the execution of this Facility Agreement, each Loan Agreement, including in relation to each Loan, the relevant Loan Supplement, and the agreed funding agreements and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect;
- 9.2.5 it (i) is a company which at the date hereof is a resident of Luxembourg in the sense of the double taxation treaty between Russia and Luxembourg; and in particular is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg, (ii) does not have any current intentions to effect during the term of any Loans any corporate action or reorganisation or change of its tax jurisdiction that would result in the Lender ceasing to be a tax resident of Luxembourg in the sense of the double taxation treaty between Russia and Luxembourg and be subjected to taxation in Luxembourg and (iii) will be able to obtain a certificate confirming its tax residence in Luxembourg from the Luxembourg tax authorities for the purposes of the double taxation treaty between Russia and Luxembourg;
- 9.2.6 it does not have a permanent establishment in Russia, in particular, it:
- (i) does not have a branch, representation, division, bureau, office, agency or any other economically autonomous subdivision or other place of business in any country other than Luxembourg through which its business is wholly or partially carried out;
 - (ii) did not explicitly grant any authority to and is not aware of an implied authority for Severstal or any other person located outside Luxembourg to negotiate key parameters of any contracts or sign any contracts on behalf of the Lender, bind the Lender in any contracts by other means or otherwise represent the Lender in dealings with third parties;
 - (iii) has its central management and control in Luxembourg. The Lender's place of effective management is only in Luxembourg. The Lender will have its statutory seat in Luxembourg and will be effectively managed in Luxembourg; and
 - (iv) has and will have only directors that reside professionally in Luxembourg and shall at all times act independently and exercise their authority only from and within Luxembourg by taking all key decisions relating to the Lender in Luxembourg;
- 9.2.7 it will fully account for the Notes and the Loans on its balance sheet; and
- 9.2.8 it is not a holding company within the meaning assigned by the specific laws of the Grand Duchy of Luxembourg governed by the law of 31 July 1929 and the decree of the Grand Duke dated 17 December 1938 (as repealed by the Grand Duchy of Luxembourg law dated 22 December 2006), nor a company in the Grand Duchy of Luxembourg governed by any similar tax law.

10 Covenants

So long as any amount remains outstanding under a Loan Agreement:

10.1 Negative Pledge

Severstal shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly, create or permit to subsist any Security Interest other than a Permitted Security Interest upon the whole or any part of its respective undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness:

- (i) payment of any sum due in respect of any such Relevant Indebtedness;
- (ii) any payment under any guarantee of any such Relevant Indebtedness; or
- (iii) any payment under any indemnity or other like obligation relating to any such Relevant Indebtedness,

without in any such case at the same time or prior thereto procuring that the relevant Loan is secured at least equally and rateably with such Relevant Indebtedness for so long as such Relevant Indebtedness is so secured.

10.2 Mergers

(i) Severstal shall not enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation), and (ii) Severstal shall ensure that, without the prior written consent of the Lender, no Material Subsidiary (A) enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or (B) in the case of a Material Subsidiary incorporated in a jurisdiction other than Russia participates in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction) if (in the case of either (i) or (ii) above) any such reorganisation or other type of corporate reconstruction is reasonably likely to have a Material Adverse Effect, unless, in the case of (i) above, Severstal is a surviving entity.

This Clause 10.2 shall not apply to any reorganisation, any type of corporate reconstruction or other analogous event in which any Subsidiary of Severstal consolidates with, accedes to, merges into or transfers all or part of its assets to Severstal or any other Subsidiary of Severstal.

10.3 Withholding Tax Exemption

Severstal shall give to the Lender all the assistance it reasonably requires to ensure that, prior to the first interest payment and at the beginning of each calendar year, the Lender can provide Severstal with the documents required under Russian laws for the relief of the Lender from Russian withholding tax in respect of payments hereunder.

10.4 Financial Information

10.4.1 Severstal shall deliver to the Lender within 180 days after the end of each of its financial years, copies of its audited consolidated financial statements for such financial year, prepared in accordance with applicable Accounting Standards consistently applied.

10.4.2 Severstal shall deliver to the Lender within 150 days after the end of the first half-year of each of its financial years, copies of its unaudited consolidated financial statements for that half-year, prepared in accordance with applicable Accounting Standards consistently applied.

10.4.3 Severstal shall, to the extent permitted by applicable law, deliver to the Lender, without undue delay, such additional information regarding the financial position or the business of Severstal and its Subsidiaries as the Lender may reasonably request, including a certificate upon request by the Lender as to the amount of the agreed funding purchased but not cancelled by Severstal (or any Subsidiary of Severstal) and retained by it for its own account or the account of any other company.

10.4.4 Severstal shall from time to time, on the request of the Lender and without undue delay, furnish the Lender with such information about the business and financial condition of Severstal and its Subsidiaries as the Lender may reasonably request for regulatory compliance purposes, provided that any such request from the Lender shall specify the relevant regulation on the basis of which it is made, and provided further that Severstal may furnish the information under this sub-Clause 10.4.4 in the format used to provide similar information under or in connection with this Facility Agreement, unless the Lender certifies that a different format is specified by the relevant regulator.

10.5 Certificates

Severstal shall deliver to the Lender within 20 days of any written request by the Lender: (i) an Officers' Certificate as to any fact or matter prima facie within the knowledge of Severstal, as sufficient evidence thereof and (ii) a like certificate to the effect that any particular dealing or transaction or step or thing is, in the opinion of the person so certifying, expedient as sufficient evidence that it is expedient.

10.6 Compliance with Terms of Trust Deed

The Lender agrees that it will observe and comply with its obligations set out in the Principal Trust Deed and will not agree to any amendment to the terms of the Principal Trust Deed without prior consultation with Severstal and, with regard to any amendment of the Terms and Conditions of the Notes or Provisions for Meetings of the Noteholders as set out in schedules 3 and 5 to the Principal Trust Deed, respectively, without the prior written consent of Severstal. In addition, the Lender agrees that it will only exercise its power to appoint a

new Trustee pursuant to Clause 28 of the Principal Trust Deed with the prior written consent of Severstal (such consent not to be unreasonably withheld or delayed).

10.7 Lender's Shareholders and Directors

The Lender shall notify Severstal of any modification after the date of this Agreement to the identity or shareholding of its direct and indirect shareholders (including ultimate beneficial owners) and directors within five Business Days following any such modification having occurred.

11 Events of Default

11.1 Events of Default

If one or more of the following events of default (each, an “**Event of Default**”) shall occur, the Lender shall be entitled to the remedies set forth in Clause 11.3:

11.1.1 Severstal fails to pay any amount payable under a Loan Agreement as and when such amount becomes payable in the currency and in the manner specified therein, provided such failure to pay continues for more than five Business Days.

11.1.2 Severstal fails to perform or observe any covenant or agreement contained in a Loan Agreement to be performed or observed by it, provided such failure continues for more than 30 Business Days.

11.1.3 Either:

- (i) any Indebtedness of Severstal or any of its Material Subsidiaries is not paid at its Stated Maturity (after the expiry of any applicable grace period); or
- (ii) any such Indebtedness becomes due and payable prior to its Stated Maturity otherwise than at the option of Severstal or (as the case may be) the relevant Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above individually or in the aggregate exceeds U.S.\$150,000,000 (or its equivalent in any other currency or currencies).

11.1.4 The occurrence of any of the following events: (i) any of Severstal, or any of its Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commissioner (*likvidatsionnaya komissiya*) or a similar officer of any of Severstal, or any of its Material Subsidiaries as the case may be, other than in connection with solvent reorganisations which is not otherwise expressly prohibited by this Agreement; (ii) the presentation or filing of a petition in respect of any of Severstal or its Material Subsidiaries in any court, arbitration court or before any Agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of Severstal or its Material Subsidiaries, unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous or such petition is being contested in good faith and discharged or dismissed within 30 days of its presentation; (iii) the institution of the supervision (*nablyudeniye*), financial rehabilitation (*finansovoye otdorovlenie*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over Severstal or any of its Material Subsidiaries, (iv) the entry by Severstal or any of its Material Subsidiaries into, or the agreeing by Severstal or any of its Material Subsidiaries to enter into, amicable settlement (*mirovoye soglasenie*) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ “On Insolvency (Bankruptcy)” dated 26 October, 2002 (as amended or replaced from time to time); and/or (v) other than in connection with solvent reorganisations which is not otherwise expressly prohibited by this Agreement, any judicial liquidation in respect of Severstal or any of its Material Subsidiaries.

11.1.5 Severstal or any of its Material Subsidiaries is unable or admits inability to pay its debts as they fall due, generally suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations generally with its creditors with a view to rescheduling all or substantially all of its Indebtedness; and/or a moratorium is declared in respect of any Indebtedness of any of Severstal or its Material Subsidiaries if such moratorium has resulted in a Material Adverse Effect.

11.1.6 Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part of, the property, undertaking, revenues or assets of Severstal or any of its Material Subsidiaries which is not removed, satisfied, stayed, dismissed or otherwise discharged within 60 days of being levied or taking possession, as the case may be.

- 11.1.7 Any governmental or Agency authorisation necessary for the performance of any obligation of Severstal under a Loan Agreement fails to be in full force and effect and such failure continues for more than 30 Business Days.
- 11.1.8 Any government, Agency or court takes any action that has a Material Adverse Effect.
- 11.1.9 The shareholders of Severstal shall have approved any plan of liquidation or dissolution of Severstal.
- 11.1.10 Any unsatisfied judgment, decree or order of a court or other appropriate law-enforcement body for the payment of money against Severstal and other Material Subsidiaries has not within 120 days of the entry thereof been appealed, discharged, waived or the execution thereof stayed and has, on its own or when taken together with any other such unsatisfied judgments, decrees or orders, a Material Adverse Effect.
- 11.1.11 At any time it is or becomes unlawful for Severstal to perform or comply with any or all of its obligations under a Loan Agreement or any of such obligations (subject as provided in sub-Clause 9.1.3) are not, or cease to be, legal, valid, binding and enforceable and any such event under this sub-Clause 11.1.11 remains unremedied for more than 30 Business Days.
- 11.1.12 Severstal repudiates a Loan Agreement or the agreed funding agreements to which it is a party or evidences an intention to repudiate a Loan Agreement or the agreed funding agreements to which it is a party.
- 11.1.13 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in sub-Clauses 11.1.4, 11.1.5, 11.1.6, 11.1.9, 11.1.10, 11.1.11 and 11.1.12, subject in each case to the same thresholds and cure periods as set out in the applicable Clauses.

11.2 Notice of Default

Severstal shall deliver to the Lender within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate of any event which is a Potential Event of Default or an Event of Default, its status and what action Severstal is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice to Severstal, (a) declare the obligations of the Lender under the relevant Loan Agreement to be terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under such Loan Agreement by Severstal that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by Severstal; provided, however, that if any event of any kind referred to in sub-Clauses 11.1.4 or 11.1.5 occurs, the obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by Severstal that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by Severstal.

11.4 Right of Set-off

If any amount payable by Severstal under a Loan Agreement is not paid as and when due, Severstal authorises the Lender to proceed, to the fullest extent permitted by applicable law, without prior notice, by right of set-off, banker's lien, counterclaim or otherwise, against any assets of Severstal in any currency that may at any time be in the possession of the Lender, at any branch or office, to the full extent of all amounts payable to the Lender under such Loan Agreement.

11.5 Rights Not Exclusive

The rights provided for in each Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12 Indemnity

12.1 Indemnification

Severstal undertakes to the Lender, that if the Lender or any of its Affiliates, each director, officer, employee or agent of the Lender and each person controlling the Lender within the meaning of the United States securities laws (each an "**indemnified party**") incurs any loss, liability, cost, fee, claim, charge, expense (including without limitation taxes, legal fees, costs and expenses), demand or damage (a "**Loss**") as a result of or in

connection with a Loan, this Facility Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the corresponding agreed funding and/or the corresponding agreed funding being outstanding, Severstal shall pay to the Lender on demand an amount equal to such Loss and all costs, fees, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, fees, charges and expenses are incurred unless such Loss was either caused by such indemnified party's negligence or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in this Facility Agreement or in the agreed funding agreements. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause.

12.2 Independent Obligation

Clause 12.1 constitutes a separate and independent obligation of Severstal from its other obligations under or in connection with each Loan Agreement or any other obligations of Severstal in connection with the issue of the agreed funding by the Lender and shall not affect, or be construed to affect, any other provision of any Loan Agreement or any such other obligations.

12.3 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 12.1 and specifying in full detail the basis therefor shall (in the absence of manifest error) be conclusive evidence of the amount of such losses, expenses and liabilities.

12.4 Currency Indemnity

To the fullest extent permitted by law, the obligation of Severstal in respect of any amount due in the Specified Currency under each Loan Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the Specified Currency that the party entitled to receive such payment may, acting reasonably in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in the Specified Currency that may be so purchased for any reason falls short of the amount originally due, Severstal hereby agrees to indemnify the Lender against any such deficiency in the Specified Currency. Any obligation of Severstal not discharged by payment in the Specified Currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in the relevant Loan Agreement, shall continue in full force and effect.

13 Survival

The obligations of Severstal pursuant to sub-Clauses 6.2, 6.3 and 12 shall survive the execution and delivery of each Loan Agreement and the drawdown and repayment of the Loan, in each case by Severstal.

14 General

14.1 Stamp Duties

14.1.1 Severstal shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the Russian Federation or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure to pay such taxes or similar charges.

14.1.2 Severstal agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the Russian Federation or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and any documents related thereto as well as the corresponding agreed funding, Severstal shall reimburse the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify on demand the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by Severstal to procure the payment of such taxes or similar charges.

14.2 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or Severstal, any right, power or privilege under any Loan Agreement and no course of dealing between Severstal and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies in each Loan Agreement provided are cumulative and not exclusive of any rights or remedies provided by applicable law.

14.3 Prescription

In the event that any agreed funding becomes void pursuant to the conditions of such agreed funding, the Lender shall forthwith repay to Severstal the principal amount of such agreed funding subject to the Lender having previously received from Severstal a corresponding amount in respect of principal pursuant to the relevant Loan Agreement.

15 Notices

All notices, requests, demands, invoices, acts of acceptance or other communications to or upon the respective parties to each Loan Agreement shall be given or made in the English language by letter or electronic communication:

15.1.1 in the case of Severstal, to it at:

2 Klary Tsetkin Street
127299 Moscow
Russia

Email: irina.bobrysheva@severstal.com; elena.petrenko@severstal.com;
veronika.kondruseva@severstal.com
Attention: Irina Bobrysheva; Elena Petrenko; Veronika Kondruseva

15.1.2 in the case of the Lender, to it at:

Steel Capital S.A.
14, rue Edward Steichen
L-2540 Luxembourg

Email: corporateservices.lu@vistra.com
Attention: The Directors

or to such other postal address or electronic address as any party may hereafter specify in writing to the other.

Communications will take effect, in the case of a letter, when delivered, or, in the case of an electronic communication when the relevant receipt of such communication being read is given, or where no read receipt is requested by the sender, at the time of sending, provided that no delivery failure notification is received by the sender within 24 hours of sending such communication; provided that any communication which is received (or deemed to take effect in accordance with the foregoing) after 5:00pm on a business day or on a non-business day in the place of receipt shall be deemed to take effect at the opening of business on the next following business day in such place. Any communication delivered to any party under this Agreement which is to be sent by electronic communication will be written legal evidence.

16 Assignment

16.1 General

Each Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Loan Agreement. Any reference in a Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of any rights, benefits and discretions by, or the making of any determinations (including forming an opinion) by, and the delivery of notices or other information to, the Lender, following notification to Severstal of the assignment referred to in Clause 16.3, shall be references to the exercise of such rights, benefits or discretions by or on behalf of, or the making of any determinations (including forming an

opinion) by, and the delivery of notices or other information to, the agreed funding source, or any assignee or transferee appointed in connection with the agreed funding source, without regard to the Lender.

16.2 By Severstal

Severstal shall not be entitled to assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement to any other person.

16.3 By the Lender

Subject to the provisions of the any agreed funding agreement, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement other than the Reserved Rights except (i) the charge by way of charge granted by the Lender to or on behalf of the agreed funding source of certain of the Lender's rights and benefits under such Loan Agreement and (ii) the absolute assignment by the Lender to or on behalf of the agreed funding source of certain rights, interests and benefits under such Loan Agreement, in each case, pursuant to the agreed funding agreement.

17 Law and Jurisdiction

17.1 Choice of Law

This Facility Agreement, and any non-contractual obligations arising out of or in connection with it, shall be governed by, and construed in accordance with, the laws of England.

17.2 Arbitration

17.2.1 Any dispute arising out of or in connection with this Facility Agreement or any non-contractual obligations arising out of or in connection with it (including a dispute regarding the existence, validity or termination of this Facility Agreement) (a “**Dispute**”) shall be referred to and finally resolved by arbitration under the Arbitration Rules (the “**Rules**”) of the London Court of International Arbitration (“**LCIA**”) (such arbitration to also be administered by the LCIA in accordance with the Rules).

17.2.2 Any provision of such Rules relating to the nationality of an arbitrator shall, to that extent, not apply.

17.2.3 The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondent(s), irrespective of number, shall nominate jointly the second arbitrator; and a third arbitrator, who shall serve as Chairman, shall be selected by the two party nominated arbitrators. For the avoidance of doubt, the parties to this Facility Agreement agree for the purpose of Article 8.1 of the Rules, that the claimant(s), irrespective of number, and the respondent(s), irrespective of number, constitute two separate sides for the formation of the arbitral tribunal.

17.2.4 In the event that the claimant(s) fail to nominate an arbitrator in accordance with the Rules, such arbitrator shall be nominated by the LCIA Court as soon as possible, preferably within 15 days of such failure. In the event that the respondent(s) or both the claimant(s) and the respondent(s) fail to nominate an arbitrator within the time limits specified in the Rules, all three arbitrators shall be nominated and appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure, and such arbitrators shall then designate one amongst them as chairman.

17.2.5 The seat of arbitration shall be London, England and the language of the arbitration shall be English.

17.2.6 Where Disputes arise under a Loan Agreement and any other agreed funding agreement which, in the reasonable opinion of the first arbitral tribunal to be appointed in any of the Disputes, are so closely connected that it is expedient for them to be resolved in the same proceedings, that arbitral tribunal shall have the power to order that the proceedings to resolve that Dispute shall be consolidated with those to resolve any of the other disputes (whether or not proceedings to resolve those other Disputes have yet been instituted), provided that no date for the hearing on the merits of the Dispute in the first arbitration has been fixed. If the first arbitral tribunal so orders, the parties to each Dispute which is a subject of its order shall be treated as having consented to that Dispute being finally decided:

- (i) by the arbitral tribunal that ordered the consolidation unless the LCIA Court decides that any member of such tribunal would not be suitable or impartial; and
- (ii) in accordance with the procedure, at the seat and in the language specified in the arbitration agreement in this Facility Agreement or the agreed funding agreement under which the arbitral tribunal that ordered the consolidation was appointed, save as otherwise agreed by all parties to

the consolidated proceedings or, in the absence of such agreement, ordered by the arbitral tribunal in the consolidated proceedings.

For the avoidance of doubt, the parties to any other agreed funding agreement are intended by the parties to this Facility Agreement to have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce the terms of this sub-Clause 17.2.6.

17.3 Consent to enforcement etc

Severstal and the Issuer consent generally in respect of any arbitration proceedings to the giving of any relief or the issue of any process in connection with the enforcement of such proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement which is made or given in such proceedings.

18 Severability

In case any provision in or obligation under this Facility Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

19 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Facility Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Facility Agreement except to the extent expressly provided herein, including in Clause 6.1 and sub-Clause 17.2.6.

20 Language

The language which governs the interpretation of this Facility Agreement is the English language. This Facility Agreement will be signed in the English language and may be translated into Russian and signed in the Russian language. In the event of any discrepancies between the English and Russian versions of any such Loan Agreement or any dispute regarding the interpretation of any provision in the English or Russian versions of any such Loan Agreement, the English version of any such Loan Agreement shall prevail and questions of interpretation shall be addressed solely in the English language.

21 Amendments

Except as otherwise provided by its terms, each Loan Agreement may not be varied except by an agreement in writing signed by the parties hereto.

22 Counterparts

Each Loan Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

IN WITNESS whereof, the parties hereto have caused this Facility Agreement to be executed on the date first written above.

For and on behalf of **PAO SEVERSTAL**:

By:

Name:

Title:

For and on behalf of **STEEL CAPITAL S.A.**:

By:

Name:

Title:

Schedule 1
Form of Loan Supplement

[DATE]

PAO Severstal

and

Steel Capital S.A.

LOAN SUPPLEMENT
to be read in conjunction with a Facility Agreement dated 3 September 2019

in respect of
a Loan of [●]

Series [●]

This Loan Supplement is made on [SIGNING DATE] **between:**

- (1) **PAO SEVERSTAL**, a public joint stock company established under the laws of the Russian Federation whose registered office is Ul. Mira 30, 162608 Cherepovets, Vologda Region, Russian Federation (“**Severstal**”); and
- (2) **STEEL CAPITAL S.A.**, a *société anonyme* incorporated in Luxembourg with limited liability whose registered office is at 14, rue Edward Steichen, L-2540 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B116975 (the “**Lender**”).

Whereas:

- (A) Severstal has entered into an amended and restated facility agreement dated 3 September 2019 (the “**Facility Agreement**”) with the Lender in respect of Severstal’s U.S.\$4,500,000,000 Programme for the Issuance of agreed funding (the “**Programme**”).
- (B) Severstal proposes to borrow [●] (the “**Loan**”) and the Lender wishes to make such Loan on the terms set out in the Facility Agreement and this Loan Supplement.

It is agreed as follows:

1 Definitions

Capitalised terms used but not defined in this Loan Supplement shall have the meaning given to them in the Facility Agreement save to the extent supplemented or modified herein.

2 Additional Definitions

For the purpose of this Loan Supplement, the following expressions used in the Facility Agreement shall have the following meanings:

“**Account**” means the account in the name of the Lender with the Principal Paying and Transfer Agent (account number [●], [●]);

“**Base Prospectus**” means [●];

[“**Business Centre**” means [●];]

[“**Calculation Agent**” means [●];]

“**Calculation Amount**” means [●];

“**Closing Date**” means [●];

[“**Early Redemption Amount**” means [●] per [●] amount of the Loan, plus accrued interest, if any, to the Redemption Date;]

[“**Financial Adviser**” means [●];]

“**Loan Agreement**” means the Facility Agreement as amended and supplemented by this Loan Supplement;

[“**Make Whole Premium**” means [●] basis points;]

“**Notification Time**” means 10 a.m. (Relevant Time) [●] Business Days [*which for U.S.\$, € and £ shall be two Business Days and for ¥ and RUR shall be three Business Days*];

“**Payment Time**” means [●] a.m./p.m. (Relevant Time) [●] Business Day[s] [*which for U.S.\$, € and £ shall be one Business Day and for ¥ and RUR shall be two Business Days*];

[“**Put Settlement Date**” means [●];]

“**Rate of Interest**” means the rate of interest in respect of the Loan, as set forth in Clause 4.2 below;

[“**Redemption Date**” means such date as Severstal will repay Loan pursuant to the exercise of its call option;]

[“**Reference Banks**” means [●];]

[“**Reference Treasury**” means [●];]

“**Repayment Date**” means [●] [*amend as required for Floating Rate Loans*];

“**Severstal Account**” means the account in the name of Severstal (account number [●][FURTHER DETAILS]);

“**Specified Currency**” means [●][;and]

[“**Treasury Publisher**” means [●].]

3 Incorporation by Reference

Except as otherwise provided, the terms of the Facility Agreement shall apply to this Loan Supplement as if they were set out herein and the Facility Agreement shall be read and construed, only in relation to the Loan constituted hereby, as one document with this Loan Supplement.

4 The Loan

4.1 Drawdown

Subject to the terms and conditions of the Loan Agreement, the Lender agrees to make the Loan on the Closing Date to Severstal and Severstal shall make a single drawing in the full amount of the Loan on that date.

4.2 Interest

The Loan is a [Fixed Rate][Floating Rate] Loan. Interest shall be calculated, and the following terms used in the Facility Agreement shall have the meanings, as set out below:

4.2.1 Fixed Rate Loan Provisions

[Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- | | | |
|-------|----------------------------|--|
| (i) | Interest Commencement Date | [●] |
| (ii) | Rate[(s)] of Interest: | [●] per cent. per annum payable [annually/semi-annually quarterly/monthly/other (<i>specify</i>)] in arrear |
| (iii) | Interest Payment Date(s): | [●] in each year [adjusted in accordance with [<i>specify Business Day Convention and any applicable Business Centre(s) for the definition of “Business Day”</i>]/not adjusted] |
| (iv) | Fixed Amount[(s)]: | [●] per Calculation Amount |
| (v) | Broken Amount: | [●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●] |
| (vi) | Day Count Fraction: | [30/360/Actual/Actual (ICMA/ISDA)/other] |
| (vii) | Determination Date(s): | [●] in each year. [<i>Insert regular interest payment dates, ignoring Closing Date or maturity date in the case of a long or short first or last coupon – N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)</i>] |

4.2.2 Floating Rate Loan Provisions

[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- | | | |
|-------|-----------------------------------|---|
| (i) | Interest Commencement Date | [●] |
| (ii) | Interest Period(s): | [●] |
| (iii) | Specified Interest Payment Dates: | [●] |
| (iv) | First Interest Payment Date: | [●] |
| (v) | Interest Period Date(s): | [●] (<i>Not applicable unless different from Interest Payment Date</i>) |

- | | | |
|--------|---|---|
| (vi) | Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (<i>give details</i>)] |
| (vii) | Business Centre(s): | [●] |
| (viii) | Manner in which the Rate(s) of Interest is/are to be determined: | [Screen Rate Determination/ISDA Determination/other (<i>give details</i>)] |
| (ix) | Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent): | [●] |
| (x) | Screen Rate Determination: | |
| | – Reference Rate: | [●] |
| | – Interest Determination Date: | [●] |
| | – Relevant Screen Page | [●] |
| (xi) | ISDA Determination: | |
| | – Floating Rate Option: | [●] |
| | – Designated Maturity: | [●] |
| | – Reset Date: | [●] |
| (xii) | Margin(s): | [+/-][●] per cent. per annum |
| (xiii) | Minimum Rate of Interest: | [●] per cent. per annum |
| (xiv) | Maximum Rate of Interest: | [●] per cent. per annum |
| (xv) | Day Count Fraction: | [●] |

4.2.3 Put/Call Options [Put Option/Call Option/Relevant Waiver Put Option/Not Applicable]

5 Fees and Expenses

Pursuant to Clause 3.2 of the Facility Agreement and in consideration of the Lender making the Loan to Severstal, Severstal hereby agrees that it shall, promptly upon the receipt of an invoice from the Lender, pay to the Lender, in Same-Day Funds, the total amount of [●], being the “**Arrangement Fee**” in respect of the Loan, representing the reasonable costs and expenses incurred by the Lender in connection with such Loan, increased by front-end fees, commissions and expense, which shall include the amount of all of the commissions, fees, costs and expenses as set forth in the agreed funding agreements and Clause 3.2 of the Facility Agreement pursuant to an invoice submitted by the Lender to Severstal in the total amount. The Arrangement Fee may be paid by Severstal directly to the account of the Lender or in full or in part upon the Lender’s instruction to the accounts of contractors under the agreed funding agreements executed by the Lender or to the accounts of other persons as specified by the Lender in respect of expenses incurred in accordance with Clause 3.2 of the Facility Agreement (“**third parties**”). Severstal may pay the Arrangement Fee directly to such third parties and prior to making any such payment Severstal shall be entitled to request from such third parties documents confirming that such third parties are, or, at the time of such payment, will be, tax residents of countries that have entered into a double taxation treaty with the Russian Federation. In addition, Severstal may (but is not obliged to), independently of the Lender, conclude such separate agreements as may be necessary to arrange and fund the Loan. In such case, payments under such agreements shall be made by Severstal directly and the corresponding expenses shall not be included by the Lender in the calculation of the Arrangement Fee or in a delivery and acceptance act specified in Clause 6.10 of the Facility Agreement.

6 Governing Law

This Loan Supplement, and any non-contractual obligations arising out of or in connection with it, shall be governed by and construed in accordance with English law. Other provisions of Clause 17 of the Facility Agreement shall apply to this Loan Supplement *mutatis mutandis*.

This Loan Supplement has been entered into on the date stated at the beginning.

IN WITNESS whereof, the parties hereto have caused this Loan Supplement to be executed on the date first written above.

PAO SEVERSTAL

By:

Name:

Title:

STEEL CAPITAL S.A.

By:

By:

Authorised Signatory

Authorised Signatory

Schedule 2
Form of Officers' Certificate

To: Steel Capital S.A.

From: PAO Severstal

Dated: [●]

Dear Sirs

PAO Severstal – Amended and Restated Facility Agreement dated 3 September 2019 (the “Facility Agreement”)

1 We refer to the Facility Agreement. Terms defined therein shall have the same meaning herein.

2 This is an Officers' Certificate for the purposes of Clause 10.5 of the Facility Agreement.

3 We confirm that the following Subsidiaries are Material Subsidiaries:

[specify relevant Subsidiaries]

4 We confirm that no Potential Event of Default or Event of Default has occurred¹.

for and on behalf of PAO Severstal

Signed:

.....
[principal executive officer/ principal
accounting officer/ principal financial
officer] of PAO Severstal

.....
[officer]
of
PAO Severstal

¹ If this statement cannot be made, the certificate should identify any Default or Event of Default that is continuing and the steps, if any, being taken to remedy it.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which (subject to completion in accordance with the provisions of Part A of the relevant Final Terms) will be endorsed on the Definitive Certificates (as defined in “Summary of the provisions relating to the Notes in Global Form”), if issued, and (subject to the provisions thereof) apply to the Global Certificates representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the relevant Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non- applicable provisions), shall be endorsed on such Definitive Certificates. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed and Part A of the relevant Final Terms. Those definitions will be endorsed on the Definitive Certificates. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified hereon (the “**Supplemental Trust Deed**”) supplemental to an amended and restated trust deed (as amended or supplemented as at the Issue Date, the “**Principal Trust Deed**”) dated 15 March 2013, each made between Steel Capital S.A. (the “**Issuer**”) and Citibank, N.A. (the “**Trustee**”, which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee for the holders of the Notes (the “**Noteholders**”). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the “**Trust Deed**”.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan (in respect of the loan funded by the Notes, the “**Loan**”) as specified hereon to PAO Severstal (“**Severstal**”). The Issuer and Severstal have recorded the terms of the Loan in an amended and restated facility agreement (the “**Facility Agreement**”) dated 3 September 2019, as supplemented on the Issue Date specified hereon by a loan supplement (the “**Loan Supplement**” and, together with the Facility Agreement, the “**Loan Agreement**”) each between the Issuer and Severstal. In each case where amounts of principal, interest and additional amounts (if any) are stated hereon or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively on the covenant to pay under the Loan Agreement and the credit and financial standing of Severstal. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer. None of the Noteholders, the Trustee or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors or the Trustee for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes and under the Trust Deed (a) all principal, interest and other amounts payable by Severstal to the Issuer as lender under the Loan Agreement, (b) the right to receive all sums which may be or become payable by Severstal under any claim, award or judgment relating to the Loan Agreement and (c) all the rights, title and interest in and to all sums of money now or in the future deposited in an account with Citibank, N.A. in the name of the Issuer (the “**Account**”) and debts represented thereby, including interest from time to time earned on the Account (other than any rights and benefits constituting Reserved Rights and amounts relating to the Reserved Rights (as defined in the Trust Deed)) (the “**Charge**”) and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the “**Assignment**” and together with the Charge, the “**Security Interests**”).

“**Reserved Rights**” are the rights excluded from the Charge, being all and any rights, interests and benefits of the Issuer in respect of the obligations of Severstal under Clauses 3.2, 3.4, 5.3 (other than the right to receive any amount payable under such Clause), 6.2 (to the extent that Severstal shall reimburse the Issuer on demand for any amount paid by the Issuer in respect of Russian Federation taxes, penalties or interest), 6.3 (only to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 8, 12.1-12.3 and 14.1 (to the extent that Severstal shall reimburse the Issuer for any amount paid by the Issuer in respect of such taxes, charges or costs) of the Facility Agreement and, for the avoidance of doubt, Clause 6.4 of the Facility Agreement.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or

by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of the relevant funds from Severstal) pursuant to, an amended and restated paying agency agreement (the “**Agency Agreement**”) dated 15 March 2013 and made between the Issuer, Severstal, the Trustee, Citibank, N.A., London Branch, Citibank, N.A., New York Branch and Citigroup Global Markets Deutschland AG. Citibank N.A., London Branch will act as principal paying and transfer agent (the “**Principal Paying and Transfer Agent**” and a “**Paying Agent**”), a transfer agent (a “**Transfer Agent**”), calculation agent (the “**Calculation Agent**”), Citigroup Global Markets Deutschland AG will act as registrar (“**Registrar**”). Citibank, N.A., New York Branch will act as United States paying agent (the “**US Paying Agent**” and a “**Paying Agent**”) and a transfer agent (a “**Transfer Agent**”).

Copies of the Trust Deed, the Loan Agreement, the Agency Agreement and the Final Terms are available for inspection by Noteholders during normal business hours at the principal office of the Trustee being, at the date hereof, at 6th floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, at the specified office of the Principal Paying and Transfer Agent and at the specified office of the Paying Agent.

Certain provisions of these terms and conditions (the “**Conditions**”) include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Final Terms, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

All capitalised terms used but not otherwise defined in these Terms and Conditions have the meanings given to them in the Trust Deed.

1 Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights, will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided hereon and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off, counterclaim or of banker’s lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and Severstal.

Noteholders have notice of, and have accepted, these Terms and Conditions, the Final Terms and the contents of the Trust Deed, the Agency Agreement and the Loan Agreement. It is hereby expressly provided, and Noteholders are deemed to have accepted, that:

- 1.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph 1.6 below, liability or obligation in respect of the performance and observance by Severstal of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from Severstal under the Loan Agreement;
- 1.2 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of Severstal;
- 1.3 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of Severstal under or in respect of the Loan Agreement;
- 1.4 neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying and Transfer Agent, any of the Paying Agents, the Registrars or the Transfer Agents, of their respective obligations under the Agency Agreement;

- 1.5 the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by Severstal of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. Severstal has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of Severstal; and
- 1.6 the Issuer and the Trustee shall be entitled to rely on certificates signed by the requisite number of duly authorised officers of Severstal as a means of monitoring whether Severstal is complying with its obligations under the Loan Agreement and identifying Material Subsidiaries and shall not otherwise be responsible for investigating any aspect of Severstal's performance in relation thereto and, subject as further provided in the Trust Deed, neither the Issuer as lender under any Loan Agreement nor the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the assigned property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of or for insuring such security.

The obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by Severstal to, or to the order of, the Trustee or the Principal Paying and Transfer Agent, they will, subject to Clauses 2.4 and 2.8 of the Trust Deed, pro tanto satisfy the obligations of the Issuer in respect of the Notes, except to the extent there is a failure in the subsequent payment of such amounts to the relevant Noteholder.

Save as otherwise expressly provided hereon and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to Severstal except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction.

2 Form and Denomination

The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon (which, in the case of any Notes shall be not less than €100,000 or its equivalent in any other currency as at the date of issue of the Notes) or integral multiples in excess thereof, without interest coupons, provided that (i) interests in the Rule 144A Notes shall be held in amounts of not less than US\$200,000 or its equivalent in any other currency as at the date of issue of the Notes and (ii) Notes with a maturity of less than 365 days shall be held in amounts not less than £100,000 (or its equivalent in other currencies).

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

3 Register, Title and Transfers

3.1 Registers

The Registrar will maintain a register in respect of the Notes (the "**Register**"), all in accordance with the provisions of the Agency Agreement. In these Conditions the "**holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A Note will be issued to each Noteholder in respect of its registered holding. The Issuer will also maintain a register (the "**Issuer's Register**") at its registered office. Under the terms of the Agency Agreement, the Registrar will provide to the Issuer such information about changes in the Register as shall enable the Issuer to maintain the Issuer's Register up-to-date. In case of inconsistency between the Register and the Issuer's Register, the Issuer's Register shall prevail.

3.2 Title

The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

3.3 Transfers

Subject to Conditions 3.6 and 3.7, a Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of a Transfer Agent, together with such evidence as the Registrar or such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

3.4 Registration and Delivery of Notes

Within five Business Days of the surrender of a Note in accordance with Condition 3.3, the Registrar will register the transfer in question and deliver a new Note to each relevant holder for collection at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, “**Business Day**” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office.

3.5 No Charge

The transfer of a Note will be effected without charge but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.6 Closed Periods

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

3.7 Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Registrar and the other parties to the Agency Agreement. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations from the Registrar.

4 Restrictive Covenants

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Trust Deed or the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not:

- (i) engage in any business whatsoever, other than (a) entering into limited recourse debt securities programmes and other limited recourse debt securities issues for the benefit of the Borrower (including the Programme) (“**Permitted Debt Issuances**”), (b) issuing limited recourse notes thereunder from time to time for the sole purpose of financing any loans (including Loans) to the Borrower in accordance with the relevant loan documentation for the Permitted Debt Issuance (in the case of the

Programme, being the Facility Agreement and each Loan Supplement), (c) the making of deposits, including fiduciary deposits at banks or with other depositaries, (d) entering into related agreements and transactions (which shall, for the avoidance of doubt, include entering into derivatives contracts and other documents with third parties where related to and for the purposes of a particular Series or other limited recourse debt securities issues), (e) granting the Security Interests in relation to the Programme or other security interests under an applicable loan agreement or Permitted Debt Issuances and (f) performing any act incidental to or necessary in connection with any of the foregoing:

- (ii) enter into a single transaction, or series of, transactions (whether related or not and whether voluntary or involuntary) to sell, factor, lease, pledge, charge, assign, transfer or otherwise deal with any Permitted Debt Issuances or any charged or secured property or any right or benefit either present or future arising under or in respect of a loan agreement or a bank account in relation to a Permitted Debt Issuances (“**Permitted Account**”) or any part thereof or any interest therein, or create any mortgage, charge or other security or right of recourse in respect thereof in favour of any person other than any security interest referred to specifically in the documents relating to Permitted Debt Issuances;
- (iii) cause or permit any Loan Agreement or the priority of the Security created by the Supplemental Trust Deed to be amended, terminated, discharged, novated, transferred or assigned (other than as contemplated by the Trust Deed and the Conditions);
- (iv) release or waive any party to any Loan Agreement, this Principal Trust Deed or any Supplemental Trust Deed from or in respect of any existing obligations or breach thereunder;
- (v) have any subsidiaries;
- (vi) consent to any variation of, or exercise any powers or consents or waiver pursuant to, the terms of the Dealer Agreement, the Agency Agreement, the Conditions, any Loan Agreement, this Principal Trust Deed, any Supplemental Trust Deed or any other agreement relating to the issue of Notes or the making of Loans or any other related transactions;
- (vii) (to the extent the same is within the control of the Issuer) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person (other than as contemplated by the Trust Deed and the Conditions);
- (viii) have any employees;
- (ix) (to the extent the same is within the control of the Issuer) issue or allot any shares (other than such shares as are in issue at the date hereof) or make any distribution to its shareholders;
- (x) open or have any interest in any account with a bank or financial institution other than an account in relation to a Permitted Debt Issuance, an account for the making of deposits as per paragraph (i) above, or unless such account relates to any notes or other debt security or any charged property in relation to a Permitted Account or any party thereto or any rouble account as contemplated by agreements relating to a Permitted Debt Issuance, save where either such account or the Issuer’s interest in it is simultaneously charged in favour of the Trustee so as to form part of such Charged Property or such account is opened in connection with the administration and management of the Issuer and only moneys necessary for that purpose are credited to it;
- (xi) declare any dividends;
- (xii) subject as provided in paragraph (i) above, (including the issuing of further Notes (which may be consolidated and form a single series with the Notes of any Series) or other limited recourse notes for the purposes of financing Permitted Debt Issuances and/or creating or incurring further limited recourse obligations relating to such Notes or limited recourse notes), incur any other indebtedness for borrowed moneys;
- (xiii) purchase, own, lease or otherwise acquire any real property (including office premises or like facilities);
- (xiv) give any guarantee or assume any similar liability;
- (xv) use proceeds of the Notes for purposes other than funding a Loan to the Borrower; or
- (xvi) subject to the laws of Luxembourg, petition for winding-up or bankruptcy.

5 Interest

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified in the Final Terms which shall be equal to the rate per annum at which interest under the Loan accrues. Interest at the Rate of Interest shall accrue on each Fixed Rate Note from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear by Severstal pursuant to the relevant Loan Agreement to the Account not later than the Payment Time specified hereon prior to each Interest Payment Date. Accordingly, on each Interest Payment Date or as soon as possible thereafter as the same is received the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement. The amount of interest payable shall be determined in accordance with Condition 5.4.

5.2 Interest on Floating Rate Notes

5.2.1 Interest Payment Dates: Each Floating Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrear on each Interest Payment Date or as soon as thereafter as the same is received. The amount of interest payable shall be determined in accordance with Condition 5.4. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

5.2.2 Business Day Convention: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each such subsequent date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

5.2.3 Rate of Interest for Floating Rate Notes: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period (as defined in the Loan Agreement) shall be determined in the manner specified hereon and as set out in the Loan Agreement.

5.3 Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

5.4 Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of

any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

5.5 Publication of Rates of Interest and Interest Amounts

As soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, the Calculation Agent shall cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, Severstal, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed and/or admitted to trading on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination, but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5.2(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If a Loan become due and payable under Clause 11 of the Facility Agreement, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon the Noteholders, the Trustee, Severstal and the Issuer.

“**Interest Amount**” means:

in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified in the Final Terms as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

in respect of any other period, the amount of interest payable per Calculation Amount for that period.

5.6 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as is fair and reasonable in all the circumstances.

6 Redemption

6.1 Scheduled redemption

Unless the Loan is previously prepaid or repaid pursuant to Clause 5 of the Facility Agreement, Severstal will be required to repay the Loan by the Payment Time specified hereon prior to its Repayment Date (as defined in the Loan Agreement) and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will be redeemed or repaid by the Issuer in the relevant Specified Currency on the Maturity Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100 percent of the principal amount thereof).

6.2 Early redemption

If the Loan should become repayable (and be repaid) or be prepaid pursuant to the Loan Agreement prior to its scheduled Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will endeavour to give not less than fifteen nor more than thirty days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

To the extent that the Issuer receives amounts of principal, interest and/or additional amounts, if any, (other than amounts in respect of the Reserved Rights) following acceleration of the Loan pursuant to Clause 11 of the Facility Agreement, the Issuer shall pay an amount equal to and in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 7.

6.3 Rule 144A notes

The Issuer may compel any beneficial owner of an interest in the Rule 144A Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a US person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51) of the US Investment Company Act of 1940).

6.4 Call Option

If Call Option is specified in the Final Terms, then pursuant to Clause 5.6 of the Facility Agreement and the relevant Loan Supplement, Severstal may, at its option at any time prior to the Repayment Date specified in the Final Terms on giving not less than 30 nor more than 60 days' (or such other time period as specified as the Call Option Period in the Final Terms) irrevocable notice to the Issuer, in whole or in part, repay the Loan at the Early Redemption Amount specified in the Final Terms plus the Make Whole Amount specified below (the "**Call Option**"). The notice to be given (the "**Call Option Notice**") shall specify the date for repayment of the Loan and the date(s) for the redemption of the Notes (the "**Optional Redemption Date(s)**"), which, unless otherwise specified, shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of the Call Option Notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying and Transfer Agent. If the Loan should become repayable following exercise of the Call Option by Severstal (and be repaid) prior to the Repayment Date, the Notes will thereupon become due and repayable and the Issuer shall, subject to receipt of such amounts from Severstal under the Loan, redeem the Notes on the Optional Redemption Date(s). In the case of a partial redemption, the Notes shall be redeemed pro rata and otherwise in such manner as the Trustee deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant regulatory requirements. The Issuer's obligations in respect of this Condition to redeem and make payment for the Notes shall constitute an obligation only to account to Noteholders on the Redemption Date for an amount equivalent to the sums received by or for the account of the Issuer pursuant to the Loan Agreement.

For the purposes of this Condition 6.4:

"**Make Whole Amount**" means the excess of (a) the present value at such Repayment Date of the Notes, plus any required interest payments that would otherwise be due to be paid on the Notes from such Repayment Date through to the Maturity Date, together with any accrued and unpaid interest as of such Repayment Date, if any, calculated using a discount rate equal to the Treasury Rate at such Repayment Date plus the number of basis points specified as the Make Whole Premium in the Final Terms, over (b) the principal amount of the Notes, provided that if the value of the Make Whole Amount at any time would otherwise be less than zero, then in such circumstances for the purpose of these Conditions, the value of the Make Whole Amount will be equal to zero; and

"**Treasury Rate**" means a rate equal to the yield, as published by the Treasury Publisher specified in the Final Terms, on the actively traded Reference Treasury specified in the Final Terms with a maturity comparable to the remaining life of the Notes, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary Reference Treasury dealers in the Business Centre specified in the Final Terms selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in such Business Centre preceding the Repayment Date.

6.5 Put Option

If Put Option is specified in the Final Terms, the Issuer shall, at the option of any Noteholder redeem such Note on the Put Settlement Date specified in the Final Terms (the "**Put Option**") at its principal amount together with accrued interest. To exercise such option a Noteholder must deposit the Note or Notes to be redeemed with any Paying Agent together with a duly completed Put Redemption Notice in the form obtainable from any of the Paying Agents, not more than 60 but not less than 30 days (or such other time period as specified as the Put Option Period in the Final Terms) prior to the Put Settlement Date. No Note so deposited may be withdrawn. Provided, however, that if, prior to the Put Settlement Date, a Relevant Event has occurred or, upon due presentation of any Note on the Put Settlement Date, payment of the redemption moneys is improperly withheld

or refused, such Note shall, without prejudice to the exercise of the Put Option, be returned to the Noteholder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Redemption Notice. The Issuer shall notify Severstal, not more than three Business Days after receipt of notice thereof from the Paying Agent, of the amount of the Loan to be prepaid as a consequence of the exercise by Noteholders of the option contained in this Condition 6.5. Subject to timely receipt of the relevant amounts from Severstal under the Loan Agreement, the Issuer shall redeem the Notes in accordance with this Condition 6.5 on the Put Settlement Date, subject as provided in Condition 7.

6.6 Purchase and Cancellation

Severstal or any Subsidiary or affiliate of Severstal or any other company acting for the benefit of Severstal (acting either directly or through an agent) may, among other things, from time to time purchase any Notes (or may provide funding to the Issuer to purchase any Notes) in the open market, by tender or by private agreement at any price and on such other terms as Severstal may determine. The Notes purchased by Severstal or its affiliate or any other company acting for the benefit of Severstal may be held, reissued or resold. Alternatively, Severstal or any affiliate of Severstal or any other company acting for the benefit of Severstal (acting directly or through an agent) may, from time to time deliver Notes to the Issuer, having an aggregate principal value of at least US\$1,000,000 (or its equivalent in a Specified Currency), or request the Issuer to purchase such Notes on behalf or at the request of Severstal, and deliver to the Issuer a request to present such Notes to the relevant Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the relevant Global Certificates with instructions to cancel a specified aggregate principal amount of Notes (being at least US\$1,000,000 or its equivalent in a Specified Currency) represented thereby whereupon the Issuer shall, pursuant to the Agency Agreement, request the relevant Registrar to cancel such Notes. Upon any such cancellation by or on behalf of the relevant Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation together with all accrued interest and other amounts shall be deemed to have been prepaid by the Borrower and extinguished as of the date of such cancellation and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

7 Payments and Agents

7.1 Principal

Payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying and Transfer Agent or at the specified office of any Transfer Agent or Registrar and in the manner provided in the Condition below.

7.2 Interest

Interest shall be paid to the person shown on the relevant Issuer's Register at the opening of business (in the place of the Issuer's specified office) on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest shall be made in the Specified Currency by cheque drawn on a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access to the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET 2) System which was launched on 19 November 2007 or any successor thereof (a "**Bank**") and mailed to the Noteholder (or to the first named of joint Noteholders) of such Note at its address appearing in the relevant Register. Upon application by the holder to the specified office of the relevant Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank, or by transfer to an account in the Specified Currency maintained by the payee with, a Bank in the principal financial centre of such Specified Currency or in the case of euro, a Bank specified by the payee or at the option of the payee, by a euro-cheque and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying and Transfer Agent or at the specified office of any Transfer Agent.

7.3 Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

7.4 Payments on Business Days

If the due date for payments of interest or principal is not a Business Day, a Noteholder shall not be entitled to payment of the amount due until the next following Business Day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “**Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) (in the case of a payment in euro) which is a TARGET Business Day.

7.5 Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out below. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying and Transfer Agent or any of the Paying Agents, and appoint additional or other paying agents provided that (i) so long as the Notes are listed and/or admitted to trading on any stock exchange or market or admitted to listing by any other relevant authority, there will be a paying agent and transfer agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or market or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days’ and not less than 30 days’ notice thereof shall have been given to the Noteholders in accordance with Condition 14.

7.6 Accrued Interest

If the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified hereon shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

7.7 Payments by Severstal

Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 6 of the Agency Agreement require Severstal to make all payments of principal and interest and any additional amounts to be made pursuant to the Loan Agreement to the Principal Paying and Transfer Agent to an account in the name of the Issuer (the “**Account**”). Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of the Noteholders.

8 Taxation

All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes, duties or assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Luxembourg or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes, duties, assessments or governmental charges is required by law.

In such event, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives an equivalent amount from Severstal under the Loan Agreement. To the extent that the Issuer receives a lesser additional amount from Severstal, the Issuer will account to each Noteholder for an additional amount equivalent to a pro rata proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, provided that no such additional amount will be payable in respect of any Note:

- 8.1** to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is

liable for such taxes or duties by reason of his having some connection with Luxembourg other than the mere holding of such Note or the receipt of payments in respect thereof;

- 8.2 presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;
- 8.3 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- 8.4 presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union; or
- 8.5 with respect to any Taxes that are imposed or withheld pursuant to Sections 1471 through 1474 of the Code, as of the issue date (or any amended or successor version of such sections that is substantively comparable and not materially more onerous to comply with), any regulations promulgated thereunder, any official interpretations thereof, any similar law or regulation adopted pursuant to an intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing or any agreements entered into pursuant to Section 1471(b)(1) of the Code.

As used hereon, “**Relevant Date**” (i) means the date on which any payment under the Loan Agreement first becomes due but (ii) if the full amount payable by Severstal has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference hereon or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9 Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails to do so within a reasonable time and such failure is continuing.

At any time an Event of Default (as defined in the Facility Agreement) or a Relevant Event (as defined in the Trust Deed) has occurred and is continuing, the Trustee may, at its discretion and without notice and shall, if requested to do so by Noteholders holding 25 percent or more in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified and/or prefunded to its satisfaction, institute such steps, actions or proceedings as it may think fit to enforce the rights of the Noteholders and the provisions of the Trust Deed, including to declare all amounts payable under the Loan Agreement by Severstal to be due and payable (in the case of an Event of Default), or enforce the security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided hereon, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

10 Meetings of Noteholders; Modification and Waiver; Substitution; Exercise of Powers: Appointment and Removal of Trustee

10.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement or the Trust Deed. Noteholders will vote pro rata according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, inter alia, the amounts payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

10.2 Written Resolutions

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than two-thirds in the principal amount of the Notes outstanding at the time shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

10.3 Modification and Waiver

As provided in the Trust Deed, the Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed or the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders (as a class). The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions or the Trust Deed or by Severstal of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (as a class), all subject as further provided in the Trust Deed and provided always that (subject to certain exceptions) the Trustee may not exercise such power of waiver in contravention of any express direction by an Extraordinary Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

10.4 Substitution

The Trust Deed contains provisions to the effect that the Issuer may, and at the request of Severstal shall, having obtained the consent of Severstal (if such substitution is not to be made at the request of Severstal) and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such requirements as set out in the Trust Deed, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 or Severstal shall use its best endeavours to ensure that the substitute obligor does so.

10.5 Exercise of Powers

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, Severstal or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

10.6 Appointment and Removal of Trustee

The Trust Deed contains provisions for the appointment or removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, provided that, in the case of removal of a Trustee, at all times there remains a trustee in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders by the Issuer in accordance with Condition 14. The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such resignation shall not become effective unless there remains a trustee in office after such resignation.

11 Prescription

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12 Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction and to be paid its costs and expenses in priority to the claims of Noteholders. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or Severstal and any entity related to the Issuer and/or Severstal without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by Severstal in respect of the Loan Agreement. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests.

The Trustee has no obligation to take any action (or step) which would or might in its opinion result in it incurring liabilities of any nature unless it is indemnified and/or secured and/or prefunded to its satisfaction in respect of the same and in forming any such opinion the Trustee shall be entitled to rely on legal advice or other advice received by it (as provided for by the Trust Deed) as to the existence and extent of such liabilities without liability to Noteholders for so doing regardless of whether and the extent to which the taking of any action or step by the Trustee is thereby delayed.

Nothing contained in these Conditions shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any right, power, authority or discretion hereunder if it has grounds for believing the repayment of such funds or adequate indemnity against and/or security for and/or prefunding, such risk or liability is not reasonably assured to it.

13 Replacement of Notes

If any Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of either Registrar or at the specified office of the Principal Paying and Transfer Agent in London on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14 Notices

All notices to the Noteholders shall be deemed to have been duly given if (i) posted to such Noteholders at their respective addresses as shown on the relevant Register and (ii) so long as the Notes are listed and/or admitted to trading on Euronext Dublin or another stock exchange and the rules of that exchange so require, publish on the Regulatory News Service via the Companies Announcements Office of Euronext Dublin or such other publication/information channel that is compliant with the rules or guidelines of such stock exchange. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

15 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and the date of the first payment of interest) so as to be consolidated and form a single Series with the Notes. Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other Series in certain circumstances where the Trustee so decides. In relation to any further issue which is to be consolidated and form a single Series with the Notes, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with Severstal on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Notes). The Issuer will provide a further fixed charge in favour of the Trustee and amend the existing Security Interests in respect of certain of

its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement which will secure both the Notes and such further Notes and which will amend and supplement the Security Interests in relation to the existing Notes of such Series.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

The Notes, the Agency Agreement and the Trust Deed, and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England. For the avoidance of doubt, the provisions of articles 470-3 to 470-19 of the Luxembourg law of 10 August 1915 on commercial companies (as amended) are excluded.

FORM OF FINAL TERMS

Final Terms dated [•]

The form of Final Terms that will be issued in respect of each Series, subject only to completion and the deletion of non-applicable provisions, is set out below.

PAO SEVERSTAL
Series • • • Loan Participation Notes due •
issued by, but with limited recourse to,
Steel Capital S.A.

a *société anonyme* incorporated in Luxembourg with limited liability whose registered office is at 14, rue Edward Steichen, L-2540 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B116975

for the sole purpose of financing a loan to
PAO SEVERSTAL

Under the Programme for the Issuance of Loan Participation Notes described in a Base Prospectus (the “**Base Prospectus**”) dated 3 September 2019 (the “**Programme**”), Steel Capital S.A. (the “**Issuer**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue loan participation notes (the “**Notes**”) on the terms set out in the Base Prospectus, as completed by final terms (each a “**Final Terms**”) setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed U.S.\$4,500,000,000 (or the equivalent in other currencies). These Final Terms are the Final Terms applicable to the issue by the Issuer of Series • • • Loan Participation Notes due • (the “**Notes**”). Terms defined in the Base Prospectus have the same meaning in these Final Terms, unless otherwise defined herein. The Notes are issued on the terms set out in these Final Terms read together with the Base Prospectus.

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment constitutes an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan. **Noteholders will be deemed to have accepted and agreed that they will be relying solely on the credit and financial standing of Severstal in respect of the payment obligations of the Issuer under the Notes.**

The sole purpose of issuing the Notes will be to finance a loan (the “**Loan**”) to PAO Severstal (“**Severstal**”) as borrower, on the terms of a facility agreement between the Issuer and Severstal dated 3 September 2019, as amended, supplemented or replaced from time to time (the “**Facility Agreement**”), as amended and supplemented by a loan supplement dated • (the “**Loan Supplement**”) and, together with the Facility Agreement, the “**Loan Agreement**”) between the Issuer and Severstal. Subject as provided in the Trust Deed (as defined herein) the Issuer will charge as security for its payment obligations in respect of the Notes and under the Trust Deed, its rights and interests as lender under the Loan Agreement to Citibank, N.A., London Branch as trustee (the “**Trustee**”), for the benefit of the holders of the Notes and will assign its administrative rights under the Loan Agreement to the Trustee.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS” SET OUT IN THE BASE PROSPECTUS.

The Notes and the Loan (together, the “**Securities**”) have not been, and will not be, registered under the U.S. Securities Act of 1933 (the “**Securities Act**”), and, subject to certain exceptions, may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons. The Notes may be offered and sold (i) within the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act (“**Rule 144A**”)) that are also qualified purchasers as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940 (the “**Investment Company Act**”) in reliance on the exemption from registration provided by Rule 144A (the “**Rule 144A Notes**”); and (ii) to certain persons in offshore transactions in reliance on Regulation S under the Securities Act (the “**Regulation S Notes**”). The Issuer has not been and will not be registered under the Investment Company Act. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions, see “Subscription and Sale” and “Transfer Restrictions” as set out in the Base Prospectus.

Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”) for the Notes issued under the Programme during the period of 12 months from the date hereof to be admitted to the Official List

(the “**Official List**”) and trading on its regulated market (the “**Regulated Market**”). The Regulation S Notes and the Rule 144A Notes will be offered and sold in the denominations set out herein. The Regulation S Notes will initially be represented by a Global Certificate in registered form (the “**Regulation S Global Certificate**”), without interest coupons, which will be deposited with a common depository for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg on the Closing Date (as defined herein). Beneficial interests in the Regulation S Global Certificate will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. The Rule 144A Notes will initially be represented by a Global Certificate in registered form (the “**Rule 144A Global Certificate**” and together with the Regulation S Global Certificate, the “**Global Certificates**”), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC on the Closing Date. Beneficial interests in the Rule 144A Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. Individual Definitive Certificates in registered form will only be available in certain limited circumstances as described in the Base Prospectus.

[NAMES AND TITLES OF DEALER(S)]

PAO SEVERSTAL

Issue of [Aggregate Principal Amount of Series] [Title of Loan Participation Notes]
by Steel Capital S.A.

a *société anonyme* incorporated in Luxembourg with limited liability whose registered office is at 14, rue Edward Steichen, L-2540 Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B116975

for the sole purpose of financing a Loan to PAO SEVERSTAL
under a U.S.\$4,500,000,000 Programme for the Issuance of Loan Participation Notes
(the “**Programme**”)

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 the (“**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation.

MIFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.

Part A - Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 3 September 2019 [and the supplemental Base Prospectus dated ●] which [together] constitute[s] a base prospectus (the “**Base Prospectus**”) for the purposes of Regulation (EU) 2017/1129 of the European Parliament and of the Council dated 14 June 2017 (the “**Prospectus Regulation**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 8 of the Prospectus Regulation and must be read in conjunction with such Base Prospectus. Full information on Severstal, the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on [Issuer’s/financial intermediaries/ regulated market] website.

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

- | | | | |
|---|--------|--|--------------------|
| 1 | (i) | Issuer: | Steel Capital S.A. |
| | (ii) | Borrower: | PAO SEVERSTAL |
| 2 | [(i)] | Series Number: | ● |
| | [(ii)] | Tranche Number: | ● |
| | | <i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)</i> | ●] |

3	Specified Currency or Currencies:	•
4	Aggregate Principal Amount of Notes:	•
	[(i)] Series:	•
	[(ii)] Tranche:	•]
5	Issue Price:	• per cent. of the Aggregate Principal Amount [plus accrued interest from <i>[insert date]</i> (if applicable)]
6	(i) Specified Denominations:	•
		<i>(Note: No Notes may be issued which have a minimum denomination of less than EUR 100,000 (or nearly equivalent amount in other currencies)).</i>
	(ii) Calculation Amount	•
7	(i) Issue Date:	•
	(ii) Interest Commencement Date:	<i>[Specify/Closing Date/Not Applicable]</i>
8	Closing Date:	•
9	Maturity Date:	<i>[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]</i>
10	Interest Basis:	[• per cent. Fixed Rate] [[<i>EURIBOR</i>] / [<i>LIBOR</i>]] +/- • per cent. Floating Rate (further particulars specified below)
11	Redemption/Payment Basis:	Redemption at par
12	Change of Interest or Redemption/Payment Basis:	Not Applicable
13	Status of the Notes:	[Senior]
14	[Date of [Board] approval for issuance of Notes and borrowing of Loan obtained:	• [and •, respectively]](N.B Only relevant where Board (or similar) authorisation is required for the particular Series of Notes or related Loan)]
15	Method of distribution:	[Syndicated/Non-syndicated]

16	Financial Centres (in respect of Condition 7.2 (Payment on Business Days)):	•
17	Specified Currency and Principal amount of Loan:	
	(i) Specified Currency	•
	(ii) Principal Amount	•
18	Put/Call Options:	[Put Option/Call Option/Not Applicable]
PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE UNDER THE LOAN		
19	Fixed Rate Note Provisions:	[Applicable/Not Applicable] <i>(if not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Rate [(s)] of Interest:	• per cent. per annum [payable [annually/semi-annually/quarterly / monthly] in arrear]
	(ii) Interest Payment Date(s):	• in each year [adjusted in accordance with <i>[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]</i>]/not adjusted]
	(iii) Fixed Coupon Amount[(s)]:	• per Calculation Amount
	(iv) Broken Amount:	• per Calculation Amount payable on the Interest Payment Date falling [in/on] •
	(v) Day Count Fraction:	[Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]
	(vi) Determination Date(s):	• in each year. <i>[Insert regular interest payment dates, ignoring Closing Date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)]</i>
20	Floating Rate Note Provisions:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Interest Period(s):	•
	(ii) Specified Interest Payment Dates:	•
	(iii) First Interest Payment Date:	•
	(iv) Interest Period Date(s):	• <i>(not applicable unless different from Interest Payment Date)</i>

(v)	Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/] [Not Applicable]
(vi)	Business Centre(s):	•
(vii)	Manner in which the Rate(s) of Interest is/ are to be determined:	[Screen Rate Determination/ISDA Determination/other (<i>give details</i>)]
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent):	•
(ix)	Screen Rate Determination:	As set out in the attached Loan Supplement
(x)	ISDA Determination:	As set out in the attached Loan Supplement
(xi)	Margin(s):	[+/-] • per cent. per annum
(xii)	Minimum Rate of Interest:	• per cent. per annum
(xiii)	Maximum Rate of Interest:	• per cent. per annum
(xiv)	Reference Rate:	[LIBOR/EURIBOR]
(xv)	Day Count Fraction:	[Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]

PROVISIONS RELATING TO REDEMPTION

21	Final Redemption Amount of each Note:	• per Calculation Amount
22	Early Redemption Amount(s) per Calculation Amount payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date:	•
23	Call Option:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	Early Redemption Amount:	• per Calculation Amount plus accrued interest, if any, to the Redemption Date
(ii)	Make Whole Premium:	• basis points
(iii)	Optional Redemption Date(s):	•
(iv)	Call Option Period:	•
(v)	Treasury Publisher	•
(vi)	Reference Treasury	•
(vii)	Business Centre	•

- (viii) Financial Adviser •
- 24 Put Option:** [Applicable/Not Applicable]
- (If not applicable or if Put Option is applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Put Settlement Date(s): •
- (ii) Put Option Period: •

DISTRIBUTION

- 25** (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilising Manager(s) (if any): [Not Applicable/give name]
- 26** If non-syndicated, name of Dealer: [Not Applicable/give name]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 27** Form of Notes: Registered Notes
- 28** Payment Time: [●] a.m./p.m. (Relevant Time) [●] Business Day[s] *(which for U.S.\$, € and £ shall be one Business Day and for ¥ and RUB shall be two Business Days)*

LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading on the Regulated Market of the Irish Stock Exchange plc trading as Euronext Dublin the issue of Notes described herein pursuant to the U.S.\$4,500,000,000 Programme for the Issuance of Loan Participation Notes by Steel Capital S.A. for the sole purpose of financing a Loan to PAO SEVERSTAL.

RESPONSIBILITY

The Issuer and Severstal accept responsibility for the information contained in these Final Terms. [● has been extracted from ●. Each of the Issuer and Severstal confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by ●, no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: _____
Duly authorised

By: _____
Duly authorised

Signed on behalf of Severstal:

By: _____
Duly authorised

Part B - Other Information

1 LISTING

- (i) Listing: [The Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”) / other (*specify*)]
- (ii) Admission to trading: Application has been made to Euronext Dublin for the Notes to be admitted to the Official List (the “**Official List**”) and trading on its regulated market (the “**Regulated Market**”) with effect from • [Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: •

2 RATINGS

- Ratings: The Notes to be issued have been rated:
[Standard & Poor’s Credit Market Services Europe Limited: •]
[Moody’s Investors Service Limited: •]
[Fitch Ratings Limited: •]
- [[*Insert credit rating agency*] is established in the European Community and has applied for registration under Regulation (EC) No 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.][[*Insert credit rating agency*] is established in the European Community and registered under Regulation (EC) No 1060/2009.][[*Insert credit rating agency*] is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009.][[*Insert credit rating agency*] is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009 but is endorsed by [*insert credit rating agency*] which is established in the European Union and registered under Regulation (EC) No 1060/2009.][[*Insert credit rating agency*] is not established in the European Community and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.] A rating must be issued by a credit rating agency established in the European Community and registered under the Regulation (EC) No 1060/2009 (the “CRA Regulation”) unless the rating is provided by a credit rating agency that operated in the European Community before 7 June 2010 and which has submitted an application for registration in accordance with the CRA Regulation and such application for registration has not been refused. (*The above disclosure should reflect the rating allocated to Notes of the type being issued under*

the Programme generally or, where the issue has been specifically rated, that rating.)

3 NOTIFICATION

The Central Bank has provided the competent authority(ies) of [insert details of relevant Host Member State(s)] with a certificate of approval attesting that the [Base Prospectus—insert details of relevant Base Prospectus] has been drawn up in accordance with the provisions of the Prospectus Regulation. This should not be considered as endorsement of the quality of securities that are the subject of the Base Prospectus. Investors should make their own assessment as to the suitability of investing in the securities.

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

If applicable a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest is to be included. This may be satisfied by the inclusion of the following statement:

“Save as discussed in “Subscription and Sale”, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”²

5 REASONS FOR THE OFFER AND ESTIMATED NET PROCEEDS

Reasons of the offer: [•]

[See “Use of Proceeds” in the Base Prospectus / Give Details]

(See “Use of Proceeds” wording in the Base Prospectus – if reasons for offer different from what is disclosed in the Base Prospectus, give details here.)

Estimated net proceeds: [•]

6 [YIELD

Indication of yield: •

The yield is calculated at the Closing Date on the basis of the Issue Price. It is not an indication of future yield.]

7 OPERATIONAL INFORMATION

Legal Entity Identifier •

ISIN Code (Reg S Notes): •

ISIN Code (Rule 144A Notes): •

Common Code (Reg S Notes): •

Common Code (Rule 144A Notes): •

Rule 144A CUSIP number: •

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société [Not Applicable/give name(s) and number(s) [and

anonymity [or DTC] and the relevant identification number(s): *addresses]]*

Delivery: Delivery [against/free of] payment

Names and addresses of initial Paying Agent(s): •

Names and addresses of additional Paying Agent(s) (if any): •

8 THE LOAN

Terms of the Loan

- (i) Principal Amount of the Loan: •
- (ii) Specified Currency: •
- (iii) Put Settlement Date: [Not Applicable/•]
- (iv) Repayment Date: •:
- (v) Early Redemption Amount: • per •
- (vi) Make Whole Premium: [Not Applicable] [[•] basis points]
- (vii) Treasury Publisher: •
 - Reference Treasury: •
 - Business Centre: •
 - Financial Adviser: •
- (viii) Put/Call Options: [Put Option/Call Option/Not Applicable]

Interest

Fixed Rate Loan Provisions [Applicable/Not Applicable]

- (i) Interest Commencement Date: •
- (ii) Rate of Interest: • per cent. per annum payable [annually/semi-annually] in arrear
- (iii) Interest Payment Date(s): • in each year[, not adjusted] [adjusted in accordance with [the [Floating Rate Business Day Convention] [Following Business Day Convention] [Modified Following Business Day Convention] [Preceding Business Day Convention]]]
- (iv) Fixed Amount(s): • per • in principal amount
- (v) Broken Amount: [•]
- (vi) Day Count Fraction: •
- (vii) Determination Date(s): • in each year

Floating Rate Loan Provisions [Applicable/Not Applicable]

- (i) Interest Commencement Date: •

- (ii) Interest Period(s): •
- (iii) Specified Interest Payment Dates: •
- (iv) Business Day Convention: [Floating Convention/Modified Convention/Preceding Business Day Convention] Rate Following Business Day Convention
- (v) Business Centre(s): •
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Determination] Rate Determination/ISDA
- (vii) Interest Period Date(s): [Not Applicable]
- (viii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):
- (ix) Screen Rate Determination:
- Reference Rate: [EURIBOR] / [LIBOR]
- Interest Determination Date(s): [•]
- Relevant Screen Page: [•]
- Reference Banks (if Primary Source is “Reference Banks”): [•]
- Relevant Financial Centre: [•]
- Representative Amount: [•]
- Effective Date: [•]
- Specified Duration: [•]
- (x) ISDA Determination:
- Floating Rate Option: •
- Designated Maturity: •
- Reset Date: •
- (xi) Margin(s): • per cent. per annum
- (xii) Minimum Rate of Interest: • per cent. per annum
- (xiii) Maximum Rate of Interest: • per cent. per annum
- (xiv) Day Count Fraction: [Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Certificates

Each Series of Notes will be evidenced on issue (i) in the case of Regulation S Notes, a Regulation S Global Certificate deposited with a common depository for, and registered in the name of a nominee for, Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, a Rule 144A Global Certificate deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See “—*Book-Entry Procedures for the Global Certificates*”. By acquisition of a beneficial interest in a Regulation S Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a US person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying and Transfer Agent by the relevant Dealer (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying and Transfer Agent shall notify each such relevant Dealer when all relevant Dealers have so certified) (the ***distribution compliance period***), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-US person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See “*Selling and Transfer Restrictions*”. Beneficial interests in a Rule 144A Global Certificate may only be held through DTC at any time. See “—*Book-Entry Procedures for the Global Certificates*”. By acquisition of a beneficial interest in a Rule 144A Global Certificate, the purchaser thereof will be deemed to represent, among other things, that if it is a US person (within the meaning of Regulation S), it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Paying Agency Agreement dated 19 October 2010 (the ***Paying Agency Agreement***). See “*Selling and Transfer Restrictions*”.

Beneficial interests in each Global Certificate will be subject to certain restrictions on transfer set out therein and in the Paying Agency Agreement, and with respect to Rule 144A Global Certificate, as set out in Rule 144A, and the Rule 144A Notes will bear the legends set out thereon regarding such restrictions set out under “*Selling and Transfer Restrictions*”. A beneficial interest in a Regulation S Global Certificate may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Certificate in denominations greater than or equal to the minimum denominations applicable to interests in a Rule 144A Global Certificate and only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in a Rule 144A Global Certificate may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Certificate only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) from the transferor to the effect that the transfer is being made to a non-US person and in accordance with Regulation S.

Any beneficial interest in a Regulation S Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Certificate will, upon transfer, cease to be an interest in the Regulation S Global Certificate and become an interest in the Rule 144A Global Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Certificate for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Certificate will, upon transfer, cease to be an interest in the Rule 144A Global Certificate and become an interest in the Regulation S Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in Global Certificates will not be entitled to receive physical delivery of certificated Notes in definitive form (the ***Definitive Certificates***). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Certificate contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions. Certified terms not defined in this section have the same meaning as set out in the Global Certificate:

- *Payments.* All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the register of Noteholders as holder of the Global Certificate at the close of business on the Clearing System Business Day immediately prior to the date for payment (the **Record Date**), where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January. Such payments shall be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. No person shall however be entitled to receive any payment on the Global Certificate falling due after the Exchange Date, unless the exchange of the Global Certificate for Definitive Certificates is improperly withheld or refused by or on behalf of the Issuer.
- *Notices.* All notices to Noteholders shall be deemed to have been duly given if (i) posted to such Noteholders at their respective addresses as shown on the relevant register and (ii) so long as the Notes are listed and/or admitted to trading on Euronext Dublin and the rules of that exchange so require, file a notice with a Regulatory News Service via the Companies Announcements Office of Euronext Dublin. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.
- *Meetings.* For the purposes of any meeting of Noteholders, the holder of a Global Certificate will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and as being entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes.
- *Trustee's Powers.* In considering the interests of Noteholders while a Global Certificate is held on behalf of a clearing system, the Trustee may, to the extent it reasonably considers it appropriate to do so in the circumstances (i) have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and (ii) consider such interests as if such accountholders were the holders of the Global Certificate.
- *Cancellation.* Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Certificate.

Exchange for Definitive Certificates

Exchange

Each Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Certificate is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Certificate or ceases to be a “clearing agency” registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 of the Notes which would not be suffered were the Notes in definitive form and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Certificate for Definitive Certificates on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the relevant Global Certificate may surrender such Global Certificate to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Certificate, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Certificates in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Certificate for definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

Exchange Date means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Certificate shall be exchanged in full for definitive Notes and the Issuer will, at the cost of the Company (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Certificates issued in exchange for a beneficial interest in a Rule 144A Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “Selling and Transfer Restrictions”.

Legends

The holder of a Definitive Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Certificate bearing the legend referred to under “Selling and Transfer Restrictions” or upon specific request for removal of the legend on a Rule 144A Definitive Certificate, the Issuer will deliver only Rule 144A Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Certificates

For each Series of Notes evidenced by both a Regulation S Global Certificate and a Rule 144A Global Certificate, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “—*Book Entry Ownership—Settlement and Transfer of Notes*”.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders (***Direct Participants***) or indirectly (***Indirect Participants*** and together with Direct Participants, ***Participants***) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the US Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Certificates directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Certificates as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “Exchange for Definitive Certificates”, DTC will surrender the relevant Rule 144A Global Certificates for exchange for individual Rule 144A Definitive Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Certificate representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, B1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Certificate representing Rule 144A Notes of any Series will have a CUSIP number and, if specified in the relevant Final Terms or Series Prospectus, an ISIN and Common Code and unless otherwise indicated in such Final Terms or Series Prospectus, will be deposited with a custodian for and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System. The address of DTC is 55 Water Street, New York, New York 10041, U.S.A.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Certificate, the common depository by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system’s records. The ownership interest of each actual purchaser of each such Note (the **Beneficial Owner**) will in turn be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Certificate held within a clearing system are exchanged for Definitive Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement (*SDFS*) system in same-day funds, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Certificate (subject to the certification procedures provided in the Paying Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Certificate will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Certificate of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Certificate (subject to the certification procedures provided in the Paying Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Certificate who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Certificate; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Certificate.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Certificates among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three business days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisers.

TAXATION

The following is a general summary of certain Russian, Luxembourg, United Kingdom and United States tax considerations relating to the Notes and the Loans and does not purport to be a comprehensive analysis of all tax considerations relating to the Notes and the Loan.

This summary should not be used for the purposes of the analysis of any tax implications arising for any instruments other than the Notes and the Loans. It is based upon the laws as in effect on the date of this Base Prospectus. Neither the Borrower nor the Issuer assumes any obligation to update this summary after the date of this Base Prospectus for any changes or amendments in the applicable laws.

The information and analysis contained within this section are limited to tax issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes and/or the Loans.

Prospective purchasers of the Notes are advised to consult their own tax advisors with respect to tax consequences of the purchase, ownership and disposal of the Notes arising in their particular circumstances under the tax laws of countries of which they are tax residents, or any other country, including, but not limited to, the consequences of the receipt of interest on the Notes and the sale or redemption of the Notes (in particular, in view of the applicability and effect of any other tax laws or double tax treaties, and of pending or proposed changes to the applicable tax laws as at the date of this Base Prospectus, and of any actual changes in the applicable tax laws after such date). No representation with respect to tax consequences relevant to any particular Noteholder is made hereby.

RUSSIAN FEDERATION

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of any Series of the Notes, as well as taxation of interest payments on the corresponding Loans.

This summary does not seek to address the applicability of, and/or any procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia or tax implications arising for the Noteholders applying special tax regimes available under the Russian tax legislation. Similarly this summary does not seek to address the availability of double tax treaty relief to, and the eligibility for, double tax relief of any Noteholder in respect of income payable to that Noteholder on any Series of the Notes or practical difficulties connected with claiming or obtaining such double tax treaty relief, including confirmation of a beneficial ownership status, non-application of a limitation on benefits provision, interpretation of a principal purpose test etc., as well as tax benefits which may be available under the applicable double tax treaties. The analysis set out herein does not include any comments on tax implications which could arise for the Noteholders in connection with entering into REPO or stock-lending transactions with any Series of the Notes and/or into term deals, derivatives or any similar types of transactions with any Series of the Notes.

This summary is based on laws and regulations of the Russian Federation and the practice of their interpretation and application as in effect at the date of this Base Prospectus (where they are subject to changes which could occur frequently, at short notice and could apply retroactively). Many aspects of Russian tax laws and regulations are subject to significant uncertainty and lack of interpretive guidance resulting in different interpretations and inconsistent application thereof by the various Russian authorities in practice. Further, the substantive provisions of Russian tax law and regulations applicable to financial instruments may be subject to more rapid, frequent and unpredictable changes (possibly with the retroactive effect) and inconsistent interpretation and application than in jurisdictions with more developed capital markets and tax systems.

In practice, interpretation and application of Russian tax law and regulations by different tax inspectorates and their representatives may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Furthermore, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

Taxation of the Notes

General

For the purposes of this summary, the term **Resident Noteholder** means:

- a Noteholder which is (1) a Russian legal entity or an organisation which acquires, holds and disposes the Notes; or (2) a legal entity or an organisation, formed under non-Russian law, which acquires, holds and disposes the Notes through its permanent establishment in Russia (as defined by Russian tax law or applicable double tax

treaty); or (3) a legal entity or an organisation formed under non-Russian law and recognised as a Russian tax resident in accordance with the requirements set out in the Russian Tax Code either based on the provisions of the applicable double tax treaty or (2) based on the fact that its place of management is in the Russian Federation, if there is no double tax treaty in place or applied (the ***Resident Noteholder-Legal Entity***); and

- a Noteholder who is an individual and who is actually present in the Russian Federation in aggregate for 183 calendar days or more in any period comprised of 12 consecutive months, who acquires, holds and disposes of the Notes (the ***Resident Noteholder-Individual***).

The presence in Russia for Russian personal income tax residency purposes is not considered interrupted if an individual during this 12 consecutive months departs from Russia for short periods of time (less than 6 months) for medical treatment, education purposes or completion of employment or other duties related to work (rendering services) at offshore hydrocarbon fields.

Currently, the Russian Tax Code is generally interpreted by both the Russian tax authorities and taxpayers such that days of arrival as well as days of departure should be taken into account when calculating the total number of days of presence of an individual in Russia.

For the purposes of this summary, a ***Non-Resident Noteholder*** means:

- a legal entity or an organisation which is a Noteholder and does not qualify for the Resident Noteholder – Legal Entity (the ***Non-Resident Noteholder-Legal Entity***); and
- a Noteholder who is an individual and does not satisfy the criteria for being a Russian tax resident as defined above (the ***Non-Resident Noteholder-Individual***).

For the purposes of this summary, definitions of “Resident Noteholder” and “Non-Resident Noteholder” in respect of individuals are taken at face value based on the wording of Russian tax law as written as of the date of this Base Prospectus. In practice, however, the application of the above formal residency definitions by the Russian tax authorities may differ depending on their position in each case. The law is currently worded in a way that implies the potential for a split year residency for individuals. However, both the Russian Ministry of Finance and the Russian tax authorities have expressed the view that an individual should be either a tax resident or non-tax resident in Russia for the full calendar year.

Consequently, if the travel pattern dictates a differing tax residency status for an individual for a part of the tax (calendar) year, the application of Russian personal income residency tax rate may in practice be disallowed.

Russian taxation rules may be affected by the provisions of the applicable double tax treaties. The Russian tax treatment of interest payments made by the Company to the Issuer (or to the Trustee, as the case may be) under any Loan Agreement may affect the Noteholders.

Resident Noteholders

The Resident Noteholders will be subject to all applicable Russian taxes in respect of income derived by them in connection with the acquisition, ownership, sale and/or other disposal of the Notes (including interest received on the Notes) or in connection with payments under the Loan Agreement to the Issuer (or to the Trustee, as the case may be) if the Resident Noteholders qualify for persons that have the actual right to the respective income for the Russian tax purposes.

Resident Noteholders should consult their own tax advisers with respect to the effect that the acquisition, holding sale and/or other disposal of the Notes or payments under the Loan Agreement to the Issuer (or to the Trustee, as the case may be) may have on their tax position.

Non-Resident Noteholders

Taxation of Non-Resident Noteholders-Individuals

Acquisition of the Notes

Under the Russian tax legislation, the Russian tax treatment of income derived by Non-Resident Noteholders-Individuals will depend on whether this income qualifies as received from Russian or non-Russian sources. In case the income is not qualified as received from Russian sources, no tax consequences should arise. However, pursuant to provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of the acquisition of securities, the acquisition of the Notes by Non-Resident Noteholders-Individuals may constitute a taxable event for Russian personal income tax purposes. In particular, if the acquisition price of the Notes is below the lower margin of the

fair market value of the Notes calculated based on specific procedure for the determination of market prices of securities for Russian personal income tax purposes, the difference may become subject to Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of acquisition) provided that such material benefit, which is arguably, subject to reduction or elimination under the applicable double tax treaty.

Since the Russian Tax Code does not contain any provisions as to how the related material benefit receivable by individuals should be sourced, in practice the Russian tax authorities may infer that such income should be considered as a Russian source income if the Notes are purchased “in Russia”. In the absence of any explicit guidance as to what should be considered as a purchase of securities “in Russia”, in practice the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the place of location of the issuer, or other similar criteria.

There is no assurance therefore that as a result any material benefit received by the Non-Resident Noteholders-Individuals in connection with the acquisition of the Notes will not become taxable in Russia.

Interest on the Notes and Repayment of Principal on the Notes

Non-Resident Noteholders-Individuals should not generally be subject to Russian personal income tax in respect of payments of interest and principal on the Notes received from the Issuer.

Taxation of interest payable on the Notes may be affected however by the tax treatment of interest payable on the Loans (please see “*Sale or other Disposal of the Notes*” and “*Taxation of Interest Payments on the Loans*” below).

Sale, redemption or other Disposal of the Notes

Non-resident Noteholder-Individuals should not be subject to any Russian taxes in respect of gains or other income realised on a redemption, sale or other disposal of the Notes outside of Russia provided that the proceeds of such sale, redemption or disposal are not received from a source within Russia.

Subject to any available tax treaty relief, if receipt of any proceeds from the sale or other disposal of the Notes received by a Non-Resident Noteholder-Individual qualify as a Russian source income for Russian personal income tax purposes, these proceeds will be subject to Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of disposal).

Since the Russian Tax Code does not contain any additional guidance as to when the sales or other disposal proceeds should be deemed to be received from Russian sources by an individual not qualifying as a Russian tax resident for Russian personal income tax purposes, in practice the Russian tax authorities may infer that such income should be considered as a Russian source income if the Notes are sold or disposed “in Russia”. In the absence of any explicit guidance as to what should be considered as the sale or other disposal of securities “in Russia”, the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of the conclusion of the sales transaction, the place of the location of the Issuer or other similar criteria. There is no assurance therefore that as a result sales or other disposal proceeds received by the Non -Resident Noteholders-Individuals will not become subject to Russian personal income tax.

In case the sales or other disposal proceeds are considered as derived from Russian sources, Russian personal income tax will apply to the gross amount of proceeds decreased by the amount of any available cost deductions (including the original acquisition costs of the Notes and expenses relating to the acquisition, holding and sale or other disposal) provided that duly executed supporting documentation is provided to the person obliged to calculate and withhold Russian personal income tax in relation to this income in a timely manner. There is a risk that, if the documentation supporting the cost deductions is deemed to be insufficient by the Russian tax authorities or the person remitting the respective income to a Non-Resident Noteholder-Individual (where such person is considered as the tax agent obliging to calculate and withhold Russian personal income tax and remit it to the Russian budget), the deduction will be disallowed and Russian personal income tax will apply to the gross amount of sales or other disposal proceeds.

Furthermore, there is also some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds derived by a Non-Resident Noteholder-Individual from Russian sources in connection with the sale or disposal of the Notes that is attributable to accrued interest on the Notes if any. The Russian tax authorities could argue that such portion should be subject to Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of payment) even if the sale or other disposal of the Notes results in a loss.

In certain circumstances, if sales and/or disposal proceeds (including accrued and paid interest on the Notes) are paid to a Non-Resident Noteholder-Individual by a licensed broker or an asset manager that is a Russian legal entity or organisation carrying out operations for the benefit of the Non-Resident Noteholder-Individual under an asset

management agreement, a brokerage agreement, an agency agreement, a commission agreement or a commercial mandate agreement, the applicable Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of payment) will be withheld at source by that person considered as the tax agent. The amount of tax withheld will be calculated after taking into account the available documented deductions for the original acquisition costs and related expenses on the acquisition, holding and sale or other disposal of the Notes to the extent such deductions and expenses can be determined by the entity making the payment of income to a Non-Resident Noteholder-Individual. The tax agent would be required to report to the Russian tax authorities in respect of its inability to withhold personal income tax in full within one month upon termination of the agreement (see above) or by March 1 of the year following the calendar year in which the income was received. Failure or inability of the tax agent to timely withhold the applicable Russian personal income tax in full will place the onus of reporting and payment of such tax on the Non-Resident Noteholder-Individual.

If duly documented acquisition costs and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes were born within the relationship with a party other than the tax agent obliged to calculate and withhold Russian personal income tax in relation to the sales proceeds, then these original duly documented costs and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes may be taken into account by the tax agent upon written application of the Non-Resident Noteholder-Individual and presentation of the documents confirming the costs and expenses.

If the Notes are sold by a Non-Resident Noteholder-Individual to other legal entities, organisations (other than licensed brokers acting under the agreements or asset managers as mentioned above) or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder Individual will then be required to file a personal income tax return individually, report on the amount of income realised to the Russian tax authorities and apply for a deduction in the amount of the acquisition and other expenses relating to the purchase, holding and sale or other disposal of the Notes confirmed by the supporting documentation. The applicable personal income tax will then have to be paid by the Non-Resident Noteholder-Individual on the basis of the personal income tax return.

Under certain circumstances, gains received and losses incurred by a Non-Resident Noteholder-Individual as a result of the sale or other disposal of the Notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes, which could affect the total amount of income of the Non-Resident Noteholder-Individual subject to taxation in Russia.

There is also a risk that any gain derived by a Non-Resident Noteholder Individual from the sale or other disposal of the Notes may be affected by changes in the exchange rate between the currency of the acquisition of the Notes, the currency of the sale or other disposal of the Notes and Roubles.

Taxation of Non-Resident Noteholders—Legal Entities

Acquisition of the Notes

The mere acquisition of the Notes by the Non-Resident Noteholders-Legal Entities per se (whether upon their issue or upon their acquisition in the secondary market) should not trigger any adverse Russian tax implications for the Non-Resident Noteholders-Legal Entities at the moment of the acquisition.

Interest on the Notes and Repayment of Principal on the Notes

Non-Resident Noteholders-Legal Entities should not generally be subject to any Russian taxes in respect of payments of interest and repayment of principal on the Notes received from the Issuer.

Taxation of interest on any Series of the Notes may however be affected by the Russian withholding tax treatment of interest on the Loans (please see “Taxation of Interest Payments on the Loans” below).

Sale, redemption and/or other Disposal of the Notes

According to the Russian Tax Code the list of Russian source income includes interest on Russian state and municipal securities as well as interest on debt obligations of Russian organisations. Interest payable on debt obligations of foreign companies (including accrued interest embedded in any proceeds derived in connection with the disposal of the debt obligations of such non-Russian entities (such as the Notes)), is not included in the list of Russian source income. On this basis, such interest should not be subject to Russian withholding tax.

However, there is some uncertainty regarding the Russian withholding tax treatment of the portion of the sales or disposal proceeds if any attributable to accrued interest (coupon) on the Notes where proceeds from sale or other

disposition of the Notes are received from a source within Russia by a Non-Resident Noteholder–Legal Entity. This uncertainty is caused by isolated precedents in the Russian market when the Russian tax authorities challenged the non-application of the Russian withholding tax to the amount of accrued interest (coupon) embedded into the sales price of the debt obligation issued by non-Russian entities which were paid out by the Russian organisations. Although the Russian Ministry of Finance in its subsequent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest paid to a non-Russian organisation should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having a registered tax presence in Russia, which purchases the Notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20 percent (or such other rate as could be effective at the time of such sale or other disposal). The tax may apply to the accrued interest portion of the disposal proceeds.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions allowing to reduce or eliminate the applicable Russian income taxes imposed on income received by Non-Resident Noteholders from Russian sources in connection with the acquisition, holding, sale and other disposal of the subsequent Notes.

In order to apply double tax treaty (in cases where double tax treaties are generally available) to obtain them, a Non-Resident Noteholder will have to comply with the certification, information and reporting requirements which are in force in Russia (relating, in particular, to the confirmation of the entitlement and eligibility to the respective double tax treaty benefits).

In particular under the standard rules, a Non-Resident Noteholder–Legal Entity which has the actual right to receive the respective income (i.e., which qualifies as the “beneficial owner of income”) and is eligible for the benefits of the applicable double tax treaty should provide the tax agent with satisfactory documentary evidence to these facts as well as the duly executed tax residency certificate before the date of the income payment. A Non-Resident Noteholder–Legal Entity is obliged to provide a beneficial ownership confirmation to the tax agent that pays Russian source income. Tax residency status of legal entities which are banks formed in jurisdictions which have concluded double tax treaties with the Russian Federation (which have the actual right to receive income) and which claim reduced tax rates under the applicable double tax treaties can be confirmed by public information guides (e.g. Bankers Almanac) in lieu of the tax residency certificate.

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

If the documents proving residency in the respective state are submitted to the tax agent after personal income tax has been withheld, the tax agent will be required to reimburse to the Non-Resident Noteholder—Individual the amount of tax withheld.

It is not explicit whether under new law Russian citizens may enjoy exemption from taxation at source under the respective double tax treaty. In practice the law does not clearly establish how the tax agent should determine whether a passport is sufficient to confirm the individual’s eligibility for double tax treaty benefits. The procedure of elimination of double taxation by means of exemption under an applicable double tax treaty of the Non-Resident Noteholders–Individuals in case of absence of a tax agent is not explicitly indicated in the Russian Tax Code.

The Non-Resident Noteholder-Individuals should consult their own tax advisors with respect to possible tax treaty relief and procedures which have to be satisfied in order to obtain tax relief in regards of Russian personal income tax, which may apply to interest on the Notes or proceeds received by them from the acquisition, sale or other disposal of the Notes.

On June 7, 2017, 68 jurisdictions, including Russia, signed the MLI. Several additional jurisdictions have signed the MLI since then. A number of other jurisdictions have also expressed their intention to sign the MLI. For some jurisdictions the MLI has already entered into force. For Russia the MLI enters into force on 1 October 2019. The changes, which will be introduced in the double tax treaties concluded by Russia with covered by the MLI countries, may have additional adverse impact on the availability of double tax treaty benefits to the Non-Resident Noteholders.

Tax Reclaim

If Russian withholding tax is withheld at source from income payable to a Non-Resident Noteholder-Legal Entity, despite the domestic release available for the Russian tax agents, a claim for a refund of the Russian income tax that was withheld at source can be filed by this Non-Resident Noteholder-Legal Entity with the Russian tax authorities either based on general tax reclaim procedures within three years following the date of withholding, or provided that such Non-Resident Noteholder-Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income within three years following the year in which the tax was withheld. There is no assurance that such refund will be available in practice to the Non-Resident Noteholder – Legal Entity.

If Russian personal income tax on income derived from Russian sources by a Non-Resident Noteholder-Individual for whom double tax treaty relief is available was withheld at source despite the right of this Non-Resident Noteholder-Individual to rely on the benefits of the applicable double tax treaty allowing such individual not to pay the tax in Russia or allowing to pay the tax at a reduced tax rate in relation to such income, a claim for a refund of Russian personal tax which was excessively withheld at source together with a passport of a foreign individual/tax residency certificate issued by the competent authority in his/her country of residence may be filed by that Non-Resident Noteholder-Individual with the tax agent within three years following the tax year when the corresponding income was received. In the absence of a tax agent who withheld the Russian personal income tax on such income (e.g., in case of a liquidation of the tax agent), an application for a refund may be filed with the Russian tax authorities within the same period (three years following tax year when the corresponding income was received) with the Russian tax return, a tax residency certificate and documents proving tax withholding to the Russian tax authorities. There can be no assurance that the tax agent and/or the Russian tax authorities will refund this tax in practice.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which have to be provided by the Non-Resident Noteholder-Individual to the Russian tax authorities for the tax refund purposes, the Russian tax authorities may in practice require a wide variety of documentation confirming, for instance, the right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

Obtaining a refund of Russian income taxes, which were excessively withheld at source is likely to be a time-consuming and lengthy process requiring great efforts, and no assurance can be given that such refund will be granted to the Non-Resident Noteholders in practice.

The Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain the refund of Russian income taxes which were excessively withheld at source.

Taxation of Interest payments on the Loans

In general, payments of interest on loans made by a Russian legal entity to a non-resident legal entity or organisation which does not qualify as the Russian tax resident and which does not have permanent establishment in Russia are subject to Russian withholding tax at a rate of 20 percent (or such other tax rate as may be effective at the time of payment), which could potentially be reduced or eliminated pursuant to the terms of an applicable double tax treaty subject to timely compliance with the respective treaty clearance formalities by the interest recipient and confirmation of the beneficial ownership status.

Under Russian tax law, the person who has actual right to receive income (the beneficial owner) is defined as the person (foreign structure without legal entity) which based on direct or indirect participation in a Russian organisation, control over the organisation or due to other reasons has the right to use and dispose of the relevant income for his/her own benefit. Functions undertaken and risks borne by such person are taken into account when determining the beneficial ownership status. A person cannot be regarded as a beneficial owner if he/she (1) has limited authorities to use or dispose the income, (2) acts as an intermediary and undertakes no additional functions or accepts no risks, (3) is obliged to pass the income to a third party.

Generally, based on the exemption envisaged by the Russian Tax Code, Russian borrowers should be fully released from the obligation to withhold Russian tax from interest and other payments made to foreign legal entities provided that the following conditions are all simultaneously met:

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

- (b) that have been registered with one of the qualifying foreign depository/clearing organisations.

The lists of qualifying foreign exchanges and foreign depository/clearing organisations were approved by the Central Bank of the Russian Federation in its Order No. 4393-U of May 30, 2017 (the *Lists*).

Each Series of the Notes should be the Notes listed and/or admitted to trading on Euronext Dublin and held through Clearstream, Luxembourg and/or Euroclear or DTC. The Irish Stock Exchange plc (currently operating under the trading name Euronext Dublin), Euroclear and Clearstream, Luxembourg are included in the Lists. DTC is not expressly mentioned in the Lists, but to the extent the Notes are admitted to trading and/or have been listed on the Irish Stock Exchange plc (being the legal name specified in the Lists), the above-mentioned conditions should be considered satisfied. When the Irish Stock Exchange plc changes its legal name, it would technically cease appearing in the Lists. If the Notes are held through Clearstream, Luxembourg and/or Euroclear, the referenced condition for the tax exemption should be satisfied regardless of the particular stock exchange on which the Notes will be listed and/or admitted to trading.

There is some uncertainty with respect to those Series of the Notes which, if issued, would be cleared through DTC and would be admitted to trading on the Irish Stock Exchange plc, after the change of its legal name. Such Series of the Notes may not qualify for the “issued bonds” for the purposes of the respective tax exemption, unless the Lists are amended to replace the Irish Stock Exchange plc with the new legal name thereof or there is a specific guidance from the Russian regulatory or the tax authorities acknowledging that the reference to the Irish Stock Exchange plc should be read as the reference to the new legal name of it.

- (2) The connection between the loan and the issued bonds should be evident and supported with certain documents, which are set out in the Russian Tax Code, including the relevant prospectus and/or the loan agreement.
- (3) the recipient of interest on the relevant Loan is a foreign entity which is the issuer of the “issued bonds” (i.e., the Issuer), or a foreign entity authorised to receive interest income payable on the “issued bonds”, or a foreign entity to which rights and obligations under the “issued bonds” issued by another foreign entity have been assigned;
- (4) there is a double tax treaty between Russia and the jurisdiction of tax residence of the recipient of payments on the relevant Loan which can be confirmed by a duly executed tax residency certificate issued by the competent authorities of his/ her country of residence for tax purposes and effective as of the moment of income payment.

We believe that it should be possible to satisfy conditions established by the Russian Tax Code and obtain a release from the obligation to withhold Russian income tax from payments of interest and certain other amounts, as the case may be, on each Loan to the Issuer as long as the conditions set out above are met throughout the term of each Loan and the Notes of any Series subject to the qualifications set out above.

Importantly, the Russian Tax Code does not provide for the similar exemption to the non-Russian recipients of interest income from Russian withholding tax and/or Russian personal income tax, as the case may be, in addition to the release of the Russian borrower from withholding tax obligations in respect of interest payable on the relevant Loans. Currently there is no requirement and mechanism in the Russian tax legislation for the foreign legal entities to self-assess and pay the tax to the Russian tax authorities, in case the tax was not withheld at source; such rules however are set out for non-Russian tax residents which are individuals.

At the same time the Ministry of Finance of the Russian Federation acknowledged in its information letter published on its respective website that the release of Russian companies from withholding tax agent obligations arising in structures should effectively mean that no Russian withholding tax should arise, since there is neither a mechanism nor obligation for a non-Russian resident to calculate and pay the tax independently to the Russian budget under such circumstances. There can be no assurance, therefore, that such requirements and mechanism will be introduced in the future or that the Russian tax authorities would make attempts to collect the tax from the foreign income recipients, including the Issuer or the Noteholders.

If interest and/or any other payments on any Loan become payable to the Trustee pursuant to the security arrangements described herein, there is some residual uncertainty as to whether the release from the obligation to withhold tax under the exemption described above would be applicable to interest on the Loans payable to the Trustee. There is a potential risk that interest on the relevant Loan payable to the Trustee will become subject to the Russian withholding tax at the rate of 20 percent (or such other tax rate as may be effective at the time of payment) in the part attributable to the Non-Resident Noteholder – Legal Entity or Russian personal income tax at the rate of 30 percent (or such other tax rate that may be effective at the time of payment) in the part attributable to the Non-Resident Noteholder – Individual. Therefore, it is not expected that the Trustee will or will be able to claim the exemption from or the reduction in standard Russian withholding tax rate applicable to interest under any double tax treaty under such circumstances.

If interest payable on any Loan becomes subject to Russian withholding tax or Russian personal income tax, as may be applicable, (as a result of which the Issuer will reduce interest payable under the corresponding Series of the Notes by the amount of such withholding taxes), the Company will be obliged (subject to certain conditions) under the terms of the relevant Loan Agreement to increase the amounts payable by it under the relevant Loan (“gross up”) as may be necessary to ensure that the net payments received by the Issuer and/or the Noteholders will not be less than the amounts they would have received in the absence of such withholding.

No VAT should be payable in Russia in respect of interest and principal payments under any Loan.

LUXEMBOURG

The following general summary is based upon the tax laws of Luxembourg as in effect on the date of this Base Prospectus and is subject to any change that may come into effect after that date.

The following is a general description of certain tax laws relating to the Notes and the tax position of the Noteholders. As such it does not purport to be a comprehensive description of all the Luxembourg tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes. Each prospective holder or beneficial owner of the Notes should consult its tax advisor as to the tax consequences of the purchase, ownership and disposition of the Notes in the light of their particular circumstances.

Luxembourg tax residence of the Noteholders

Noteholders will not be deemed to be resident, domiciled or carrying on business in Luxembourg solely by reason of holding, execution, performance, delivery, exchange and/or enforcement of the Notes.

Withholding Tax and Self-Applied Tax

Under current Luxembourg tax law, payments of interest by the Issuer under the Notes will, with the possible exception of interest payments made to certain individual Noteholders, be made free of withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein to the extent that such interest has been negotiated at arm’s length and is not profit participating. There is also no Luxembourg withholding tax, with the possible exception of payments made to certain individual Noteholders, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

Luxembourg non-resident individuals

Noteholders who are non-residents of Luxembourg and who do not have a permanent establishment, a permanent representative or a fixed base of business in Luxembourg with which the holding of the Notes is connected, will not be subject to taxes (income taxes and net wealth tax) or duties in Luxembourg with respect to payments of principal or interest (including accrued but unpaid interest), payments received upon redemption, repurchase or exchange of the Notes or capital gains realised upon disposal or repayment of the Notes.

Luxembourg resident individuals

In accordance with the law of 23 December 2005, as amended from time to time, on the introduction of a withholding tax on certain interest payments on savings income (the **Law**), interest payments made by Luxembourg paying agents to Luxembourg individual residents are subject to a 20 percent withholding tax.

Pursuant to the Law, Luxembourg resident individuals, acting in the course of their private wealth, can opt to self-declare and pay a current 20 percent tax on interest payments by paying agents located in an EU Member State other than Luxembourg or in a Member State of the European Economic Area other than an EU Member State.

Taxation of the Noteholders

A Noteholder who derives income from a Note or who realises a gain on the disposal or redemption of a Note will not be subject to Luxembourg taxation on income or capital gains unless:

- the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- such income or gain is attributable to an enterprise or part thereof which is carried on by a non-resident through a permanent establishment or a permanent representative in Luxembourg.

Luxembourg resident individual Noteholders are however not subject to taxation on capital gains upon the disposal of a Note, unless such a disposal precedes the acquisition of the Note or the Note is disposed of within six months of its date of acquisition. The Luxembourg tax treatment of the accrued and unpaid interest upon the sale, redemption or exchange of the Notes should be addressed by the Noteholders' advisors depending on their particular circumstances.

Luxembourg resident corporate Noteholders which benefit from a special tax regime (such as family wealth management companies subject to the law of 11 May 2007, undertakings for collective investment subject to the law of 17 December 2010, specialised investment funds subject to the law of 13 February 2007 or reserved alternative investment funds (RAIF) subject to the law of 23 July 2016 other than those subject to article 48 of the said law) are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (i.e., corporate income tax, municipal business tax and net wealth tax) other than the annual subscription tax calculated on their (paid up) share capital (and share premium) or net asset value.

For Luxembourg venture capital companies (*société d'investissement en capital à risque – SICAR*) subject to the law of 15 June 2004, RAIFs subject to article 48 of the law of 23 July 2016, and corporate pension funds (SEPCAV) subject to the law of 9 June 1999 on pension funds, income derived from certain securities or from the disposal of certain securities is not subject to corporate income tax or municipal business tax.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a Noteholder unless:

- the Noteholder is, or is deemed to be, a fully taxable company resident in Luxembourg; or
- such Noteholder is a non-resident company carrying out business activities through a permanent establishment or a permanent representative in Luxembourg and the Note is attributable to such permanent establishment.

For Luxembourg venture capital companies (*société d'investissement en capital à risque – SICAR*) subject to the law of 15 June 2004, RAIFs subject to article 48 of the law of 23 July 2016, corporate pension funds (SEPCAV) and pension savings associations (ASSEF) subject to the law of 9 June 1999 on pension funds and securitisation companies subject to the law of 22 March 2004 on securitisation, only the minimum net wealth tax applies.

Other Taxes

Luxembourg gift or inheritance taxes will not be levied on the transfer of a Note by way of gift by, or on the death of, a Noteholder unless:

- the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- the transfer is construed as an inheritance or as a gift made by or on behalf of a person who, at the time of death or gift, is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions (in which case inheritance tax may apply or not, depending on the relationship between the deceased and the heir); or
- such Note is attributable to an enterprise or part thereof which is carried on by a non-resident through a permanent establishment or a permanent representative in Luxembourg; or
- the gift is registered in Luxembourg, which is not mandatory.

There is no proportional Luxembourg registration tax, capital tax, stamp duty or any other similar tax or duty (other than nominal court fees and contributions for the registration with the Chamber of Commerce) payable in Luxembourg in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes or the performance of the Issuer's obligations under the Notes. If documents related to the Notes or Loans are registered, a fixed registration duty of EUR75 will apply.

There is no Luxembourg VAT payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of a Note. Luxembourg VAT may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg VAT purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from VAT does not apply with respect to such services.

The above statements on taxation are based on the laws and practices in force at the date of this Base Prospectus. As is the case with any investment, there can be no guarantee that the tax position or proposed tax position at the time of an investment will endure indefinitely.

CERTAIN US FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a summary of certain US federal income tax considerations relevant to the purchase, ownership and disposition of the Notes. This discussion addresses only US Holders (as defined below) who purchase Notes in the original offering at the original offering price, hold the Notes as capital assets and use the US dollar as their functional currency. This discussion is not a complete description of all US tax considerations relating to the purchase, ownership and disposition of Notes that may be relevant to particular purchasers. It does not address the tax treatment of prospective purchasers subject to special rules, such as banks, dealers in currencies and securities, traders that elect to mark-to-market, insurance companies, investors liable for the alternative minimum tax, US expatriates, tax-exempt entities, persons subject to special tax accounting rules as a result of any item of gross income with respect to the Notes being taken into account in an applicable financial statement or persons holding Notes as part of a hedge, straddle, conversion or other integrated financial transaction. It also does not address the tax treatment of prospective purchasers that will hold the Notes in connection with a permanent establishment outside of the United States. This discussion does not consider US federal estate and gift tax, US state or local tax matters, Medicare contribution tax, or non-US tax considerations. Finally, this discussion does not address prospective purchasers of further Notes, which may be issued at a discount or premium from the original offering price.

This summary is based on the US Internal Revenue Code of 1986, as amended (the *US Tax Code*), existing and proposed US Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations, which could affect the tax consequences described herein.

For purposes of this discussion, a **US Holder** is a beneficial owner of a Note that is, for purposes of US federal income taxation, (i) an individual citizen or resident of the United States, (ii) a corporation or other business entity treated as a corporation for US federal income tax purposes created or organised under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of a US person and the primary supervision of a US court, or (iv) an estate the income of which is subject to US federal income taxation regardless of its source.

If an entity or arrangement treated as a partnership for US federal income tax purposes acquires or holds the Notes, the tax treatment of the partnership and a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. A prospective investor that is a partnership for US federal income tax purposes should consult its tax advisors about the tax consequences for its partners of the partnership purchasing, holding and disposing of Notes.

Characterisation of the Notes

No authority directly addresses the US federal income tax characterisation of securities like the Notes and the Issuer has not and will not seek a ruling from the US Internal Revenue Service (*IRS*) as to their characterisation for such purposes. Although the matter is not free from doubt, to the extent relevant for US tax purposes, the Issuer intends to take the position that a beneficial owner of a Note will be treated as the beneficial owner of a debt instrument that is not a contingent payment debt instrument. The discussion below assumes that the Notes are properly treated as debt instruments that are not contingent payment debt instruments for US federal income tax purposes. No assurance can be given that the IRS will not assert, or a court would not sustain, a position regarding the characterisation of the Notes that is contrary to this treatment. Alternative characterisations include treatment of the Notes as equity in the Issuer, as contingent payment debt instruments subject to special rules relating to accrual of original issue discount (*OID*) and contingent interest, or as other types of financial instruments. If the Notes were treated as equity interests of the Issuer, US Holders may be treated as owning interests in a passive foreign investment company, which could have materially adverse tax consequences for a US Holder. If the Notes were to be treated as contingent payment debt instruments or as equity in the Issuer, US Holders may be required, among other things, to recognise income for US federal income tax purposes at different times and in different amounts, of different character subject to higher rates of tax, than described below and may suffer additional adverse US federal income tax consequences. Prospective investors should seek advice from their tax advisors as to the consequences to them of alternative characterisations of the Notes for US federal income tax purposes.

Interest

Stated interest on the Notes, including any additional amounts, will be includible in the gross income of a US Holder in accordance with the holder's regular method of tax accounting, so long as it is treated as qualified stated interest described below. The interest, including any amounts withheld therefrom in respect of non-US taxes and additional

amounts paid on account of such withheld tax, and OID, if any, accrued on the Notes will generally be ordinary income from sources outside the United States.

A US Holder of a Note issued with OID must accrue the OID into income on a constant yield to maturity basis whether or not it receives cash payments. Generally, a Note will have OID to the extent that its stated redemption price at maturity exceeds its issue price. However, a Note will not be treated as issued with OID if the stated redemption price at maturity exceeds its issue price by less than $\frac{1}{4}$ of 1 percent of the Note's stated redemption price at maturity multiplied by the number of complete years to maturity (*de minimis* **OID**). The issue price of a Note is the initial offering price at which a substantial amount of the Notes are sold (excluding sales to brokers or similar persons). The stated redemption price at maturity of a Note is the total of all payments due on the Note other than payments of qualified stated interest. In general, qualified stated interest is interest that is unconditionally payable at least annually at a single fixed rate. Interest would be treated as unconditionally payable if reasonable legal remedies exist to compel timely payment or the terms of which make non-payment remote. The Issuer intends to take the position and the discussion herein assumes that stated interest on the Notes is qualified stated interest (except as otherwise specified). In the event that the Notes are issued with OID, the amount of OID with respect to a Note includible in income by a US Holder is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion thereof in which such US Holder holds such Note. A daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID that accrued in such period. The accrual period of a Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or last day of an accrual period. The amount of OID that accrues with respect to any accrual period is the excess of (i) the product of the Note's "adjusted issue price" at the beginning of such accrual period and its "yield to maturity", determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of such period, over (ii) the amount of stated interest allocable to such accrual period. The adjusted issue price of a Note at the start of any accrual period is equal to its issue price, increased by the accrued OID for each prior accrual period and decreased by the amount of any payments previously made on the Notes that were not stated interest payments. The yield to maturity of a Note is the discount rate that, when used in computing the present value of all principal and interest payments to be made under the Note, produces an amount equal to the issue price of the Note. For purposes of determining OID accruals and adjusted issue price with respect to Floating Rate Notes only, the amounts of stated interest and OID are determined by assuming that the interest rate on Floating Rate Notes is a fixed rate based on the value of the floating rate applicable to such Notes as of the issue date.

A US Holder may elect to recognise all yield on a Note (including *de minimis* **OID**) using a constant yield method. The constant yield election generally will apply only to the Note with respect to which it is made, and it may not be revoked without the consent of the IRS.

It is possible that stated interest on the Notes will not be treated as qualified stated interest. In such circumstances, all interest (and any discount) on the Notes would be treated as OID and a US Holder would be required to include the OID in income on a constant yield to maturity basis whether or not it receives a cash payment on any payment date.

In the case of Notes denominated in a currency other than US dollars (*foreign currency*), a cash basis US Holder receiving stated interest in foreign currency must include in income a US dollar amount based on the spot exchange rate on the date of receipt whether or not the payment is converted into US dollars on such date. An accrual basis US Holder (and a cash basis US Holder in the case of OID, if any) accruing interest or OID in foreign currency generally must include in income a US dollar amount based on the average exchange rate during the accrual period (or, for an accrual period that spans two taxable years, the partial accrual period within each taxable year). Upon receipt of an interest payment (or other payment treated as a payment of accrued OID, if any) in foreign currency (including, amounts received upon sale of a Note that are attributable to accrued and unpaid interest or OID, if any, previously included in income), US Holders that have accrued interest (or OID, if any) will recognise exchange gain or loss equal to the difference, if any, between the US dollar amount previously accrued and the US dollar value of the payment received at the spot exchange rate on the date of receipt. Foreign exchange gain or loss will be US source ordinary income or loss and generally will not be considered additional interest income or expense.

An accrual basis US Holder (and a cash basis US Holder with respect to OID, if any) may elect to translate accrued interest into US dollars at the spot exchange rate on the last day of the accrual period (or, for an accrual period that spans two taxable years, in the case of the first partial period, the last day of the taxable year). If accrued interest (or OID, if any) actually is received within five business days of the last day of the accrual period (or the taxable year, in the case of a partial accrual period), an electing accrual basis US Holder (and a cash basis US Holder with respect to OID, if any) instead may translate the accrued interest at the spot exchange rate on the date of actual receipt for purposes of translating accrued interest income (or OID, if any) into US dollars (in which case no exchange gain or loss will be taken into account upon receipt). Currency translation elections will apply to all debt instruments that the electing US Holder holds or acquires as of the beginning of that taxable year or thereafter acquires and cannot be revoked without the consent of the IRS. For purposes of determining exchange gain or loss, all payments on a Note (other than payments of stated

interest) will be viewed as payments, first, of stated interest, then of previously accrued OID (with payments considered made for the earliest accrual periods first) and, finally, payments of principal.

For purposes of this discussion, the “spot exchange rate” generally means a rate that reflects a fair market rate of exchange available to the public for currency under a “spot contract” in a free market and involving representative amounts. The “average exchange rate” for an accrual period (or partial period) is the average of the spot exchange rates for each business day of such period or other average exchange rate for the period reasonably derived and consistently applied by a US Holder.

Stated interest income and OID, if any, on the Notes will be treated as foreign source income and generally will be considered “passive category income” in computing the foreign tax credit allowable to US Holders for US federal income tax purposes. To the extent payments under the Loan are subject to Russian withholding tax, it is unclear whether a US Holder that is eligible for benefits under the income tax treaty between the Russian Federation and the United States may claim an exemption from or reduction in Russian withholding tax, if any, imposed on the Notes. See discussions under “Taxation—Russian Federation—Tax Treaty Relief” and “Taxation—Russian Federation—Taxation of Interest on the Loans”. It is also unclear whether a US Holder could claim a deduction or foreign tax credit for any Russian tax withheld from payments on the Loan. Each US Holder should consult its tax advisor about its eligibility for exemption from, and its ability to credit or deduct any Russian withholding tax which reduces payments on the Notes.

Disposition

A US Holder will recognise gain or loss on the sale, exchange, retirement or other disposition of a Note in an amount equal to the difference between the amount realised on the sale, exchange, retirement or other disposition (less any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the US Holder’s adjusted tax basis in the Note, in each case as determined in US dollars. US Holders should consult their tax advisors about how to account for proceeds received on the sale, exchange, retirement or other disposition of Notes that are not paid in US dollars. A US Holder’s adjusted tax basis in a Note generally will equal the US Holder’s US dollar cost of the Note increased by previously accrued OID, if any, and reduced by payments on the Notes other than payments of stated interest. Subject to the foreign currency gain or loss discussed below, any such gain or loss will generally be considered US source and will be long-term capital gain or loss if the Note has been held for more than one year. The long term capital gains of non-corporate US Holders may be taxed at lower rates. Deductions for capital losses are subject to limitations.

In the case of Notes denominated in a foreign currency, gain or loss recognised on the sale, exchange, retirement or other disposition of a Note that is attributable to changes in the spot exchange rate for foreign currency between the dates of acquisition (or accrual, in the case of accrued interest or OID, if any) and disposition of the Note, generally will be treated as US source ordinary income or loss and will not be considered additional interest income or expense. Gain or loss attributable to fluctuations in currency exchange rates generally will equal the difference, if any, between the US dollar value of the US Holder’s foreign currency purchase price for the Note, determined at the spot rate of exchange on the date the US Holder disposes of the Note and the US dollar value of the US Holder’s purchase price for the Note, determined at the spot rate of exchange on the date the US Holder purchased such Note. In addition, a US Holder may recognise exchange gain or loss attributable to amounts received with respect to stated interest and accrued OID, if any, which will be treated as discussed above under “—Interest”. However, exchange gain or loss is taken into account only to the extent of total gain or loss recognised on the sale, exchange, retirement or other disposition of a Note. Exchange loss recognised on a sale, exchange, retirement or other disposition of a Note or foreign currency received in respect of a Note may be required to be reported to the IRS. US Holders should consult their tax advisors to determine the tax return obligations, if any, with respect to an investment in the Notes.

To the extent proceeds from the sale or other disposition of the Notes are subject to Russian tax, it is unclear whether a US Holder that is eligible for benefits under the income tax treaty between the Russian Federation and the United States may claim an exemption from or reduction in Russian tax, if any, imposed on such proceeds. See discussions under “—Russian Federation—Taxation of Non-Resident Noteholders-Individuals—Sale or other Disposal of the Notes” and “—Russian Federation—Tax Treaty Relief”. It is also unclear whether a US Holder could claim a deduction or foreign tax credit for any Russian tax imposed on the proceeds from the sale or other disposition of the Notes. Moreover, because a US Holder’s gain from the sale or other disposition of the Notes would generally constitute US source income, the US Holder may not be eligible to claim a foreign tax credit for any Russian taxes imposed (even if such Russian taxes are otherwise creditable for US federal income tax purposes) with respect to such gain unless the US Holder has foreign source income or gain from other sources. Each US Holder should consult its tax advisor about its eligibility for exemption from, and its ability to credit or deduct any Russian tax imposed on the proceeds from the sale or other disposition of the Notes.

Substitution of the Issuer

The terms of the Notes and the Trust Deed provide that, in certain circumstances and without the consent of the Noteholders, another entity may be substituted in place of the Issuer as creditor under the Loan Agreement and as issuer and principal obligor in respect of the Notes. In certain circumstances, it is possible that such an assumption might be treated as a deemed disposition of Notes by a US Holder in exchange for new notes issued by the new obligor for US federal income tax purposes. As a result of this deemed disposition, a US Holder could be required to recognise capital gain or loss equal to the difference, if any, between the issue price of the new notes (as determined for US federal income tax purposes, which may equal the fair market value of the Notes at the time of the deemed exchange), and the US Holder's adjusted tax basis in the Notes, and may be treated as acquiring the new notes with OID. US Holders should consult their tax advisors concerning the US federal income tax consequences to them of a change in obligor with respect to the Notes.

Further Notes

Under the Trust Deed, the Issuer may issue further notes. If the further notes of a Series of Notes are not fungible for US federal income tax purposes with the Notes issued in the original offering of that Series of Notes, US holders of those notes may be required to accrue OID (or a different amount of OID) on the further notes into income. In such case, because the further notes may not be distinguishable from the previously outstanding Notes, the market value of all of the Notes may be adversely affected.

Information Reporting and Backup Withholding

Information reporting requirements may apply to payments of interest (including the accrual of OID, if any) on the Notes and to the proceeds of the sale or other disposition (including a retirement or redemption) of a Note paid to a US Holder unless such US Holder is an exempt recipient, and, when required, provides evidence of such exemption. Backup withholding may apply to such payments if the US Holder fails to provide a taxpayer identification number or a certification that it is not subject to backup withholding.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a US Holder's US federal income tax liability provided the required information is timely furnished to the IRS.

Certain US Holders are required to report to the IRS information with respect to certain non US financial accounts, including Notes not held through an account with certain financial institutions. Investors who fail to report required information could become subject to substantial penalties. Potential investors should consult their tax advisors regarding the possible implications of this reporting obligation for their investment in the Notes.

Reportable Transactions

A US taxpayer that participates in a "reportable transaction" is required to disclose its participation to the IRS. Under the relevant rules, a US Holder may be required to treat a foreign currency exchange loss from the Notes denominated in a foreign currency as a reportable transaction if this loss exceeds the relevant threshold in the regulations, and to disclose its investment by filing Form 8886 with the IRS. A significant penalty may be imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective investors are urged to consult their tax advisers regarding the application of these rules.

THE ABOVE DISCUSSION IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS STRONGLY URGED TO CONSULT ITS TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE NOTES.

FATCA

Pursuant to certain provisions of the US Internal Revenue Code of 1986, as amended, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes (foreign passthru payments) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Luxembourg) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change.

Pursuant to proposed regulations issued in 2018, the date on which an FFI may be required to begin withholding US tax on certain “foreign passthru payments” that are treated as attributable to certain US source payments is deferred to the date that is two years after the date of publication in the Federal Register of applicable final regulations defining foreign passthru payments. However, obligations that are characterised as debt for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which applicable final regulations defining foreign passthru payments are published in the Federal Register generally would be “grandfathered” unless materially modified after such date (including by reason of a substitution of the Issuer). To date, no such final regulations have been issued. Accordingly, if the Issuer is treated as an FFI, FATCA could apply to payments on the Notes only if there is a significant modification of the Notes for US federal income tax purposes after the expiration of this grandfathering period. Non-US governments have entered into agreements with the United States (and additional non-US governments are expected to enter into such agreements) to implement FATCA in a manner that alters the rules described herein. Holders should consult their tax advisors on how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

CERTAIN ERISA CONSIDERATIONS

Notes are not permitted to be acquired or held by employee benefit plans as defined in Section 3(3) of ERISA and subject to Title I of ERISA, including collective investment funds, separate accounts or accounts whose underlying assets are treated as assets of such plans pursuant to the US Department of Labor (*DOL*) “plan assets” regulation, 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA (collectively, *ERISA Plans*), plans or other arrangements not subject to ERISA but subject to Section 4975 of the US Tax Code, including individual retirement accounts and Keogh Plans (collectively, *4975 Plans*), or by entities whose underlying assets include plan assets by reason of an investment in the entity by ERISA Plans or 4975 Plans or otherwise (collectively, *Plan Asset Entities*). ERISA Plans, 4975 Plans and Plan Asset Entities are collectively referred to as *Benefit Plan Investors*. Subject to certain restrictions described below, Notes are permitted to be acquired and held by governmental plans, non-electing church plans and other arrangements that are not subject to ERISA or Section 4975 of the US Tax Code and are not Benefit Plan Investors (collectively, *Non-ERISA Plans*).

ERISA imposes fiduciary standards and certain other requirements on ERISA Plans and on those persons who are fiduciaries with respect to ERISA Plans. Section 406 of ERISA and Section 4975 of the US Tax Code also prohibit certain transactions involving the assets of a Benefit Plan Investor and certain persons (referred to as “parties in interest” or “disqualified persons” under ERISA or the US Tax Code) having certain relationships to such Benefit Plan Investors, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the US Tax Code. A fiduciary of a Benefit Plan Investor that engages in a non-exempt prohibited transaction may also be subject to penalties and liabilities under ERISA and the US Tax Code. Non-ERISA Plans are subject to applicable state, local or federal law, as well as the restrictions of duties of common law, and may also be subject to fiduciary or prohibited transaction provisions that operate similarly to those under ERISA or Section 4975 of the US Tax Code.

Under the regulations issued by the DOL, as modified by Section 3(42) of ERISA (the *Plan Asset Regulations*), unless certain exceptions apply, if a Benefit Plan Investor invests in an “equity interest” of an entity, that is neither a “publicly offered security” nor a security issued by an investment company registered under the Investment Company Act, the Benefit Plan Investor’s assets include both the equity interest and an undivided interest in each of the entity’s underlying assets, unless it is established that the entity is not an “operating company” or that equity participation in the entity by Benefit Plan Investors is not “significant”. Equity participation is considered “significant” and therefore the “look through” rule will apply, where Benefit Plan Investors own 25 percent or more of the total value of any class of equity interest in the entity. For purposes of this 25 percent determination, the value of equity interests held by persons (other than Benefit Plan Investors) that have discretionary authority or control with respect to the assets of the entity or that provide investment advice for a fee (direct or indirect) with respect to such assets (or any affiliate of such person) is disregarded. An equity interest does not include debt (as determined by applicable local law), which does not have substantial equity features.

If the underlying assets of an entity are deemed to be plan assets, those with discretionary authority or control over the entity would be fiduciaries with respect to the entity’s assets. The assets of the entity would also be subject to the fiduciary and prohibited transaction rules of ERISA and Section 4975 of the US Tax Code, as well as other rules applicable to plan assets.

The Issuer believes that the Notes should be treated as debt rather than equity for purposes of the Plan Assets Regulations. The DOL, however, may take a contrary view or may view the Notes as having substantial equity features. Further, neither the Issuer nor the Trustee will be able to monitor the Noteholders’ status as Benefit Plan Investors. Accordingly, the Notes are not permitted to be acquired or held by any Benefit Plan Investor.

Non-ERISA Plans are permitted to acquire and hold the Notes, subject to certain restrictions described below. Each Non-ERISA Plan acquiring and holding the Notes will be deemed to have represented and warranted that it is not a Benefit Plan Investor, that the acquisition, holding and disposition of the Notes do not and will not violate any statute, regulation, administrative decision, policy or other legal authority applicable to the Non-ERISA Plan and the purchase, holding and disposition of the Notes or any interest therein do not and will not result in the assets of the Issuer being considered plan assets of such Non-ERISA Plan. Non-ERISA Plans are generally not subject to ERISA nor do the prohibited transaction provisions of ERISA or Section 4975 of the US Tax Code apply to these types of plans. However, governmental plans (as described in Section 3(32) of ERISA), are subject to prohibitions on related-party transactions under Section 503 of the US Tax Code, which prohibitions operate similarly to the prohibited transaction rules under ERISA or Section 4975 of the US Tax Code, and other Non-ERISA Plans may be subject to similar prohibitions. Accordingly, the fiduciary of a Non-ERISA Plan must consider applicable state or local laws, if any, imposed upon such plan before purchasing and holding a Note or any interest therein.

BY ITS PURCHASE AND HOLDING OF A NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND

WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, THAT (1) IT IS NOT AND WILL NOT BE (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF ERISA THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE US TAX CODE OF 1986, AS AMENDED APPLIES OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS FOR PURPOSES OF ERISA OR SECTION 4975 OF THE US TAX CODE BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE, (2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN SECTION 3(32) OF ERISA, OR OTHER PLAN OR ARRANGEMENT THAT IS NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE US TAX CODE, THE PURCHASE, HOLDING AND DISPOSITION OF THE NOTES OR ANY INTEREST THEREIN DO NOT AND WILL NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR ANY OTHER LEGAL AUTHORITY APPLICABLE TO SUCH GOVERNMENTAL PLAN OR OTHER PLAN OR ARRANGEMENT THAT IS NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE US TAX CODE, AND THE PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE OR ANY INTEREST HEREIN DO NOT AND WILL NOT RESULT IN THE ASSETS OF THE ISSUER OF THE NOTES BEING CONSIDERED PLAN ASSETS OF SUCH GOVERNMENTAL PLAN OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE US TAX CODE, AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

The foregoing is not intended to be exhaustive and the law governing investments by Benefit Plan Investors and Non-ERISA Plans is subject to extensive administrative and judicial interpretations. The foregoing discussion should not be construed as legal advice. The sale of any Notes to any Non-ERISA Plan is in no respect a representation by the Issuer or any of its affiliates that such an investment meets all relevant legal requirements with respect to investments by Non-ERISA Plans generally or any particular Non-ERISA Plan, or that such an investment is appropriate for Non-ERISA Plans generally or any particular Non-ERISA Plan. Any potential purchaser or holder of Notes should consult counsel with respect to issues arising under ERISA, the US Tax Code and other applicable laws and make their own independent decisions.

SELLING AND TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby.

Rule 144A Notes

Each purchaser of a beneficial ownership interest in Rule 144A Notes, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(1) If it is a US Person within the meaning of Regulation S, it is (a) a QIB that is also a QP, (b) not a broker-dealer which owns and invests on a discretionary basis less than US\$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acquiring such Notes for its own account, or for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A and the Issuer is relying on an exemption from the Investment Company Act provided by Section 3(c)(7) thereof.

(2) It will, (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than US\$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book-entry depositories.

(3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP each of which is purchasing not less than US\$200,000 principal amount of Notes or (b) to a person that is not a US person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State or another jurisdiction of the United States.

(4) It understands that the Issuer has the power to compel any beneficial owner of Rule 144A Notes that is a US person and is not a QIB and also a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner or purchase such interest from such owner at a price equal to the least of (x) the purchase price therefor paid by the beneficial owner, (y) 100 percent of the principal amount thereof or (z) the fair market value thereof. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a US person who is not both a QIB and a QP.

(5) It understands and acknowledges that its purchase and holding of such Notes or any interest therein constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan described in Section 4975(e)(i) of the US Tax Code to which Section 4975 of the US Tax Code applies, or (iii) an entity whose underlying assets include plan assets for purposes of ERISA or Section 4975 of the US Tax Code by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a governmental plan, as defined in Section 3(32) of ERISA, or other plan or arrangement that is not subject to Title I of ERISA or Section 4975 of the US Tax Code, the purchase, holding and disposition of the Notes or any interest therein does not and will not violate any statute, regulation, administrative decision, policy or any other legal authority applicable to such governmental plan or other plan or arrangement that is not subject to Title I of ERISA or Section 4975 of the US Tax Code, and the purchase, holding and disposition of the Notes or any interest therein does not and will not result in the assets of the Issuer being considered plan assets of such governmental plan or other plan not subject to Title I of ERISA or Section 4975 of the US Tax Code, and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations and warranties from that person.

(6) It understands that the Rule 144A Global Certificate and any Definitive Certificates issued in respect thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL

BUYER WITHIN THE MEANING OF RULE 144A (A “**QIB**”) THAT IS A QUALIFIED PURCHASER (A “**QP**”) WITHIN THE MEANING OF SECTION 2(a)(51) OF THE US INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “**INVESTMENT COMPANY ACT**”) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs EACH OF WHICH IS A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN US\$200,000 PRINCIPAL AMOUNT OF NOTES AND THAT CAN REPRESENT, IN EACH CASE, THAT (A) IT IS A QIB THAT IS ALSO A QP; (B) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (C) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (D) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS A QP; (E) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (F) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES; (G) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS, WILL HOLD AND TRANSFER AT LEAST US \$200,000 IN PRINCIPAL AMOUNT OF NOTES AND (H) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES, OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A US PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT (“**REGULATION S**”) IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, AND, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

IF THE BENEFICIAL OWNER HEREOF IS A US PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS NOTES, WILL HOLD AND TRANSFER AT LEAST US \$100,000 IN PRINCIPAL AMOUNT OF NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A US PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT BOTH A QIB AND A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (I) A US PERSON WHO IS A QIB AND ALSO A QP AND THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) OUTSIDE THE UNITED STATES AND IS NOT A US PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO PAO SEVERSTAL, THE ISSUER OR AN AFFILIATE OF EITHER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER, IN ANY CASE, AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PERCENT OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A US PERSON WHO IS NOT BOTH A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF OR OF ANY INTEREST HEREIN REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”) THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED APPLIES OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS FOR PURPOSES OF ERISA OR SECTION 4975 OF THE US TAX CODE BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE,

(2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN SECTION 3(32) OF ERISA, OR OTHER PLAN OR ARRANGEMENT THAT IS NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE US TAX CODE, THE PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT AND WILL NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR ANY OTHER LEGAL AUTHORITY APPLICABLE TO SUCH GOVERNMENTAL PLAN OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE US TAX CODE, AND THE PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT AND WILL NOT RESULT IN THE ASSETS OF THE ISSUER OF THE NOTES BEING CONSIDERED PLAN ASSETS OF SUCH GOVERNMENTAL PLAN OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE US TAX CODE, AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THIS NOTE TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS BOTH A QIB AND A QP.

(7) It acknowledges that the Issuer, the Company, the Registrar, the Arranger and the Dealers and their respective affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Company, the Arranger and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(8) It understands that Rule 144A Notes of a Series will be evidenced by a Rule 144A Global Certificate. Before any interest in a Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of a beneficial ownership interest in Regulation S Notes outside the United States, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a US person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, the Company or a person acting on behalf of such an affiliate.

(2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(3) It understands that Regulation S Notes of a Series will be evidenced by a Regulation S Global Certificate. Before any interest in a Regulation S Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

(4) It understands and acknowledges that its purchase and holding of such Regulation S Notes and any interest therein constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan described in Section 4975(e)(i) of the US Tax Code to which Section 4975 of the US Tax Code applies, or (iii) an entity whose underlying assets include plan assets for purposes of ERISA or Section 4975 of the US Tax Code by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a governmental plan, as defined in Section 3(32) of ERISA, or other plan or arrangement that is not subject to Title I of ERISA or Section 4975 of the US Tax Code, the purchase, holding and disposition of the Notes or any interest therein does not and will not violate any statute, regulation,

administrative decision, policy or any other legal authority applicable to such governmental plan or other plan not subject to Title I of ERISA or Section 4975 of the US Tax Code, and the purchase, holding and disposition of the Notes or any interest therein does not and will not result in the assets of the Issuer being considered plan assets of such governmental plan or other plan or arrangement that is not subject to Title I of ERISA or Section 4975 of the US Tax Code, and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations and warranties from that person.

(5) It acknowledges that the Issuer, the Company, the Registrar, the Arranger and the Dealers and their respective affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Regulation S Notes is no longer accurate, it shall promptly notify the Issuer, the Company, the Arranger and the Dealers. If it is acquiring any Regulation S Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated dealer agreement dated 3 September 2019 (the **Dealer Agreement**) between the Company, the Issuer, the Arranger and the Permanent Dealers, the Notes will be offered from time to time by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be severally or jointly and severally underwritten by two or more Dealers.

Each of the Issuer and the Company has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes or possession or distribution of any offering material or publicity material in relation thereto, in any country or jurisdiction where action for that purpose is required.

United States

The Notes and the corresponding Loans have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Dealer has severally agreed that, except as permitted by the Dealer Agreement, it will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution compliance period within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Terms used in this section have the meanings given to them by Regulation S.

Notes offered and sold outside the United States to non-US persons may be sold in reliance on Regulation S. The Dealer Agreement provides that the Dealer(s) may directly or through their respective US broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to persons whom they reasonably believe are QIBs and also QPs who can represent that (a) they are QIBs within the meaning of Rule 144A who are also QPs, (b) they are not broker-dealers who own and invest on a discretionary basis less than US\$25 million in securities of unaffiliated issuers, (c) they are not a participant-directed employee plan, such as a 401(k) plan, (d) they are acting for their own account, or the account of one or more QIBs each of which is also a QP, (e) they are not formed for the purpose of investing in the Notes or the Issuer, (f) each account for which they are purchasing will hold and transfer at least US\$200,000 in principal amount of Notes at any time, (g) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories and (h) they will provide notice of the transfer restrictions set out in this Base Prospectus to any subsequent transferees.

This Base Prospectus has been prepared by the Issuer and the Company for use in connection with the offer and sale of the Notes outside the United States and the resale of the Notes in the United States and for the listing of Notes on the Official List and trading on the Market, or other stock exchange specified in the Final Terms or Series Prospectus. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any US person other than any QIB

who is also a QP and to whom an offer has been made directly by one of the Dealers or its US broker-dealer affiliate. Distribution of this Base Prospectus by any non-US person outside the United States or by any QIB/QP within the United States to any US person or to any other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-US person or QIB/QP with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such US person or other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-US person or QIB/QP, is prohibited.

United Kingdom

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

- in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes which are the subject of this Base Prospectus and/or any future prospectus in relation to a Series of Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or to the Company; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

Russian Federation

Each Dealer has represented that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

General

These selling restrictions may be modified by the agreement of the Issuer, the Company and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in a supplement to this Base Prospectus.

The Arranger, the Dealers and their respective affiliates have engaged and are engaged in transactions with the Company and other members of the Group (including, in some cases, credit agreements and credit lines) in the ordinary course of their banking business and the Arranger and the Dealers performed various investment banking, financial advisory, and other services for the Company, for which they received customary fees, and the Arranger, the Dealers and their respective affiliates may provide such services in the future.

Ireland

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

- it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the European Union (Markets in Financial Instruments) Regulations 2017 (as amended, MiFID II Regulations), including, without limitation, Regulation 5 (Requirement for authorisation (and certain provisions concerning MTFs and OTFs)) thereof, or any rules or codes of conduct made under the MiFID II Regulations, and the provisions of the Investor Compensation Act 1998 (as amended);
- it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the Companies Act, the Central Bank Acts 1942-2015 (as amended) and any codes of practice made under Section 117(1) of the Central Bank Act 1989 (as amended);

- it will not underwrite the issue of, or place, or do anything in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued by the Central Bank under Section 1363 of the Companies Act; and
- it will not underwrite the issue of, place or otherwise act in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Market Abuse Regulation (EU 596/2014) (as amended) and any rules and guidance issued by the Central Bank under Section 1370 of the Companies Act.

Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision the expression “retail investor” means a person who is one (or more) of the following:

- a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- a customer within the meaning of the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

LEGAL MATTERS

Certain legal matters in connection with the update of the Programme and the issue of Notes thereunder will be passed upon for the Company with respect to the laws of the Russian Federation and the United States by Latham & Watkins LLP. Certain legal matters in connection with the update of the Programme and the issue of the Notes thereunder will be passed upon for the Arranger with respect to the laws of the United Kingdom, Luxembourg and the United States by Linklaters LLP and with respect to the laws of the Russian Federation by Linklaters CIS.

INDEPENDENT AUDITORS

The Financial Statements of PAO Severstal as of 31 December 2018, 2017 and 2016 and for each of the years then ended, included in this Base Prospectus, have been audited by KPMG, independent auditors, as stated in their report appearing herein. The address of KPMG is 10 Presnenskaya Naberezhnaya Block C Moscow 123112.

With respect to the unaudited Interim Financial Statements for the periods ended 30 June 2019 and 2018 included herein, KPMG has reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedure applied.

The Issuer's Annual Financial Statements included in this Base Prospectus, have been audited by PricewaterhouseCoopers Société cooperative, Luxembourg, acting as statutory auditor to the Issuer. PricewaterhouseCoopers Société cooperative, Luxembourg has its registered office at 2, Rue Gerhard Mercator, L-2182 Luxembourg and is a member of the *Institut des Réviseurs d'Enterprises* of Luxembourg and supervised by the *Commission de Surveillance du Secteur Financier*.

GENERAL INFORMATION

- (1) Transactions in the Notes will normally be effected for delivery on the third working day after the day of the transaction. However, Notes may be issued pursuant to the Programme that will not be listed on any stock exchange. The listing agent is not seeking admission to listing of the Notes on Euronext Dublin for the purposes of the Prospectus Regulation on its own behalf, but as agent on behalf of the Company and the Issuer. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List or trading on its regulated market for the purposes of the Prospectus Regulation.
- (2) LEI of the Company is 213800OKDPTV6K4ONO53 and LEI of the Issuer is 22210003LN8LHUW6LJ83.
- (3) As of the date of this Base Prospectus, the Company had approved loans from the Issuer in the principal amount of up to US\$4,500,000,000, with total outstanding amounts of up to US\$4,500,000,000. The update of the Programme was approved by a resolution of the Board of Directors of the Issuer on 23 August 2019. The Company and the Issuer will obtain all necessary consents, approvals and authorisations in Russia and Luxembourg in connection with any Loan and the issue and performance of the corresponding Series of Notes.
- (4) There has been no significant change in the financial or trading position of the Company or the Group since 30 June 2019 and no material adverse change in the prospects of the Company or the Group since 31 December 2018.
- (5) There has been no significant change in the financial or trading position of the Issuer and no material adverse change in its financial position or prospects since 31 December 2018.
- (6) Save as disclosed in “*Business—Legal*” on page 131 of this Base Prospectus, neither the Company nor any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Base Prospectus that may have or have had in the recent past significant effects on the financial position or profitability of the Company or the Group.
- (7) The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Base Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer.
- (8) JSC KPMG has rendered an unqualified audit report on the Annual Financial Statements of the Group prepared according to IFRS as at and for the years ended 31 December 2018, 2017 and 2016 and an unqualified review report on the Interim Financial Statement of the Group prepared according to the IFRS and IAS 34, as appropriate, as of 30 June 2019 and for the six months ended 30 June 2019 and 2018.
- (9) The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number (*ISIN*) and (where applicable) the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms or Series Prospectus, as the case may be.
- (10) The issue price and the amount of the relevant Notes will be determined before filing of the relevant Final Terms or Series Prospectus of each Series, based on then prevailing market conditions. The Company and the Issuer do not intend to provide any post-issuance information in relation to any issues of Notes and corresponding Loans.
- (11) For so long as the Programme remains in effect or any Notes remain outstanding, the following documents in physical form will be available from the date hereof, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Principal Paying Agent:
 - the articles of association of the Issuer and the Charter of the Company;
 - the Trust Deed (which includes the form of the Global Notes and the Definitive Notes);
 - the Dealer Agreement;
 - the Facility Agreement;

- the audited consolidated financial statements of the Company as at and for the years ended 31 December 2018, 2017 and 2016, together with the audit report thereon and unaudited consolidated interim condensed financial statements of the Company as at and for the six months ended 30 June 2019 and 2018;
- the audited financial statements of the Issuer as at and for the years ended 31 December 2018 and 2017, in each case together with the audit reports thereon;
- each Final Terms or Series Prospectus, as the case may be, for Notes which are listed on Euronext Dublin or any other stock exchange (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, the Company and the Principal Paying Agent as to its holding of Notes and identity); and
- a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus.

For so long as the Programme remains in effect or any Notes remain outstanding, the following documents in electronic form will be available from the date hereof on <https://www.ise.ie/Market-Data-Announcements/Debt/Individual-Debt-Instrument-Data/Dept-Security-Documents/?progID=600&FIELDSORT=docId> website:

- the articles of association of the Issuer;
- the audited financial statements of the Issuer as at and for the years ended 31 December 2018 and 2017, in each case together with the audit reports thereon;
- the Principal Trust Deed; and
- a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus.

For so long as the Programme remains in effect or any Notes remain outstanding, the following documents in electronic form will be available from the date hereof on www.severstal.com/eng/ir/ website:

- the Charter of the Company; and
- the audited consolidated financial statements of the Company as at and for the years ended 31 December 2018, 2017 and 2016, together with the audit report thereon and unaudited consolidated interim condensed financial statements of the Company as at and for the six months ended 30 June 2019 and 2018.

(12) Any website referred to in this document does not form part of this Base Prospectus and has not been scrutinised or approved by the Central Bank of Ireland.

GLOSSARY

Annealing	The heat treatment process by which steel products are reheated to a suitable temperature in order to remove stresses resulting from previous processing and to soften them and/or improve their machinability and cold-forming properties.
Bars	Long steel products that are rolled from billets. Merchant bar and reinforcing bar, or rebar, are two common categories of bars, where merchants include rounds, flats, angles, squares and channels that are used by fabricators to manufacture a wide variety of products such as furniture, stair railings and farm equipment. Rebar is used to strengthen concrete structures.
Basic oxygen furnace	A pear-shaped furnace, lined with refractory bricks, which refines molten pig iron from the blast furnace and scrap into steel. Scrap is charged into the furnace vessel, followed by the hot metal from the blast furnace. A lance is lowered from above, through which blows a high-pressure stream of oxygen to cause chemical reactions that separate impurities into fumes or slag.
Beneficiation	The treatment of mined material to make it more concentrated or richer. Uses the process of crushing, grinding, and often froth-flotation to remove waste rock from ore. The metal content is increased as the waste is removed.
Billet	A semi-finished steel product with a square cross section up to 150 millimetres by 150 millimetres. This product is either rolled or continuously cast and is further processed by rolling to produce finished long products. The range of semi-finished products above 150 millimetres by 150 millimetres are called blooms.
Blast furnace	A furnace used in the integrated metallurgical process in which iron ore in the form of sinter is melted down under a hot air flow (enriched with oxygen), using coal in the form of coke as a heating and reducing agent in the chemical process. As a result, a liquid hot metal is produced, also called pig iron.
Blooms	See “ <i>Billet</i> ”.
Coated steel	Steel sheet coated by immersion in a bath of molten material (known as hot-dip) to protect the base metal (substrate) against corrosion. The most commonly used protective material is zinc. An organic coating (paint, plastic) can also be deposited on the layer of zinc. The zinc-coated steel is often referred to as “galvanised steel”.
Cogging	An intermediate rolling process when a hot ingot is reduced to a bloom or slab in a cogging mill.
Coils	Steel that has been wound.
Coke	A fuel obtained by the pyrolysis of coal in coke-ovens and used as a reducing agent for iron ore in the blast furnace.
Coke breeze	A lightweight aggregate stone formed by a refractory process.
Coking coal	Coal used for making coke, used to make steel.
Cold-rolled sheet	Sheet steel that has been run through a cold-rolling mill.
Cold-rolling mill	Equipment that reduces the thickness, or gauge, of flat steel products by rolling steel between alloy steel cylinders without prior reheating. Several roll passes are generally necessary to gradually reduce the steel to the desired thickness.
Colour-coated steel products	A variety of products produced either by film coating or direct extrusion of a multi-layer colour coating.
Continuous casting	The process pursuant to which molten steel is cooled into semi-finished products such as billets, blooms and slabs. The molten steel is poured at a steady rate from a ladle into a bottomless mould. As the molten steel enters the water-cooled mould, it starts to cool into a pliable solid that can then be cut into required lengths.
Cooling-tower	A structure which cools heated refining process water by circulating the water through a series of louvers and baffles through which cool air is forced by large fans.
Cowper	A modern furnace to pre-heat the blast air to high temperatures in order to avoid cooling (and thus having to re-heat) the mix, and use fairly complex systems to extract the heat from the hot carbon dioxide when it escapes from the top of the furnace, further improving efficiency.
Debottlenecking	When the output of a multi-step process is limited by the capacity of one unit or activity, that unit or activity is a bottleneck. Debottlenecking a step in a process can increase the capacity of the other steps both upstream and downstream.

Direct Reduced Iron (DRI)	The product of iron oxide pellets, lump ores, and/or fines that have been reduced (i.e., oxygen removed) in a direct reduction process at temperatures in excess of 900° Celsius, thereby increasing the percentage (by weight) of total iron in the reduced product. All other oxides in the ore remain in their natural state.
Dolomite	A sedimentary rock composed largely of calcium magnesium carbonate.
Draglines	Large scale mining equipment for removing overburden and inter-zone rock intervals. The rock is removed along a long strip by dragging a bucket capable of holding up to 90 cubic metres until the top of the coal is exposed. Waste rock is deposited behind the active mining area on land under which the coal has already been removed. This waste rock is then smoothed and land surface reclamation to restore the surface to its pre-mining condition is undertaken.
Electric arc furnace (EAF)	A furnace that refines molten pig iron from the blast furnace and scrap into steel. In this process, the proportion of scrap used can be increased to 100 percent of the metal charge. Once the furnace is charged and covered, graphite electrodes are lowered through holes in the roof. The electric arc travelling between the electrodes and the metallic charge creates intense heat that melts the charge. Alloying elements can be added during the process.
Ferro alloy	A metal product commonly used as a raw materials feed in steelmaking, usually containing iron and other metals that improve the physical and chemical properties of the final steel product.
Ferrous	Metals that consist primarily of iron.
Flat products	A product that is produced by rolls with smooth surfaces and ranges of dimension, varying in thickness and width. The major flat steel product categories are (i) thin flat products (up to 4mm in thickness), (ii) thick flat products (between 4 millimetres and 50 millimetres in thickness); and (iii) plates (over 50 millimetres in thickness). Flat products are used in the automotive and white-goods industries, for production of large welded pipes, shipbuilding, construction, major works and boilers. They include hot- and cold-rolled sheet, plates and coils.
Galvanised steel	See “Coated Steel”.
Galvannealed	Steel that is zinc-iron alloy-coated by the hot-dip process followed by heating the steel to induce diffusion alloying between the molten zinc coating and the steel.
High Strength Low Alloy steel (HSLA)	A type of steel that provides many benefits over regular steel. It is much tougher and stronger than ordinary carbon-based steel. It is used in cars, trucks, cranes, bridges and other structures that must be able to handle a lot of strain.
Hot Briquetted Iron (HBI)	The form of DRI that has been compacted at a temperature greater than 650° Celsius at the time of compaction and has a density greater than 5.0 grams per cubic centimetre. Its higher density and pillow shape provide superior handling, shipping, storage and melting characteristics.
Hot-rolled steel	Steel rolled in a hot-rolling mill.
Hot-rolling	A process whereby solidified steel, preheated to a high temperature, is continuously rolled between rotating cylinders.
Ingot	An intermediate product made by pouring molten steel into moulds of given dimensions. In further processing steps carried out in a cogging mill, the ingots are transformed first to simple shape semi-finished products like blooms or slabs and then fed to hot-rolling mills. Ingot casting is now largely replaced by continuous casting.
Integrated metallurgical process	The process including all stages starting from raw coal and iron ore to rolling finished products at one site.
Ladle furnace	A furnace used for refining hot metal between the converter or electric arc furnaces and casting.
Lance (Oxygen)	A length of pipe used to convey oxygen onto a bath of molten metal. A steel tube, consumed during cutting, through which cutting oxygen passes, for the cutting or boring of holes.
Long products	Long products are used in all industrial sectors, particularly in the construction and engineering industries. They include all types of bars, wire rod and a wide range of cold-formed profiles like closed profile, S-shape profile, E-shape profile, trough-shape profile, angle profile and others. They also include pipes with circular, oblong and semi-oblong, square and rectangular cross sections of a wide range of sizes.

Long-wall mining	A mining technique in which large blocks of coal are removed in a single pass. This technique uses two tunnels which are about 1,500 metres long and 250 metres apart and are joined together at the end by a third tunnel. The third tunnel marks the spot where longwall mining starts.
Lost Time Injury Frequency Rate (LTIFR)	A number of lost time injuries occurring in a workplace per 1 million man-hours worked.
Metallurgical lime	Quick lime. Slag-former and lining protector used in metallurgical processes.
Metalware	Small industrial, household and similar articles made of metal.
Middlings	The mixture of water, clay, sand and bitumen that remains between the bitumen froth at the surface and the sand at the bottom of a primary separation vessel.
Open-hearth furnace	A broad, shallow hearth to refine pig iron and scrap into steel (also known as a Martin furnace). Heat is supplied from a large flame over the surface and the refining takes 7-9 hours.
Open-pit methods	Open-pit mining refers to a method of extracting rock or minerals from the earth by their removal from an open pit or borrow. The term is used to differentiate this form of mining from extractive methods that require tunnelling into the earth.
Pellets	Iron ore or limestone particles which are baked into little balls of a specified size in a balling drum and hardened by heat.
Pickling	The process in which the surface of the steel is cleaned with acid to remove scale, rust and dirt, such process being preparation for further processing, such as cold-rolling, galvanising or polishing.
Refining	A stage in the process of making crude steel, during which most residual impurities are removed from the crude steel and additions of other metals may be made before it is cast (see also " Ladle furnace ").
Reinforcing bar or Rebar	A commodity-grade steel used to strengthen concrete in highway and building construction.
Run of mine (ROM)	The raw material from mining as it is delivered by the mine trucks, skips or conveyors prior to any treatment such as magnetic separation in the case of iron ore, or washing/flotation in the case of coal.
Scrap	Iron containing material (mainly industrial or household waste) that generally is remelted and recast into new steel. The scrap could be used as part of a metal charge together with pig iron loaded into steel-melting furnaces.
Semi-finished products	Steel products such as billet, blooms and slabs. These products can be made by direct continuous casting of hot steel or by pouring the liquid steel into ingots, which are then hot-rolled into semi-finished products.
Sinter	Particles in roughly one-inch chunks produced by mixing and baking iron ore concentrate and limestone flux prior to loading it into the blast furnaces for reduction into pig iron.
Slab	A semi-finished steel product obtained by rolling ingots on a rolling mill or processed through a continuous caster and cut into various lengths. The slab has a rectangular cross section and is used as a starting material in the production process of flat products.
Slag	A by-product, containing inert materials, produced during the blast- furnace smelting process and other steelmaking operations.
Slitting	Cutting a sheet of steel into narrower strips.
Strip	Flat steel products used for production of pipes. Strips with widths of less than 600 millimetres are used for large pipes with a spiral welded seam and smaller pipes with a straight-line welded seam. Large-diameter pipes (of up to 1,420 millimetres diameter) with a straight-line welded seam require strips up to 4,600 millimetres wide and 30 millimetres thick.
Tandem mill	A cold-rolling mill that gives greater strength, a more uniform and smoother surface, and a reduced thickness to the steel sheet. This mill rolls steel through a series of rolls, to achieve a desired thickness and surface quality.
Tempering	A process of re-heating quench-hardened or normalised steel to a temperature below the transformation range and then cooling at any rate desired. The primary purpose of tempering is to impart a degree of plasticity or toughness to the steel to alleviate the brittleness of its martensite.

Vacuum degasser	An advanced steel refining facility that removes oxygen, hydrogen and nitrogen under low pressures (in a vacuum) to produce ultra-low-carbon steel for demanding electrical and automotive applications. Normally performed in the ladle, the removal of dissolved gases results in cleaner, higher-quality, more pure steel.
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PAO Severstal and subsidiaries

Consolidated interim condensed financial statements
for the six months ended 30 June 2019 and 2018

PAO Severstal and subsidiaries
Consolidated interim condensed financial statements
Six months ended 30 June 2019 and 2018

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Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Statements

To the Shareholders and Board of Directors
PAO Severstal

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of PAO Severstal (the "Company") and its subsidiaries (the "Group") as at 30 June 2019, and the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income for the three- and six-month periods ended 30 June 2019 and 2018, and the related consolidated interim condensed statements of changes in equity and cash flows for the six-month periods ended 30 June 2019 and 2018, 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 IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our reviews.

Scope of Reviews

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

Reviewed entity: PAO Severstal

Registration No. in the Unified State Register of Legal Entities
1023501236901

Cherepovets, Russia

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

Registration No. in the Unified State Register of Legal Entities
1027700125628

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203



PAO Severstal

Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Statements

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Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at 30 June 2019 and for the three- and six-month periods ended 30 June 2019 and 2018 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



Larisa Kiseleva

JSC "KPMG"

Moscow, Russia

18 July 2019

PAO Severstal and subsidiaries

Consolidated interim condensed income statements Six months ended 30 June 2019 and 2018

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

	Note	Six months ended 30 June		Three months ended 30 June	
		2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Revenue					
Revenue - third parties		4,130	4,360	2,136	2,223
Revenue - related parties	4	78	72	41	36
	2	4,208	4,432	2,177	2,259
Cost of sales		(2,573)	(2,579)	(1,308)	(1,265)
Gross profit		1,635	1,853	869	994
General and administrative expenses		(183)	(157)	(108)	(77)
Distribution expenses		(261)	(304)	(138)	(139)
Other taxes and contributions		(27)	(33)	(15)	(15)
Share of associates' and joint ventures' gain		11	8	6	4
Loss on disposal of property, plant and equipment and intangible assets		(6)	(19)	(6)	(7)
Net other operating income		11	3	17	6
Profit from operations		1,180	1,351	625	766
Reversal of impairment of non-current assets		-	2	-	3
Net other non-operating expenses		(24)	(22)	(9)	(13)
Profit before financing and taxation		1,156	1,331	616	756
Finance income		3	12	2	4
Finance costs		(62)	(61)	(37)	(28)
(Loss)/gain on disposal and remeasurement of financial instruments		(51)	14	(16)	7
Foreign exchange gain/(loss), net	3	101	(44)	30	(56)
Profit before income tax		1,147	1,252	595	683
Income tax expense		(244)	(234)	(120)	(126)
Profit for the period		903	1,018	475	557
Attributable to shareholders of PAO Severstal		903	1,018	475	557
Basic weighted average number of shares outstanding during the period (millions of shares)		823.7	814.3	825.0	814.4
Basic earnings per share (US dollars)		1.10	1.25	0.58	0.68
Diluted weighted average number of shares outstanding during the period (millions of shares)		849.1	846.7	848.6	814.4
Diluted earnings per share (US dollars)		1.09	1.24	0.57	0.68

These consolidated interim condensed financial statements were approved by the Board of Directors on 18 July 2019.

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

PAO Severstal and subsidiaries

Consolidated interim condensed statements of comprehensive income Six months ended 30 June 2019 and 2018

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

	Six months ended 30 June		Three months ended 30 June	
	2019	2018	2019	2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Profit for the period	903	1,018	475	557
Other comprehensive income/(loss):				
Items that will not be reclassified to profit or loss				
Actuarial losses	(2)	(2)	-	-
Translation to presentation currency	304	(324)	77	(340)
Total items that will not be reclassified to profit or loss	302	(326)	77	(340)
Items that may be reclassified subsequently to profit or loss				
Translation to presentation currency - foreign operations	-	(3)	1	(7)
Changes in fair value of financial assets measured through other comprehensive income	-	-	-	5
Total items that may be reclassified subsequently to profit or loss	-	(3)	1	(2)
Items that were reclassified to profit or loss				
Changes in fair value of financial assets measured through other comprehensive income	-	(4)	-	(4)
Total items that were reclassified to profit or loss	-	(4)	-	(4)
Other comprehensive income/(loss) for the period	302	(333)	78	(346)
Total comprehensive income for the period	1,205	685	553	211
Attributable to shareholders of PAO Severstal	1,205	685	553	211

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 Six months ended 30 June 2019 and 2018 (Amounts expressed in millions of US dollars, except as otherwise stated)

	Note	30 June 2019 (unaudited)	31 December 2018
Assets			
Current assets:			
Cash and cash equivalents		345	228
Short-term financial investments		3	7
Trade accounts receivable		658	554
Accounts receivable from related parties	5	26	20
Inventories		1,190	1,087
VAT recoverable		68	66
Income tax recoverable		7	5
Other current assets		147	105
Assets held for sale	7	265	-
Total current assets		2,709	2,072
Non-current assets:			
Long-term financial investments		13	8
Investments in associates and joint ventures		89	76
Property, plant and equipment		3,937	3,469
Intangible assets		253	212
Deferred tax assets		43	27
Other non-current assets		12	10
Total non-current assets		4,347	3,802
Total assets		7,056	5,874
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		595	545
Accounts payable to related parties	5	17	21
Short-term debt finance	6	255	110
Income taxes payable		27	11
Other taxes and social security payable		161	107
Dividends payable		6	6
Other current liabilities	6	408	323
Liabilities related to assets held for sale	7	59	-
Total current liabilities		1,528	1,123
Non-current liabilities:			
Long-term debt finance	6	1,559	1,345
Deferred tax liabilities		336	295
Retirement benefit liabilities		64	56
Other non-current liabilities	6	314	176
Total non-current liabilities		2,273	1,872
Equity:			
Share capital		2,753	2,753
Treasury shares		(107)	(133)
Additional capital		308	308
Translation reserve		(2,041)	(2,345)
Retained earnings		2,320	2,274
Other reserves		8	8
Total equity attributable to shareholders of PAO Severstal		3,241	2,865
Non-controlling interests		14	14
Total equity		3,255	2,879
Total equity and liabilities		7,056	5,874

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

PAO Severstal and subsidiaries

Consolidated interim condensed statements of cash flows

Six months ended 30 June 2019 and 2018

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

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
Operating activities:		
Profit before financing and taxation	1,156	1,331
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortisation	230	206
Reversal of impairment of non-current assets	-	(2)
Movements in provision for inventories, receivables and other provisions	7	5
Loss on disposal of property, plant and equipment and intangible assets	6	19
Share of associates' and joint ventures' results less dividends from associates and joint ventures	(11)	(8)
Changes in operating assets and liabilities:		
Trade accounts receivable	(74)	(2)
Accounts receivable from related parties	(4)	(6)
VAT recoverable	2	(33)
Inventories	(13)	39
Trade accounts payable	24	(11)
Accounts payable to related parties	1	(6)
Other taxes and social security payable	49	39
Other non-current liabilities	(4)	(6)
Net other changes in operating assets and liabilities	18	(105)
Cash generated from operations	1,387	1,460
Interest paid	(48)	(57)
Income tax paid	(222)	(240)
Net cash from operating activities	1,117	1,163
Investing activities:		
Additions to property, plant and equipment	(461)	(286)
Additions to intangible assets	(15)	(10)
Additions to financial investments	(6)	(17)
Proceeds from disposal of property, plant and equipment	8	6
Proceeds from disposal of financial investments	6	200
Interest received	3	14
Net cash used in investing activities	(465)	(93)
Financing activities:		
Proceeds from debt finance	383	8
Acquisition of non-controlling interests	-	(2)
Repayments of debt finance *	(52)	(562)
Repayments of lease liabilities	(7)	-
Dividends paid	(870)	(172)
Net cash used in financing activities	(546)	(728)
Effect of exchange rates on cash and cash equivalents	11	3
Net increase in cash and cash equivalents	117	345
Cash and cash equivalents at beginning of the period	228	1,031
Cash and cash equivalents at end of the period	345	1,376

* For the six months ended 30 June 2019 this amount includes exercise of bonds' conversion rights of US\$ 50 million.

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

PAO Severstal and subsidiaries

Consolidated interim condensed statements of changes in equity

Six months ended 30 June 2019 and 2018

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

	Attributable to shareholders of PAO Severstal						Non-controlling interests	Total
	Share capital	Treasury shares	Additional capital	Translation reserve	Retained earnings	Other reserves		
Balances at 31 December 2017	2,753	(206)	308	(1,679)	2,195	12	15	3,398
Profit for the period (unaudited)	-	-	-	-	1,018	-	-	1,018
Translation to presentation currency (unaudited)	-	-	-	(327)	-	-	-	(327)
Other comprehensive loss (unaudited)	-	-	-	-	(6)	-	-	(6)
Total comprehensive (loss)/income for the period (unaudited)	-	-	-	(327)	1,012	-	-	685
Dividends (unaudited)	-	-	-	-	(871)	-	-	(871)
Conversion of bonds (unaudited)	-	11	-	-	-	-	-	11
Other (unaudited)	-	-	-	-	2	(3)	(1)	(2)
Balances at 30 June 2018 (unaudited)	2,753	(195)	308	(2,006)	2,338	9	14	3,221
Balances at 31 December 2018	2,753	(133)	308	(2,345)	2,274	8	14	2,879
Profit for the period (unaudited)	-	-	-	-	903	-	-	903
Translation to presentation currency (unaudited)	-	-	-	304	-	-	-	304
Other comprehensive loss (unaudited)	-	-	-	-	(2)	-	-	(2)
Total comprehensive income for the period (unaudited)	-	-	-	304	901	-	-	1,205
Dividends (unaudited)	-	-	-	-	(855)	-	-	(855)
Conversion of bonds (unaudited)	-	26	-	-	-	-	-	26
Balances at 30 June 2019 (unaudited)	2,753	(107)	308	(2,041)	2,320	8	14	3,255

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

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Six months ended 30 June 2019 and 2018

(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') and IAS 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board. The Group additionally prepared IFRS consolidated interim condensed financial statements presented in Russian roubles and in the Russian language in accordance with the Federal Law No. 208-FZ On consolidated financial reporting.

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

	30 June 2019	Six months ended 30 June 2019	Three months ended 30 June 2019	31 December 2018	30 June 2018	Six months ended 30 June 2018	Three months ended 30 June 2018
USD/RUB	63.08	65.33	64.56	69.47	62.76	59.35	61.79
EUR/USD	1.15	1.14	1.13	1.15	1.17	1.21	1.19

Adoption of new 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 2018, except that the Group has adopted those new Standards that are mandatory for financial annual periods beginning on 1 January 2019.

The Group has adopted *IFRS 16 Leases* using the modified retrospective approach with the effect of initial application recognised as at 1 January 2019. Accordingly, the information presented for comparative periods has not been restated.

On transition date, the discounted present value of the Group's operating lease payments, except for agreements with variable lease payments, amounting to US\$ 47 million was recognised as right-of-use assets and corresponding lease liabilities.

The lease liability is discounted using the Group's incremental borrowing rates varying between 1% and 10% depending on the lease agreement's currency. For some specific lease agreements, the discount rate is determined by the interest rate implicit in these lease agreements.

The Group's right-of-use assets include land and buildings, plant and machinery, vehicles and other productive assets. Short-term and low value leases are accounted as leases; lease and non-lease components are treated as a single lease item for all leased assets.

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Six months ended 30 June 2019 and 2018

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

2. Revenue

Revenue by product was as follows:

	Six months ended 30 June		Three months ended 30 June	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Hot-rolled strip and plate	1,376	1,414	683	736
Pellets and iron ore	382	305	206	184
Long products	360	362	198	189
Galvanized and other metallic coated sheet	353	316	185	170
Cold-rolled sheet	315	448	152	205
Metalware products	257	273	138	143
Shipping and handling *	246	295	126	142
Other tubes and pipes, formed shapes	223	248	122	131
Colour-coated sheet	216	160	129	99
Large diameter pipes	207	243	110	90
Semi-finished products	82	204	31	94
Coal and coking coal concentrate	59	35	25	15
Scrap	2	3	1	1
Others	130	126	71	60
	<u>4,208</u>	<u>4,432</u>	<u>2,177</u>	<u>2,259</u>

* Shipping and handling do not represent a separate performance obligation under IFRS 15 "Revenue from contracts with customers" and is disclosed only for presentation purposes. For the six months ended 30 June 2019 shipping and handling related to Severstal Resources and Severstal Russian Steel Divisions amounted to US\$ 13 million and US\$ 233 million, respectively (six months ended 30 June 2018: US\$ 62 million and US\$ 233 million, respectively).

Revenue by delivery destination was as follows:

	Six months ended 30 June		Three months ended 30 June	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Russian Federation	2,873	2,540	1,532	1,364
Europe	919	1,214	414	621
CIS	234	241	122	120
Central and South America	55	31	34	9
The Middle East	51	182	30	53
Africa	41	83	21	54
North America	34	115	23	38
China and Central Asia	1	26	1	-
	<u>4,208</u>	<u>4,432</u>	<u>2,177</u>	<u>2,259</u>

3. Foreign exchange gain/(loss), net

	Six months ended 30 June		Three months ended 30 June	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Foreign exchange gain/(loss) on cash and cash equivalents and debt finance	104	(63)	28	(69)
Foreign exchange (loss)/gain on other assets and liabilities	(3)	19	2	13
	<u>101</u>	<u>(44)</u>	<u>30</u>	<u>(56)</u>

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Six months ended 30 June 2019 and 2018

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

4. Related party transactions

	Six months ended 30 June		Three months ended 30 June	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Revenue from:				
Associates	14	16	7	8
Joint ventures	42	40	22	21
Other related parties	22	16	12	7
Income from services to other related parties	6	5	3	2
	<u>84</u>	<u>77</u>	<u>44</u>	<u>38</u>
Purchases from:				
Associates	31	33	16	16
Joint ventures	3	3	1	1
Other related parties	30	22	14	14
	<u>64</u>	<u>58</u>	<u>31</u>	<u>31</u>

5. Related party balances

	30 June 2019 (unaudited)	31 December 2018
Accounts receivable:		
Associates	3	3
Joint ventures	9	6
Other related parties	14	11
	<u>26</u>	<u>20</u>
Accounts payable:		
Associates	6	6
Other related parties	11	15
	<u>17</u>	<u>21</u>
Short-term loans - Joint ventures	-	6
Long-term loans - Joint ventures	7	5
	<u>7</u>	<u>11</u>

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

6. Carrying amounts and fair values

In April 2019, the Group issued two rouble denominated bonds amounting to US\$ 230 million and US\$ 153 million with put-options in 2026 and 2024, respectively, both due in 2029. The bonds bear an interest rate of 8.65% per annum, which is payable every 182 days, beginning in October 2019. Proceeds from the bond issues were used mainly for general corporate purposes. As at 30 June 2019 the amounts outstanding under these facilities were US\$238 million and US\$158 million, respectively.

As at 30 June 2019, the value of the conversion option of convertible bonds maturing in 2021 was US\$ 38 million and was determined with reference to the quoted market price (level 2 of the fair

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Six months ended 30 June 2019 and 2018

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

value hierarchy) and included in other non-current liabilities (31 December 2018: US\$ 50 million was included in other current liabilities).

As at 30 June 2019, the value of the conversion option of convertible bonds maturing in 2022 was US\$ 77 million and was determined with reference to the quoted market price (level 2 of the fair value hierarchy) and included in other current liabilities (31 December 2018: US\$ 35 million was included in other non-current liabilities).

The fair value of the Group's other financial liabilities was greater than their carrying amount by approximately US\$ 55 million (31 December 2018: US\$ 4 million).

7. Assets held for sale

AO Severstal LPM Balakovo

In May 2019 Severstal entered into a definitive agreement to sell its subsidiary AO Severstal LPM Balakovo and accordingly has classified it as "held for sale". Its major assets and liabilities have been measured at the lower of the carrying amount and the fair value less costs to sell, based on the offer price. The carrying values at 30 June 2019 are summarised below:

	30 June 2019 (unaudited)
Current assets:	
Inventories	21
VAT recoverable	1
Other current assets	2
Total current assets	24
Non-current assets:	
Property, plant and equipment	240
Intangible assets	1
Total non-current assets	241
Total assets	265
Current liabilities:	
Trade accounts payable	26
Other taxes and social security payable	15
Other current liabilities	2
Total current liabilities	43
Non-current liabilities:	
Deferred tax liabilities	16
Total non-current liabilities	16
Total equity and liabilities	59

8. Alternative performance measures

As at 30 June 2019, 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.

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements

Six months ended 30 June 2019 and 2018

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

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

The Group uses EBITDA and free cash flow among other alternative performance measures to assess the underlying performance of the business.

The following is an analysis of the Group's revenue and a reconciliation of profit from operations to EBITDA by segment:

Six months ended 30 June 2019 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Revenue	1,158	4,117	(1,067)	4,208
Profit from operations	630	637	(87)	1,180
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	79	150	-	229
Loss on disposal of property, plant and equipment and intangible assets	2	4	-	6
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	1	-	1
EBITDA	<u>711</u>	<u>792</u>	<u>(87)</u>	<u>1,416</u>

Additional information:

intersegment revenue	1,030	37	(1,067)	-
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Six months ended 30 June 2018 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Revenue	877	4,061	(506)	4,432
Profit from operations	345	1,013	(7)	1,351
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	70	135	-	205
Loss on disposal of property, plant and equipment and intangible assets	5	14	-	19
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	3	2	5
EBITDA	<u>420</u>	<u>1,165</u>	<u>(5)</u>	<u>1,580</u>

Additional information:

intersegment revenue	468	38	(506)	-
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PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Six months ended 30 June 2019 and 2018 (Amounts expressed in millions of US dollars, except as otherwise stated)

Three months ended 30 June 2019 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Revenue	647	2,151	(621)	2,177
Profit from operations	374	311	(60)	625
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	41	77	1	119
Loss/(gain) on disposal of property, plant and equipment and intangible assets	1	6	(1)	6
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	3	-	3
EBITDA	<u>416</u>	<u>397</u>	<u>(60)</u>	<u>753</u>
Additional information: intersegment revenue	602	19	(621)	-

Three months ended 30 June 2018 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Revenue	475	2,036	(252)	2,259
Profit from operations	196	560	10	766
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	32	66	-	98
Loss on disposal of property, plant and equipment and intangible assets	4	3	-	7
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	1	2	3
EBITDA	<u>232</u>	<u>630</u>	<u>12</u>	<u>874</u>
Additional information: intersegment revenue	231	21	(252)	-

Reconciliation between profit from operations to profit before income tax is presented in the consolidated interim condensed income statements.

The following is a reconciliation of net cash from operating activities to free cash flow:

Six months ended 30 June 2019 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Net cash from operating activities	678	413	26	1,117
Additions to property, plant and equipment	(175)	(286)	-	(461)
Additions to intangible assets	(3)	(11)	(1)	(15)
Proceeds from disposal of property, plant and equipment	-	8	-	8
Interest received	21	6	(24)	3
Free cash flow	<u>521</u>	<u>130</u>	<u>1</u>	<u>652</u>

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Six months ended 30 June 2019 and 2018

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

Six months ended 30 June 2018 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Net cash from operating activities	300	828	35	1,163
Additions to property, plant and equipment	(136)	(150)	-	(286)
Additions to intangible assets	(1)	(10)	1	(10)
Proceeds from disposal of property, plant and equipment	-	6	-	6
Interest received	29	22	(37)	14
Free cash flow	<u>192</u>	<u>696</u>	<u>(1)</u>	<u>887</u>

Three months ended 30 June 2019 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Net cash from operating activities	349	146	26	521
Additions to property, plant and equipment	(93)	(164)	-	(257)
Additions to intangible assets	(3)	(6)	(1)	(10)
Proceeds from disposal of property, plant and equipment	-	6	-	6
Interest received	21	5	(23)	3
Free cash flow	<u>274</u>	<u>(13)</u>	<u>2</u>	<u>263</u>

Three months ended 30 June 2018 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Net cash from operating activities	120	596	34	750
Additions to property, plant and equipment	(77)	(78)	-	(155)
Additions to intangible assets	(1)	(5)	1	(5)
Proceeds from disposal of property, plant and equipment	-	4	-	4
Interest received	28	12	(36)	4
Free cash flow	<u>70</u>	<u>529</u>	<u>(1)</u>	<u>598</u>

9. Contingencies for litigation liabilities

In 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\$ 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.

The judge of the first instance court reduced the amount of the claw-back claim in its decision of 25 May 2018 to US\$ 86 million. Management did not agree both with this claim and the judgement of the first instance court and appealed against the court decision on 18 July 2018.

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Six months ended 30 June 2019 and 2018

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

The hearing is scheduled on 28 April 2020. The Group and its legal advisors believe that there are strong grounds in support of the Group's position, however, the Group is unable to assess the ultimate outcome of the claim, including the outflow of the financial resources to settle the claim, if any, because it depends on multiple circumstances concerning the facts and the applicability and interpretation of the relevant statutes. In case the Group has to make any payment, the relevant amount paid will be included in Lucchini's creditors' list and will be settled in the course of the bankruptcy procedure.

10. Capital commitments

As at 30 June 2019, the Group had contractual capital commitments of US\$ 249 million (31 December 2018: US\$ 247 million).

11. Dividends

On 1 February 2018, the Board of Directors recommended an annual dividend of RUB 27.72 per share and per GDR for the year ended 31 December 2017 subject to approval at the Annual General Meeting of Shareholders in June 2018.

On 8 June 2018, the Meeting of Shareholders approved an annual dividend of RUB 27.72 (US\$ 0.45 at 8 June 2018 exchange rate) per share and per GDR for the year ended 31 December 2017 and an interim dividend of RUB 38.32 (US\$ 0.62 at 8 June 2018 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2018.

On 26 April 2019, the Meeting of Shareholders approved an annual dividend of RUB 32.08 (US\$ 0.50 at 26 April 2019 exchange rate) per share and per GDR for the year ended 31 December 2018.

On 7 June 2019, the Extraordinary Meeting of Shareholders approved an interim dividend of RUB 35.43 (US\$ 0.54 at 7 June 2019 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2019.

PAO Severstal and subsidiaries

Consolidated financial statements
for the years ended 31 December 2018, 2017 and 2016

PAO Severstal and subsidiaries
Consolidated financial statements
Years ended 31 December 2018, 2017 and 2016

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Independent Auditors' Report

To the Shareholders of PAO Severstal and Board of Directors

Opinion

We have audited the consolidated financial statements of PAO Severstal (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2018, 2017 and 2016, the consolidated income statements, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Audited entity: PAO "Severstal"

Registration No. in the Unified State Register of Legal Entities
1023501236901.

Cherepovets, Vologodskaya oblast, Russia

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

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

Valuation of property, plant and equipment

Please refer to the Note 9 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The Group has a significant property, plant and equipment balance which is material to the consolidated financial statements as at 31 December 2018. Current global market conditions, including continuing growth in prices for iron ore and lower interest rates, may indicate that the earlier recognised impairment loss no longer exists. This is in particular related to the Olcon cash generating unit ("CGU").</p> <p>As at the reporting date management has measured the recoverable amount of that CGU by means of value in use.</p> <p>Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit concentrated on.</p>	<p>For Olcon CGU we used our own valuation specialists to assist us in evaluating the assumptions and methodology used by the Group.</p> <p>We evaluated the reasonableness of the expected cash flow forecasts by comparing the main assumptions such as sales volumes, forecasted sales prices, costs inflation, foreign currency exchange rates and discount rate with externally derived data and our own assessments. We also considered the historical accuracy of management's forecasts by comparing prior year forecasts with actual results.</p> <p>We also performed sensitivity analysis on the discounted cash flow forecasts and assessed the appropriateness of the Group's disclosure.</p>

Contingent liabilities and provisions

Please refer to the Notes 26 and 32 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The Group has ongoing litigation regarding a claw-back claim made by Lucchini S.p.A's ("Lucchini") extraordinary commissioner.</p> <p>Whether a liability relating to this claim exists is inherently uncertain, and the estimate applied to determine the amount, if any, to be provided as liability is inherently subjective.</p>	<p>We used our Italian lawyers to assist us in analysis of the Lucchini litigation and to consider the assumptions used to evaluate the risks. We performed the following audit procedures, amongst others:</p> <ul style="list-style-type: none"> - we critically assessed the assumptions made by the Group's legal specialists in respect of management's position; - we inspected the first instance court decision made with respect to the Lucchini claim, appeal materials of the Group and other related documents;

	<ul style="list-style-type: none"> - we analysed court practice in the area of Italian bankruptcy disputes related to transactions for which the Group's legal position may be challenged by the Italian court during further hearings. <p>We also assessed the adequacy of the disclosure of the contingent liability relating to the Lucchini claim in Note 32 to the consolidated financial statements with reference to the disclosure requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.</p>
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Other Information

Management is responsible for the other information. The other information comprises the Annual Report but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Kiseleva L.R.
JSC "KPMG"
Moscow, Russia
4 February 2019



PAO Severstal and subsidiaries

Consolidated income statements Years ended 31 December 2018, 2017 and 2016

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

		Year ended 31 December		
	Note	2018	2017	2016
Revenue				
Revenue - third parties		8,436	7,726	5,812
Revenue - related parties	12	144	122	104
	4	8,580	7,848	5,916
Cost of sales		(4,918)	(4,735)	(3,573)
Gross profit		3,662	3,113	2,343
General and administrative expenses		(306)	(286)	(279)
Distribution expenses		(578)	(598)	(462)
Other taxes and contributions		(69)	(71)	(54)
Share of associates' and joint ventures' gain		14	10	14
Loss on disposal of property, plant and equipment and intangible assets		(23)	(3)	(52)
Net other operating income/(expenses)		7	(3)	7
Profit from operations		2,707	2,162	1,517
Reversal of impairment/(impairment) of non-current assets	9	68	(3)	(135)
Gain from a bargain purchase	29	-	135	-
Net other non-operating (expenses)/income	10	(50)	(421)	12
Profit before financing and taxation		2,725	1,873	1,394
Finance income	6	14	49	63
Finance costs	6	(113)	(158)	(157)
Gain/(loss) on remeasurement and disposal of financial instruments	7	58	(45)	(66)
Foreign exchange (loss)/gain	8	(165)	45	483
Profit before income tax		2,519	1,764	1,717
Income tax expense	11	(468)	(409)	(97)
Profit for the period		2,051	1,355	1,620
Attributable to:				
shareholders of PAO Severstal		2,051	1,356	1,621
non-controlling interests		-	(1)	(1)
Basic weighted average number of shares outstanding during the period (millions of shares)	27	817.1	811.7	810.6
Basic earnings per share (US dollars)		2.51	1.67	2.00
Diluted weighted average number of shares outstanding during the period (millions of shares)	27	847.7	842.1	810.6
Diluted earnings per share (US dollars)		2.47	1.64	2.00

These consolidated financial statements were approved by the Board of Directors on 4 February 2019.

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

PAO Severstal and subsidiaries

Consolidated statements of comprehensive income

Years ended 31 December 2018, 2017 and 2016

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

	Note	Year ended 31 December		
		2018	2017	2016
Profit for the period		2,051	1,355	1,620
Other comprehensive (loss)/income:				
Items that will not be reclassified to profit or loss				
Actuarial gains/(losses)	25	6	(8)	(7)
Translation to presentation currency		(663)	191	108
Total items that will not be reclassified to profit or loss		(657)	183	101
Items that may be reclassified subsequently to profit or loss				
Translation to presentation currency - foreign operations		(3)	9	14
Changes in fair value of financial assets measured through other comprehensive income		-	3	-
Total items that may be reclassified subsequently to profit or loss		(3)	12	14
Items that were reclassified to profit or loss				
Changes in fair value of financial assets measured through other comprehensive income		(4)	-	-
Accumulated translation reserves - foreign operations	10, 29	-	368	(49)
Total items that were reclassified to profit or loss		(4)	368	(49)
Other comprehensive (loss)/income for the period		(664)	563	66
Total comprehensive income for the period		1,387	1,918	1,686
Attributable to:				
shareholders of PAO Severstal		1,387	1,918	1,686
non-controlling interests		-	-	-

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

PAO Severstal and subsidiaries

Consolidated statements of financial position

31 December 2018, 2017 and 2016

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

	Note	31 December 2018	31 December 2017	31 December 2016
Assets				
Current assets:				
Cash and cash equivalents	14	228	1,031	1,154
Short-term financial investments	15	7	12	19
Trade accounts receivable	16	554	598	485
Accounts receivable from related parties	13	20	16	22
Inventories	17	1,087	1,058	867
VAT recoverable		66	124	78
Income tax recoverable		5	7	14
Other current assets	18	105	106	87
Assets held for sale	28	-	-	82
Total current assets		<u>2,072</u>	<u>2,952</u>	<u>2,808</u>
Non-current assets:				
Long-term financial investments	19	8	217	231
Investments in associates and joint ventures	20	76	65	55
Property, plant and equipment	21	3,469	3,701	3,135
Intangible assets	22	212	241	221
Deferred tax assets	11	27	24	27
Other non-current assets		10	9	6
Total non-current assets		<u>3,802</u>	<u>4,257</u>	<u>3,675</u>
Total assets		<u><u>5,874</u></u>	<u><u>7,209</u></u>	<u><u>6,483</u></u>
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		545	549	491
Accounts payable to related parties	13	21	18	15
Short-term debt finance	23	110	586	673
Income taxes payable		11	40	21
Other taxes and social security payable		107	113	95
Dividends payable		6	6	6
Other current liabilities	24	323	358	457
Liabilities related to assets held for sale	28	-	-	38
Total current liabilities		<u>1,123</u>	<u>1,670</u>	<u>1,796</u>
Non-current liabilities:				
Long-term debt finance	23	1,345	1,507	1,340
Deferred tax liabilities	11	295	311	115
Retirement benefit liabilities	25	56	78	67
Other non-current liabilities	26	176	245	124
Total non-current liabilities		<u>1,872</u>	<u>2,141</u>	<u>1,646</u>
Equity:				
Share capital	27	2,753	2,753	2,753
Treasury shares		(133)	(206)	(236)
Additional capital		308	308	296
Translation reserve		(2,345)	(1,679)	(2,246)
Retained earnings		2,274	2,195	2,450
Other reserves		8	12	9
Total equity attributable to shareholders of PAO Severstal		<u>2,865</u>	<u>3,383</u>	<u>3,026</u>
Non-controlling interests		<u>14</u>	<u>15</u>	<u>15</u>
Total equity		<u>2,879</u>	<u>3,398</u>	<u>3,041</u>
Total equity and liabilities		<u><u>5,874</u></u>	<u><u>7,209</u></u>	<u><u>6,483</u></u>

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

PAO Severstal and subsidiaries

Consolidated statements of cash flows

Years ended 31 December 2018, 2017 and 2016

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

	Year ended 31 December		
	2018	2017	2016
Operating activities:			
Profit before financing and taxation	2,725	1,873	1,394
Adjustments to reconcile profit to cash generated from operations:			
Depreciation and amortisation	405	404	343
(Reversal of impairment)/impairment of non-current assets (Note 9)	(68)	3	135
Movements in provision for inventories, receivables and other provisions	(13)	(5)	16
Gain from a bargain purchase (Note 29)	-	(135)	-
Loss on disposal of property, plant and equipment and intangible assets	23	3	52
Loss/(gain) on disposal of subsidiaries (Note 29)	-	72	(52)
Accumulated translation reserves - foreign operations	-	307	-
Share of associates' and joint ventures' results less dividends from associates and joint ventures	(14)	(5)	(10)
Changes in operating assets and liabilities:			
Trade accounts receivable	(23)	(93)	(27)
Accounts receivable from related parties	(9)	5	(2)
VAT recoverable	35	(42)	(8)
Inventories	(211)	(119)	(123)
Trade accounts payable	40	46	32
Accounts payable to related parties	(5)	1	1
Other taxes and social security payable	15	13	25
Other non-current liabilities	(8)	(8)	(19)
Assets held for sale	-	2	-
Net other changes in operating assets and liabilities	(70)	(53)	(13)
Cash generated from operations	2,822	2,269	1,744
Interest paid	(104)	(138)	(152)
Income tax paid	(464)	(217)	(115)
Net cash from operating activities	2,254	1,914	1,477
Investing activities:			
Additions to property, plant and equipment	(653)	(560)	(494)
Additions to intangible assets	(35)	(31)	(31)
Business combination, additions to financial investments *	(23)	(137)	(227)
Net cash inflow from disposal of subsidiaries (Note 29)	-	42	3
Proceeds from disposal of property, plant and equipment	15	15	7
Proceeds from disposal of financial investments	210	36	18
Interest received	16	54	61
Dividends received	4	1	-
Net cash used in investing activities	(466)	(580)	(663)
Financing activities:			
Proceeds from debt finance	-	1,306	656
Acquisition of non-controlling interests	(2)	-	-
Repayments of debt finance **	(584)	(1,191)	(1,070)
Net (repayments of)/proceeds from other financing activities	-	(72)	6
Dividends paid	(1,971)	(1,530)	(921)
Net cash used in financing activities	(2,557)	(1,487)	(1,329)
Effect of exchange rates on cash and cash equivalents	(34)	30	23
Net decrease in cash and cash equivalents	(803)	(123)	(492)
Less cash and cash equivalents of assets held for sale at end of the period	-	-	(1)
Cash and cash equivalents at beginning of the period	1,031	1,154	1,647
Cash and cash equivalents at end of the period	228	1,031	1,154

* For the year ended 31 December 2017 this amount included purchase of rights to claim debt obligations for a total consideration of 6 billion roubles (US\$ 101 million at the transaction date exchange rate) which were acquired in July 2017 (Note 29).

** These amounts include exercise of bonds' conversion rights of US\$ 28 million for the year ended 31 December 2018, repurchase and redemption of bonds of US\$ nil for the year ended 31 December 2017, repurchase and redemption of bonds of US\$ 372 million for the year ended 31 December 2016.

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

PAO Severstal and subsidiaries

Consolidated statements of changes in equity Years ended 31 December 2018, 2017 and 2016

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

	Attributable to the shareholders of PAO Severstal						Non-controlling interests	Total
	Share capital	Treasury shares	Additional capital	Translation reserve	Retained earnings	Other reserves		
Balances as at 31 December 2015	2,753	(236)	296	(2,318)	1,758	-	15	2,268
Profit/(loss) for the period	-	-	-	-	1,621	-	(1)	1,620
Translation to presentation currency	-	-	-	121	-	-	1	122
Other comprehensive loss	-	-	-	(49)	(7)	-	-	(56)
Total comprehensive income for the period	-	-	-	72	1,614	-	-	1,686
Dividends	-	-	-	-	(922)	-	-	(922)
Other	-	-	-	-	-	9	-	9
Balances as at 31 December 2016	2,753	(236)	296	(2,246)	2,450	9	15	3,041
Profit/(loss) for the period	-	-	-	-	1,356	-	(1)	1,355
Translation to presentation currency	-	-	-	199	-	-	1	200
Other comprehensive income/(loss)	-	-	-	368	(8)	3	-	363
Total comprehensive income for the period	-	-	-	567	1,348	3	-	1,918
Dividends	-	-	-	-	(1,550)	-	-	(1,550)
Conversion of bonds	-	30	12	-	-	-	-	42
Other	-	-	-	-	(53)	-	-	(53)
Balances as at 31 December 2017	2,753	(206)	308	(1,679)	2,195	12	15	3,398
Profit for the period	-	-	-	-	2,051	-	-	2,051
Translation to presentation currency	-	-	-	(666)	-	-	-	(666)
Other comprehensive income/(loss)	-	-	-	-	6	(4)	-	2
Total comprehensive (loss)/income for the period	-	-	-	(666)	2,057	(4)	-	1,387
Dividends	-	-	-	-	(1,977)	-	-	(1,977)
Conversion of bonds	-	73	-	-	-	-	-	73
Other	-	-	-	-	(1)	-	(1)	(2)
Balances as at 31 December 2018	2,753	(133)	308	(2,345)	2,274	8	14	2,879

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

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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

1. Operations

These consolidated financial statements of PAO Severstal and subsidiaries comprise the parent company, PAO Severstal ('Severstal' or 'the Parent Company') and its subsidiaries (collectively 'the Group') as listed in Note 29.

Severstal began operations on 24 August 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On 24 September 1993, as a part of the Russian privatisation programme, Severstal was registered as an Open Joint Stock Company ('OAO') and privatised. Through participating in Severstal's privatisation auctions and other purchases, Alexey Mordashov (the 'Majority Shareholder') purchased shares in Severstal such that as at 31 December 2018 he controlled indirectly 77.03% (31 December 2017: 77.03%, 31 December 2016: 79.18%) of Severstal's share capital. In November 2014, Severstal changed its legal form from OAO to PAO (Public Joint Stock Company) following the requirements of the amended Russian Civil Code.

Severstal's global depositary receipts (GDRs) have been quoted on the London Stock Exchange since November 2006. Severstal's shares are quoted on the Moscow Exchange ('MICEX'). Severstal's registered office is located at Ul. Mira 30, Cherepovets, Russia.

The Group comprises the following segments:

- *Severstal Resources* – this segment comprises three iron ore complexes, Karelsky Okatysh and Olcon in northwest Russia, LLC Metal-group in western Russia and a coal mining complex, Vorkutaugol in northwest Russia.
- *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 plant located in Russia; a ferrous scrap metal recycling business operating in northwest and central Russia, as well as various supporting functions for trading, maintenance and transportation, located in Europe. The segment also included Redaelli Tecna S.p.A. and PJSC Dneprometiz, a metalware plants, which were located in Italy and Ukraine, and were disposed in April and October 2017, respectively (Note 29).

A segmental analysis of the Group's revenue, a reconciliation of profit from operations to EBITDA and total assets and liabilities are presented in Note 30.

Economic environment

The major part of the Group is based in the Russian Federation and is consequently exposed to the economic and political effects of the policies adopted by the Russian government. These conditions and future policy changes could affect the operations of the Group and the realisation and settlement of its assets and liabilities.

The conflict in Ukraine in 2014 and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a 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.

International sales of rolled steel from the Group's Russian operations have been the subject of several anti-dumping and safeguard 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. These duties were calculated in 1999 and based on non-market economy methodology. Severstal requested an administrative review of the recalculation of duty rate in December 2015. The US Department of Commerce published its final decision for the administrative review of hot-rolled steel from Russia and found that Severstal failed to cooperate with the review and assigned it a final antidumping rate of 184.56 percent in June 2017. The Group filed an appeal to the US Court of International Trade for the final results. The litigation is in process. The court decision is expected at the beginning of 2019.
- Exports of hot-rolled plates from Russia to the USA are subject to minimum prices established based on the producer's actual cost and profit in the domestic market. Severstal is the first and currently only Russian company, for which, since September 2005, the hot-rolled plates market is open.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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- In 2016 the United States International Trade Commission completed the anti-dumping and countervailing investigations against Russian cold-rolled products with no anti-dumping or countervailing measures imposed as a result. US steel producers have appealed this decision in the US Court of International Trade and the Group has, in order to protect its legitimate interests, joined these appellate proceedings during 2017. The decision is expected at the beginning of 2019.
- In 2016 the European Commission introduced five-year anti-dumping duties against Russian cold-rolled steel products ranging from 18.7% to 36.1%, with a 34.0% duty imposed on the Group's products. The Group believes that the relevant anti-dumping investigations were conducted by the EU authorities with violations. The Group appealed this regulatory decision to impose such duties in the relevant legal institutions and settlement bodies of the EU and the WTO. The court decision is expected in 2019 - 2020.
- In October 2017, the European Commission imposed anti-dumping measures against hot-rolled steel products from a number of countries, including Russia. The measures are fixed duties from 17.6 to 96.5 euro per tonne, with a 17.6 euro per tonne duty imposed on the Group's products.
- In 2018, the U.S. President signed an order imposing new import duties on steel with a 25 percent rate. The duties came into effect on 23 March 2018. A few countries, like Argentina, Australia and Brazil have arranged other limitations on imports in lieu of the tariffs.
- The European Commission launched a safeguard investigation on 26 March 2018 against a wide range of metal products. The tariff quotas are currently in force as provisional safeguard measures. Severstal is participating in the challenge proceedings.
- There is also another ongoing anti-dumping investigation in the European Union. The EU Commission has been investigating hollow sections imports from the Russian Federation and other countries since 28 September 2018.
- Turkey launched a safeguard investigation on 27 April 2018 against a wide range of metal products. Tariff quotas are currently in force as provisional safeguard measures. Severstal is participating in the proceedings challenging the tariff quotas.
- Canada started a safeguard investigation on 11 October 2018 with several products. The Group has not exported products to the Canadian market in recent years, but is participating in the challenge proceedings.

2. Basis for preparation of the consolidated financial statements

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

The Group additionally prepared IFRS consolidated financial statements presented in Russian roubles and in the Russian language in accordance with the Federal Law No. 208 – FZ 'On consolidated financial reporting'.

Basis of measurement

The consolidated financial statements are prepared on the historic cost basis except for financial assets and liabilities at fair value through profit and loss, financial assets at fair value through other comprehensive income and assets held for sale at fair value less costs to sell.

The Group's statutory financial records are maintained in accordance with the legislative requirements of the countries in which the individual entities are located, which differ in certain respects from IFRS. The accounting policies applied in the preparation of these consolidated financial statements are set out in Note 3.

Critical accounting judgments, estimates and assumptions

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and recognition/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.

Areas of judgement that have the most significant effect on the amounts recognised/disclosed in the consolidated financial statements are:

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

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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

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.

Taxation

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 by the various regulatory authorities and jurisdictions, who can impose significant fines and penalties. Management has to apply considerable judgement in determining the appropriate amounts of taxes payable.

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. The Group uses an allowance matrix to measure expected credit loss of trade receivables. Loss rates are based on actual credit loss experience over the past three years. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Allowance for obsolete and slow-moving inventories

The Group makes allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

Decommissioning liabilities

The Group reviews its decommissioning liabilities, representing site restoration provisions, at each reporting date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 'Changes in Existing Decommissioning, Restoration and Similar Liabilities'. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

Retirement benefit liabilities

The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.)

Litigation

The Group exercises judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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

Deferred tax assets

Deferred tax assets on deductible temporary differences and tax loss carry forwards are reviewed at each reporting date and recorded only to the extent that it is probable that the temporary differences will reverse in the future and there is sufficient future taxable profit available against which they can be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation of deferred tax assets must be reduced, this reduction will be recognised in the income statement.

Consolidation

For new investees or when there are changes in Group's existing involvement with an investee the Group assess all facts and circumstances to determine whether it has control over the investee. There may be cases which require management to exercise significant judgement to determine whether it is exposed or has the rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The acquisition method

The acquisition method requires the Group for each business combination to identify the acquirer, date of acquisition, recognising and measuring the identified assets and liabilities assumed and any non-controlling interest in the acquiree, and goodwill or gain from a bargain purchase. Assessment of the fair value of identifiable net assets along with resulted goodwill or gain from a bargain purchase based on applicable valuation techniques using market inputs and other assumptions involves significant judgement to determine appropriate amounts to include in the consolidated financial statements at acquisition date.

Functional currency determination

The Group exercises judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions based on the specific facts and circumstances. This is a complex process and different factors are considered in determining the appropriate functional currency. Management regularly reviews the facts and circumstances, which may indicate that the functional currency of an entity should be changed.

The key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Useful lives of property, plant and equipment;
- Impairment of assets;
- Taxation;
- Litigation.

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. The functional currency of the major part of the Group's entities is the Russian rouble, except for entities located in Latvia and Poland, other entities and currencies are not material to the Group.

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 monthly exchange rates; and
- all resulting exchange differences are recognised as a separate component in other comprehensive income.

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

	2018		2017		2016	
	31 December	Average	31 December	Average	31 December	Average
USD/RUB	69.47	62.70	57.60	58.35	60.66	67.02
EUR/USD	1.15	1.18	1.20	1.13	1.05	1.11

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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

Any conversion of amounts into US dollars should not be construed as a representation that such amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rates used, or at any other exchange rate.

Adoption of new and amended accounting standards

A number of new and amended accounting standards were adopted for the year ended 31 December 2018 and have been applied in these consolidated financial statements, including IFRS 9 and IFRS 15.

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

New accounting pronouncements

A number of new and amended accounting standards were not yet effective for the year ended 31 December 2018 and have not been applied in these consolidated financial statements.

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

IFRS 16 Leases becomes effective as of 1 January 2019.

The standard provides amended guidance on recognition, measurement, presentation and disclosure of leases. It includes a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases.

The Group will apply IFRS 16 using the modified retrospective approach without restatement of comparative information.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of up to US\$ 48 million.

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 except for policies related to revenue and financial instruments accounting, which were modified in accordance with the new standards.

a. Basis of consolidation

Subsidiaries

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

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing these consolidated financial statements; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Business combinations

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

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

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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

Investments in associates

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

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

Joint ventures

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.

The Group accounts for joint ventures using the equity method.

Goodwill

Goodwill is measured as the difference between:

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

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

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.

The gain from a 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. It is recognised in the income statement at the date of the acquisition.

b. Foreign currency transactions

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

c. Exploration for and evaluation of mineral resources

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

- obtaining of the rights to explore and evaluate mineral reserves and resources including costs directly related to this acquisition;
- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods;
- compiling prefeasibility and feasibility studies;
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

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

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

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

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

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and the development of the deposit is sanctioned by management. The carrying amount of such exploration and evaluation asset is reclassified into property, plant and equipment or intangible assets depending on the type of the asset.

d. Development expenditure

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

e. Stripping costs

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

- Stripping activity asset; and
- Current stripping costs.

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

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

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

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

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

f. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and, for qualifying assets, borrowing costs capitalised. In the case of assets constructed by the Group, related works and direct project overheads are included in cost. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. Repair and maintenance expenses are charged to the income statement as incurred. Gains or losses on disposals of property, plant and equipment are recognised in the income statement.

Depreciation is charged 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.

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

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

g. Leases

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

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

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

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

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

h. Intangible assets (excluding goodwill)

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

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

The table below presents the useful lives of intangible assets:

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

The major component of the software is the SAP business system. The major component of other intangible assets is land lease rights. Amortisation of intangible assets is included in the captions "Cost of sales" and "General and administrative expenses" in the consolidated income statement.

i. Impairment of non-current assets

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

Calculation of recoverable amount

For non-current 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.

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j. Inventories

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

k. Financial assets

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

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

On initial recognition, financial assets are classified into the following specified categories: financial assets measured at amortised cost, financial assets 'at fair value through other comprehensive income' (FVTOCI), financial assets 'at fair value through profit or loss' (FVTPL).

The classification depends on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade receivables, cash and cash equivalents, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as financial assets at amortised cost and are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Group uses a simplified approach for trade receivables to measure expected credit loss based on provision matrix. The Group uses its historical credit loss experience for trade receivables to estimate the lifetime expected credit losses and takes into account current forward-looking information.

Financial assets at FVTOCI

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Investments in unlisted shares or other instruments that do not have a quoted market price in an active market are measured at management's estimate of fair value. Gains and losses on a FVTOCI are recognised in other comprehensive income with the exception of impairment losses and foreign exchange gains and losses, which are recognised directly in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

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Dividends on financial assets at FVTOCI equity instruments are recognised in the income statement when the Group's right to receive the dividends is established.

Financial assets at FVTPL

Financial assets are classified as at FVTPL if not included in the categories above.

l. Financial liabilities

Financial liabilities are measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate.

Financial liabilities are measured at amortised cost using the effective interest method, with interest expense recognised in the income statement.

m. Hedging instruments

The Group holds derivative financial instruments primarily to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

The Group has not applied hedge accounting to existing financial instruments.

n. Dividends payable

Dividends are recognised as a liability in the period in which they are authorised by the shareholders.

o. Other taxes and contributions

Other taxes and contributions are taxes and mandatory contributions paid to the government, or government controlled agencies, that are calculated on a variety of bases, but exclude taxes calculated on profits, value added taxes calculated on revenues and purchases and social security costs calculated on wages and salaries. Social security costs are included in cost of sales, distribution expenses and general and administrative expenses in accordance with the nature of related wages and salaries expenses.

p. Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax expense is calculated by each entity on the pre-tax income determined in accordance with the tax law of the country, in which the entity is incorporated, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets on deductible temporary differences and tax loss carry forwards are reviewed at each reporting date and recorded only to the extent that it is probable that the temporary differences will reverse in the future and there is sufficient future taxable profit available against which they can be utilised.

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Deferred tax is not recognised in respect of the following:

- investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future;
- if it arises from the initial recognition of an asset or liability that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss;
- initial recognition of goodwill.

q. Provisions

Employee benefits

The Group pays retirement, healthcare and other long-term benefits to its employees.

The Group has two types of retirement benefits: defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts in respect of those benefits. The Group's only obligation is to pay contributions as they fall due, including contributions to the Russian Federation State pension fund. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans are post-employment benefits plans other than defined contribution plans. The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.). For the Group's entities, the discount rate used is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually using the projected unit credit method. In accordance with this method, the Group's net obligation is calculated separately for each defined benefit plan. Any actuarial gain or loss arising from the calculation of the retirement benefit liability is fully recognised in other comprehensive income.

Other long-term employee benefits include various compensations, non-monetary benefits and a long-term cash-settled share-based incentive programme.

Decommissioning liabilities

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closure of certain of its production sites. Decommissioning liabilities are estimated case-by-case based on available information, taking into account applicable local legal requirements. The estimation is made using existing technology, at current prices, and discounted using a real discount rate. Future decommissioning costs, discounted to net present value, are capitalised and the corresponding decommissioning liability raised as soon as the constructive obligation to incur such costs arises. Future decommissioning costs are capitalised in property, plant and equipment and are depreciated over the life of the related asset. The effect of the time value of money on the decommissioning liability is recognised in the income statement as an interest expense. Ongoing rehabilitation costs are expensed when incurred.

r. Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of issued shares

When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, net of any tax effects is recognised as a deduction from equity and classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

s. Operating income and expenses

The Group presents profit or loss from operations, which includes various types of income and expenses arising in the course of production and sale of the Group's products, disposal of property, plant and equipment, participation in joint ventures and associates and other Group's regular activities.

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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, gain from a bargain purchase 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

The Group has adopted IFRS 15 using the cumulative effect method with the effect of initial application recognised as of 1 January 2018. Accordingly, the information presented for comparative periods has not been restated.

Most of the Group's revenue is revenue from contracts with customers.

Revenue from the sale of hot rolled strip and plate, other steel products, pellets and iron ore and most other revenue (see Note 4) is recognised in the income statement primarily at the point in time when control of the promised goods passes to the customer.

The amount of revenue recognised reflects the consideration to which the Group is or expects to be entitled in exchange for those goods and is reduced for estimated customer returns, rebates and other similar allowances.

In most instances, control passes, and sales revenue is recognised when the product is delivered to the vessel or vehicle on which it will be transported once loaded, the destination port or the customer's premises.

The Group's products are sold to customers under contracts which vary in: tenure, but are generally less than one year in duration (therefore, no significant effect of any financing component exists); and pricing mechanisms, including some volumes sold in the spot market. Revenue is generally recognised at the contracted price as this reflects the stand-alone selling price.

u. Finance income and costs

Finance income include interest income and dividend income (except for dividends from investments in associates and joint ventures).

Interest income

Interest income is recognised in the income statement on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Finance costs include interest expense and other finance costs.

Interest expense

Interest expense is recognised in the income statement as it accrues, taking into account the effective yield on the liability.

Other finance costs

Other finance costs include costs incurred for bank operating services and other related charges.

v. Gain/(loss) on remeasurement and disposal of financial instruments

Gain/(loss) on remeasurement and disposal of financial instruments comprises impairment, realised and unrealised gains on financial instruments, remeasurement of financial assets at FVTPL and financial liabilities at FVTPL.

w. Earnings per share

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by dividing adjusted profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of shares outstanding, adjusted for the effect of all dilutive potential ordinary shares.

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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 key management 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 are stated before intersegment elimination and are measured on the same basis as those in the consolidated financial statements, except that:

- non-monetary long-term investments in subsidiaries are translated into the presentation currency at the historic exchange rate;
- no impairment is recognised on investments in subsidiaries;
- no discounting is applied for intersegment loans;
- in case of transfers of equity investments between segments, such investments are accounted at their historic cost.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

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4. Revenue

Revenue by product was as follows:

	Year ended 31 December		
	2018	2017	2016
Hot-rolled strip and plate	2,756	2,458	1,784
Cold-rolled sheet	802	783	451
Long products	701	600	477
Galvanized and other metallic coated sheet	629	470	322
Pellets and iron ore	627	517	312
Shipping and handling *	543	541	419
Metalware products	542	549	488
Large diameter pipes	477	570	459
Other tubes and pipes, formed shapes	456	474	372
Colour-coated sheet	364	353	298
Semi-finished products	321	219	210
Coal and coking coal concentrate	93	60	105
Scrap	6	6	8
Others	263	248	211
	<u>8,580</u>	<u>7,848</u>	<u>5,916</u>

* Shipping and handling do not represent a separate performance obligation under IFRS 15 "Revenue from contracts with customers" and is disclosed only for presentation purposes. For the year ended 31 December 2018 shipping and handling related to Severstal Resources and Severstal Russian Steel Divisions amounted to US\$ 119 million and US\$ 424 million, respectively.

Revenue by delivery destination was as follows:

	Year ended 31 December		
	2018	2017	2016
Russian Federation	5,126	4,692	3,805
Europe	2,233	1,471	1,174
CIS	492	478	299
The Middle East	295	589	336
North America	141	240	19
Africa	140	152	88
Central and South America	86	113	81
China and Central Asia	43	50	56
South-East Asia	24	63	58
	<u>8,580</u>	<u>7,848</u>	<u>5,916</u>

5. Staff costs

Employment costs were as follows:

	Year ended 31 December		
	2018	2017	2016
Wages and salaries	(739)	(742)	(639)
Social security costs	(244)	(242)	(208)
Retirement benefit service costs (Note 25)	1	(1)	(1)
	<u>(982)</u>	<u>(985)</u>	<u>(848)</u>

Key management personnel include the following positions within the Group:

- CEO and Senior Vice Presidents;
- Board of Directors of the Company.

Key management's remuneration for the year ended 31 December 2018, consisting of salaries and bonuses, totalled US\$ 11 million (2017: US\$ 11 million; 2016: US\$ 10 million).

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Additionally, in 2018, a provision for their long-term cash-settled share-based incentive programmes of US\$ 4 million was accrued (2017: US\$ 1 million; 2016: US\$ 3 million). This provision is subject to further adjustments, depending on a range of the Group's financial indicators.

6. Finance income and costs

	Year ended 31 December		
	2018	2017	2016
Finance income			
Interest income	13	48	63
Dividend income	1	1	-
	<u>14</u>	<u>49</u>	<u>63</u>
Finance costs			
Interest expense	(104)	(151)	(155)
Other finance costs	(9)	(7)	(2)
	<u>(113)</u>	<u>(158)</u>	<u>(157)</u>

7. Gain/(loss) on remeasurement and disposal of financial instruments

	Year ended 31 December		
	2018	2017	2016
Financial assets at amortised cost			
Impairment	-	(4)	(3)
Financial assets at FVTOCI			
Loss on disposal	(5)	(10)	(8)
Impairment	-	(7)	(12)
Fair value hedges and derivatives			
Gain on disposal	58	-	-
Remeasurement to fair value	5	(24)	(43)
	<u>58</u>	<u>(45)</u>	<u>(66)</u>

The impairment of financial assets at fair value through other comprehensive income in 2016 related to a greenfield iron ore deposit in the Republic of Congo, Core Mining, and was due to the uncertain prospects for the development of the field.

8. Foreign exchange (loss)/gain

	Year ended 31 December		
	2018	2017	2016
Foreign exchange (loss)/gain on cash and cash equivalents and debt finance	(184)	93	524
Foreign exchange loss on derivative	-	(15)	(18)
Foreign exchange gain/(loss) on other assets and liabilities	19	(33)	(23)
	<u>(165)</u>	<u>45</u>	<u>483</u>

9. Reversal of impairment/(impairment) of non-current assets

	Year ended 31 December		
	2018	2017	2016
Reversal of impairment/(impairment) of property, plant and equipment	66	(3)	(82)
Reversal of impairment/(impairment) of intangible assets	2	-	(28)
Impairment of goodwill	-	-	(25)
	<u>68</u>	<u>(3)</u>	<u>(135)</u>

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For the purpose of impairment testing, the recoverable amount of each cash generating unit except those mentioned below has been determined based on value in use calculations. The value in use calculation uses cash flow projections based on actual operating results and the business plan approved by management and a corresponding discount rate which reflects the time value of money and risks associated with each individual cash-generating unit.

The recoverable amount of Redaelli Tecna S.p.A. in 2016 has been determined based on its fair value less costs to sell.

Key assumptions that management used in their value in use calculations are as follows:

- For all cash-generating units, apart from those included in the Severstal Resources segment, cash flow projections cover a period of five years. Cash flows beyond the five-year period have been extrapolated taking into account business cycles. Cash flow projections for cash-generating units of the Severstal Resources segment cover a period which corresponds to the contractual time remaining of the respective mining licenses.
- Cash flow projections were prepared in nominal terms.
- Cash flow projections during the forecast period are based on long-term price trends for both sales prices and material costs specific for each segment and geographic region and operating cost inflation in line with consumer price inflation for each country. Consumer price inflation expectations (in local currency) during the forecast period are as follows in percentage terms:

	Year ended 31 December		
	2018	2017	2016
Russia	3.8 - 4.4	n/a	3.2 - 5.7

- Discount rates for each cash-generating unit were estimated in nominal terms based on the weighted average cost of capital. These rates, presented by segment, are as follows in percentage terms:

	Year ended 31 December		
	2018	2017	2016
Severstal Resources:			
Russia (US\$ rate)	13.8	n/a	10.4

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.

Severstal Resources segment

Olcon

2018

The Group performed an analysis and identified factors that indicated that the previously recognised impairment loss in respect of the Olcon cash generating unit may require reversal. For the purposes of impairment testing, the value in use was determined by discounting expected future net cash flows of this cash generating unit. Based on the results of the impairment testing, a reversal of the impairment of US\$ 51 million was recognised in 2018, of which US\$ 49 million was allocated to property, plant and equipment and US\$ 2 million to intangible assets. The carrying amount of the Olcon non-current assets was US\$ 151 million as at 31 December 2018.

The following main assumptions were used in the impairment test model:

- the forecast sales volumes decrease by 1% in 2019, stay flat in 2020, decrease by 1% in 2021 and decrease on average by 7% p.a. in 2022 to 2026;
- the forecast iron ore concentrate prices decrease by 5% in 2019, decrease by 1% in 2020, increase by 3% in 2021 and increase on average by 1% p.a. thereafter to 2026;
- operating costs are forecast to decrease by 8% in 2019, decrease by 2% in 2020, increase by 13% in 2021 and decrease on average by 7% p.a. in 2022 to 2026;
- foreign exchange rates are forecast to increase by 5% in 2019, increase by 2% in 2020, decrease by 2% in 2021 and 2022 and increase on average by 1% p.a. in 2023 to 2026;
- post-tax discount rate of 13.8% (in US\$ terms).

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The recoverable amount of the Olcon cash-generating unit is not sensitive to changes in the main assumptions used in the impairment test model. There is a significant surplus of recoverable amount compared with the carrying amount of non-current assets as at the reporting date.

Vorkutaugol

2016

In February 2016, an explosion occurred at the Vorkutaugol's Severnaya mine which is included in the Severstal Resources segment. In September 2016, the Group announced that the Severnaya mine will be sealed off to avoid the risk of airflow causing further underground fire and explosions in the mine. By 31 December 2016, the Group paid compensation of US\$ 2 million to the injured workers and the relatives of those killed and recognised a provision for restructuring of staff of US\$ 2 million. Loss on disposal of property, plant and equipment of US\$ 41 million and an impairment loss of US\$ 12 million was recognised in the period ended 31 December 2016, in relation to all relevant property, plant and equipment of the Severnaya mine.

In 2016, due to the existence of an internal indication of impairment as a result of an explosion occurred at the Vorkutaugol's Severnaya mine the Group assessed the recoverable amount of AO Vorkutaugol, the carrying amount of which was US\$ 279 million as at 31 December 2016.

As a result, based on a value in use calculation, no impairment loss was recognised in 2016.

Sensitivity analysis of the main assumptions of impairment test:

- a 1% increase in discount rate does not cause the impairment of the CGU;
- a 10% decrease in the coking coal concentrate prices does not cause the impairment of the CGU.

Additionally, an impairment loss of US\$ 56 million and US\$ 28 million was recognised in 2016 in relation to specific items of property, plant and equipment and intangible assets, respectively.

Other units

2018

A reversal of impairment of US\$ 4 million was recognised in 2018 in relation to specific items of property, plant and equipment.

2017

An impairment loss of US\$ 3 million was recognised in 2017 in relation to specific items of property, plant and equipment.

Severstal Russian Steel segment

Redaelli Tecna S.p.A.

2016

In 2016 the Group recognised an impairment loss of US\$ 30 million in relation to non-current assets of Redaelli Tecna S.p.A. based on its fair value less costs to sell. US\$ 25 million of the loss was allocated to goodwill and US\$ 5 million to property, plant and equipment (Note 28).

The carrying amount of goodwill allocated to the cash-generating unit before the impairment loss was US\$ 25 million as at 31 December 2016.

Other units

2018

A reversal of impairment of US\$ 13 million was recognised in 2018 in relation to specific items of property, plant and equipment.

2016

An impairment loss of US\$ 9 million was recognised in 2016 in relation to specific items of property, plant and equipment.

PAO Severstal and subsidiaries

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10. Net other non-operating (expenses)/income

	Year ended 31 December		
	2018	2017	2016
Charitable donations	(30)	(26)	(25)
Social expenditure	(14)	(13)	(14)
Depreciation of infrastructure assets	-	(1)	(1)
(Loss)/gain on disposal of subsidiaries (Note 29)	-	(72)	52
Accumulated translation reserves - foreign operations	-	(307)	-
Other	(6)	(2)	-
	<u>(50)</u>	<u>(421)</u>	<u>12</u>

During 2017, as a result of the internal reorganisation of a number of foreign holding entities, US\$ 307 million of translation reserves, arising from operations which had been liquidated or were in the process of liquidation, was recognised in net other non-operating (expenses)/income.

11. Taxation

The following is an analysis of the income tax expense:

	Year ended 31 December		
	2018	2017	2016
Current tax charge	(430)	(242)	(154)
Corrections to prior year's current tax charge	(9)	3	(3)
Deferred tax (expenses)/benefit	(29)	(170)	60
Income tax expense	<u>(468)</u>	<u>(409)</u>	<u>(97)</u>

The following table is a reconciliation of the reported net income tax expense and the amount calculated by applying the Russian statutory tax rate of 20% to reported profit before income tax.

In 2018, the main effect on profit taxed at different rates is caused by local tax benefits from operating in the Vologodskaya region.

	Year ended 31 December		
	2018	2017	2016
Profit before income tax	2,519	1,764	1,717
Tax charge at Russian statutory rate	(504)	(353)	(343)
Profit/(loss) taxed at different rates	28	(3)	(6)
Corrections to prior years' current tax charge	(9)	3	(3)
Non-tax deductible income/(expenses), net	18	(42)	(40)
Changes in non-recognised deferred tax assets	-	-	290
Reassessment of deferred tax assets and liabilities	(1)	(14)	5
Income tax expense	<u>(468)</u>	<u>(409)</u>	<u>(97)</u>

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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

The following table sets out the composition of the net deferred tax liability and movements based on the temporary differences arising between the fiscal and reporting balance sheets:

	31 December 2017	Recognised in income statements	Translation to presentation currency	31 December 2018
Deferred tax assets:				
Tax loss carry forwards	8	1	-	9
Property, plant and equipment	3	1	-	4
Inventory	19	8	(1)	26
Accounts receivable	14	(6)	(2)	6
Provisions	33	-	(5)	28
Financial investments	17	25	(7)	35
Other	16	7	(9)	14
Gross deferred tax assets	110	36	(24)	122
Less offsetting deferred tax liabilities	(86)	(30)	21	(95)
Recognised deferred tax assets	24	6	(3)	27
Deferred tax liabilities:				
Property, plant and equipment	(344)	(42)	61	(325)
Provisions	(1)	-	-	(1)
Intangible assets	(37)	(1)	7	(31)
Inventory	(7)	(14)	1	(20)
Accounts receivable	(3)	(1)	-	(4)
Other	(5)	(7)	3	(9)
Gross deferred tax liabilities	(397)	(65)	72	(390)
Less offsetting deferred tax assets	86	30	(21)	95
Recognised deferred tax liabilities	(311)	(35)	51	(295)
Net deferred tax liability	(287)	(29)	48	(268)

	31 December 2016	Recognised in income statements	Business combination	Translation to presentation currency	31 December 2017
Deferred tax assets:					
Tax loss carry forwards	163	(162)	-	7	8
Property, plant and equipment	5	(2)	-	-	3
Inventory	20	(1)	-	-	19
Accounts receivable	9	4	1	-	14
Provisions	33	(2)	-	2	33
Financial investments	14	1	1	1	17
Other	18	(5)	-	3	16
Gross deferred tax assets	262	(167)	2	13	110
Less offsetting deferred tax liabilities	(235)	161	(2)	(10)	(86)
Recognised deferred tax assets	27	(6)	-	3	24
Deferred tax liabilities:					
Property, plant and equipment	(280)	(22)	(24)	(18)	(344)
Provisions	(2)	1	-	-	(1)
Intangible assets	(44)	9	-	(2)	(37)
Inventory	(8)	1	-	-	(7)
Accounts receivable	-	(3)	-	-	(3)
Financial liabilities	(7)	7	-	-	-
Other	(9)	4	-	-	(5)
Gross deferred tax liabilities	(350)	(3)	(24)	(20)	(397)
Less offsetting deferred tax assets	235	(161)	2	10	86
Recognised deferred tax liabilities	(115)	(164)	(22)	(10)	(311)
Net deferred tax liability	(88)	(170)	(22)	(7)	(287)

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016 (Amounts expressed in millions of US dollars, except as otherwise stated)

	31 December 2015	Recognised in income statements	Reclass to liabilities related to assets held for sale	Translation to presentation currency	31 December 2016
Deferred tax assets:					
Tax loss carry forwards	58	84	-	21	163
Property, plant and equipment	2	3	-	-	5
Inventory	10	8	-	2	20
Accounts receivable	14	(7)	-	2	9
Provisions	25	3	-	5	33
Financial investments	34	(27)	-	7	14
Other	15	-	-	3	18
Gross deferred tax assets	158	64	-	40	262
Less offsetting deferred tax liabilities	(151)	(61)	-	(23)	(235)
Recognised deferred tax assets	7	3	-	17	27
Deferred tax liabilities:					
Property, plant and equipment	(236)	2	3	(49)	(280)
Provisions	(2)	-	-	-	(2)
Intangible assets	(40)	2	-	(6)	(44)
Inventory	(8)	2	-	(2)	(8)
Financial liabilities	(1)	(6)	-	-	(7)
Other	(5)	(4)	-	-	(9)
Gross deferred tax liabilities	(292)	(4)	3	(57)	(350)
Less offsetting deferred tax assets	151	61	-	23	235
Recognised deferred tax liabilities	(141)	57	3	(34)	(115)
Net deferred tax liability	(134)	60	3	(17)	(88)

The Group reassessed the recoverability of certain previously unrecognised deferred tax assets and accrued them in 2016 to the extent that it had become probable that future taxable profit would allow the deferred tax assets to be recovered. The amount of future taxable profit was based on projections performed for the entities included in the consolidated group of taxpayers as defined by the Russian tax code. The main assumptions used related to the production level, costs, selling price and exchange rates.

The Group has not recognised cumulative tax loss carry forwards in the following amounts and with the following expiry dates:

	31 December		
	2018	2017	2016
Between one and five years	204	218	198
Between five and ten years	-	-	142
No expiry	418	348	90
	622	566	430

Taxable differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to US\$ 4,310 million as at 31 December 2018 (31 December 2017: US\$ 4,526 million; 31 December 2016: US\$ 6,004 million).

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12. Related party transactions

	Year ended 31 December		
	2018	2017	2016
Revenue - related parties:			
Revenue - associates	30	32	27
Revenue - joint ventures	81	66	44
Revenue - other related parties	33	24	33
Income from services to other related parties	12	15	7
Interest income from related parties:			
Interest income from joint ventures	1	3	3
Interest income from other related parties	-	-	11
	<u>157</u>	<u>140</u>	<u>125</u>
Purchases from related parties:			
Purchases from associates:			
Non-capital expenditures	63	71	57
Purchases from joint ventures:			
Non-capital expenditures	6	5	3
Purchases from other related parties:			
Non-capital expenditures	38	32	25
Capital expenditures	17	6	4
	<u>124</u>	<u>114</u>	<u>89</u>

13. Related party balances

	31 December		
	2018	2017	2016
Joint ventures' balances			
Short-term trade accounts receivable	6	5	3
Short-term loans	6	4	2
Long-term loans	5	20	37
Associates' balances			
Short-term trade accounts receivable	3	3	3
Short-term loans	1	-	6
Short-term trade accounts payable	6	7	6
Other related party balances			
Accounts receivable from other related parties:			
Short-term trade accounts receivable	8	6	15
Advances paid	2	-	-
Short-term other receivables	1	2	1
Long-term other receivables	2	-	1
	<u>13</u>	<u>8</u>	<u>17</u>
Accounts payable to other related parties:			
Short-term trade accounts payable	12	3	2
Advances received	-	3	1
Short-term other liabilities	3	5	6
Short-term debt financing	1	2	-
Long-term other accounts payable	3	7	8
	<u>19</u>	<u>20</u>	<u>17</u>

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

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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Loans given to related parties were provided at interest rates ranging from nil to 10.5% per annum and were given to finance working capital and investments.

14. Cash and cash equivalents

	31 December		
	2018	2017	2016
Cash at bank	130	71	128
Bank deposits	98	960	1,025
Other cash equivalents	-	-	1
	<u>228</u>	<u>1,031</u>	<u>1,154</u>

15. Short-term financial investments

	31 December		
	2018	2017	2016
Financial assets at FVTOCI	-	8	11
Loans	7	4	8
	<u>7</u>	<u>12</u>	<u>19</u>

16. Trade accounts receivable

	31 December		
	2018	2017	2016
Customers	624	679	567
Allowance for doubtful debts	(70)	(81)	(82)
	<u>554</u>	<u>598</u>	<u>485</u>

17. Inventories

	31 December		
	2018	2017	2016
Raw materials and supplies	465	441	356
Finished goods	295	283	195
Work-in-progress	327	334	316
	<u>1,087</u>	<u>1,058</u>	<u>867</u>

Of the above amounts US\$ 2 million (31 December 2017: US\$ 7 million; 31 December 2016: US\$ 6 million) were stated at net realisable value.

During the year ended 31 December 2018, the Group recognised a US\$ 38 million release and a US\$ 25 million allowance for obsolete and slow-moving inventories and reduced the carrying amount to net realisable value (2017: US\$ 37 million and US\$ 28 million, respectively; 2016: US\$ 24 million and US\$ 34 million, respectively).

18. Other current assets

	31 December		
	2018	2017	2016
Advances paid and prepayments	55	60	37
Other taxes and social security prepaid	5	5	8
Other assets	45	41	42
	<u>105</u>	<u>106</u>	<u>87</u>

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19. Long-term financial investments

	31 December		
	2018	2017	2016
Financial assets at FVTOCI	3	197	194
Loans	5	20	37
	8	217	231

20. 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 29.

	31 December		
	2018	2017	2016
Associates			
JSC Air Liquide Severstal	16	14	14
Iron Mineral Beneficiation Services (Proprietary) Ltd	10	6	-
Joint ventures			
Rutgers Severtar LLC	21	17	12
Gestamp-Severstal-Kaluga LLC	14	15	15
Severstal-Gonvarri-Kaluga LLC	12	13	13
WRS Towers LLC	3	-	-
Gestamp Severstal Vsevolozhsk LLC	-	-	1
	76	65	55

The following is summarised financial information in respect of associates:

	31 December		
	2018	2017	2016
Current assets	34	24	17
Non-current assets	52	66	65
Short-term liabilities	5	6	6
Long-term liabilities	22	25	33
Equity	59	59	43

	Year ended 31 December		
	2018	2017	2016
Revenue	65	71	60
Profit for the period	22	23	18
Other comprehensive (loss)/income	-	(2)	7
Total comprehensive income	22	21	25

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

	31 December		
	2018	2017	2016
Current assets	117	92	104
Non-current assets	155	165	177
Short-term liabilities	67	33	36
Long-term liabilities	58	91	119
Equity	147	133	126

	Year ended 31 December		
	2018	2017	2016
Revenue	325	249	197
Profit for the period	20	13	42
Other comprehensive (loss)/income	(27)	10	15
Total comprehensive (loss)/income	(7)	23	57

None of the above associates and joint ventures is individually material to the Group.

21. Property, plant and equipment

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction-in-progress	Total
Cost:						
31 December 2015	1,066	3,147	142	50	552	4,957
Reclassifications	(2)	2	1	(1)	-	-
Additions	-	-	-	-	519	519
Disposals	(43)	(153)	(3)	(1)	(10)	(210)
Reclassified to assets held for sale	(21)	(35)	-	-	(1)	(57)
Transfers to other assets	(4)	(9)	-	-	-	(13)
Transfers	41	347	21	3	(412)	-
Translation to presentation currency	201	632	36	9	114	992
31 December 2016	1,238	3,931	197	60	762	6,188
Reclassifications	-	1	(1)	-	-	-
Additions	-	-	-	-	549	549
Disposals	(5)	(81)	(5)	(8)	(4)	(103)
Business combinations	166	31	7	-	51	255
Business de-combinations	(8)	(4)	-	-	-	(12)
Transfers to other assets	(6)	(2)	-	-	-	(8)
Transfers	66	236	145	1	(448)	-
Translation to presentation currency	70	211	16	2	42	341
31 December 2017	1,521	4,323	359	55	952	7,210
Reclassifications	13	(13)	11	(11)	-	-
Additions	-	-	-	-	774	774
Disposals	(4)	(90)	(4)	(12)	(19)	(129)
Transfers to other assets	(2)	(2)	-	-	-	(4)
Transfers	101	485	56	1	(643)	-
Translation to presentation currency	(267)	(756)	(74)	(8)	(160)	(1,265)
31 December 2018	1,362	3,947	348	25	904	6,586

Of the above amounts of additions to construction-in-progress, US\$ 13 million (2017: US\$ 9 million, 2016: US\$ 6 million) is capitalised interest.

The Group applied a weighted average capitalisation rate of 5% to determine the amount of borrowing costs eligible for capitalisation for the year ended 31 December 2018 (2017: 5%; 2016: 5%).

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	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction- in-progress	Total
Depreciation and impairment:						
31 December 2015	420	1,775	68	27	56	2,346
Depreciation expense	46	261	16	1	-	324
Disposals	(27)	(120)	(3)	-	(2)	(152)
Reclassified to assets held for sale	(4)	(22)	-	-	-	(26)
Transfers	1	8	8	-	(17)	-
Impairment	-	16	-	1	65	82
Translation to presentation currency	81	363	21	5	9	479
31 December 2016	517	2,281	110	34	111	3,053
Depreciation expense	54	299	27	1	-	381
Disposals	(5)	(70)	(4)	(1)	(2)	(82)
Business de-combinations	(6)	(3)	-	-	-	(9)
Transfers	-	8	-	-	(8)	-
Impairment	-	-	-	-	3	3
Translation to presentation currency	26	124	6	2	5	163
31 December 2017	586	2,639	139	36	109	3,509
Reclassifications	8	(8)	7	(7)	-	-
Depreciation expense	56	293	30	-	-	379
Disposals	(3)	(77)	(4)	(4)	(3)	(91)
Reversal of impairment	(8)	(23)	(21)	-	(14)	(66)
Translation to presentation currency	(103)	(462)	(29)	(6)	(14)	(614)
31 December 2018	536	2,362	122	19	78	3,117
Net book values:						
31 December 2016	721	1,650	87	26	651	3,135
31 December 2017	935	1,684	220	19	843	3,701
31 December 2018	826	1,585	226	6	826	3,469

Other productive assets include transportation equipment and tools.

The Group leases plant and machinery and other productive assets under a number of finance lease agreements. At the reporting date leased assets not yet put into operation and included in construction-in-progress amounted to US\$ 86 million.

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22. Intangible assets

	Goodwill	Mineral rights	Software	Evaluation and exploration assets	Other intangible assets	Total
Cost:						
31 December 2015	54	40	146	248	35	523
Additions	-	-	25	6	-	31
Disposals	-	-	-	(1)	-	(1)
Translation to presentation currency	2	9	32	5	7	55
31 December 2016	56	49	203	258	42	608
Reclassifications	-	2	-	(2)	-	-
Additions	-	-	24	7	1	32
Business de-combinations	(25)	-	-	-	-	(25)
Translation to presentation currency	1	4	10	2	2	19
31 December 2017	32	55	237	265	45	634
Reclassifications	-	1	-	(1)	-	-
Additions	-	-	28	7	1	36
Disposals	-	(1)	-	(4)	-	(5)
Translation to presentation currency	(4)	(9)	(44)	(8)	(7)	(72)
31 December 2018	28	46	221	259	39	593
Amortisation and impairment:						
31 December 2015	20	4	35	221	18	298
Amortisation expense	-	-	16	1	2	19
Impairment	25	28	-	-	-	53
Translation to presentation currency	2	3	9	1	2	17
31 December 2016	47	35	60	223	22	387
Amortisation expense	-	1	19	2	1	23
Business de-combinations	(25)	-	-	-	-	(25)
Translation to presentation currency	1	2	3	1	1	8
31 December 2017	23	38	82	226	24	393
Amortisation expense	-	1	22	2	1	26
Reversal of impairment	-	(2)	-	-	-	(2)
Disposals	-	(1)	-	(4)	-	(5)
Translation to presentation currency	(3)	(6)	(16)	(2)	(4)	(31)
31 December 2018	20	30	88	222	21	381
Net book values:						
31 December 2016	9	14	143	35	20	221
31 December 2017	9	17	155	39	21	241
31 December 2018	8	16	133	37	18	212

23. Debt finance

	Currency	Maturity	Interest rate	31 December		
				2018	2017	2016
Eurobonds 2017	US dollars	October	6.7%	-	-	602
Eurobonds 2018	US dollars	March	4.45%	-	555	555
Eurobonds 2021	US dollars	August	3.85%	503	503	-
Eurobonds 2022	US dollars	October	5.9%	635	635	634
Convertible bonds 2017	US dollars	September	1.0%	-	-	43
Convertible bonds 2021	US dollars	April	0.5%	86	170	162
Convertible bonds 2022	US dollars	February	0.0%	220	209	-
Bank financing	Roubles, Euro			7	14	12
Other financing	Roubles			4	7	5
				1,455	2,093	2,013

Total debt is denominated in the following currencies:

	31 December		
	2018	2017	2016
US Dollars	1,445	2,064	1,998
Euro	-	-	4
Roubles	10	29	11
	1,455	2,093	2,013

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

	31 December		
	2018	2017	2016
Less than one year	110	586	673
Between one and five years	1,344	1,506	709
After more than five years	1	1	631
	<u>1,455</u>	<u>2,093</u>	<u>2,013</u>

Reconciliation of movements of liabilities to cash flows arising from financing activities:

For the year ended 31 December 2017:

	Debt financing	Dividends payable	Other liabilities	Derivative financial liabilities (Notes 24, 26)	Total
Balance as at 31 December 2016	<u>2,013</u>	<u>6</u>	<u>19</u>	<u>106</u>	<u>2,144</u>
Cash-flows changes:	<u>(22)</u>	<u>(1,530)</u>	<u>(72)</u>	<u>12</u>	<u>(1,612)</u>
Proceeds from debt finance	1,262	-	-	44	1,306
Repayments of debt finance	(1,159)	-	-	(32)	(1,191)
Net repayments of other financing activities	-	-	(72)	-	(72)
Dividends paid	-	(1,530)	-	-	(1,530)
Interest paid	(125)	-	-	-	(125)
Foreign exchange (gain)/loss	-	(20)	-	15	(5)
Interest accrued	127	-	-	-	127
Other finance costs	17	-	-	-	17
Other equity related changes	(42)	1,550	53	-	1,561
Changes in fair value (Note 7)	-	-	-	24	24
Balance as at 31 December 2017	<u>2,093</u>	<u>6</u>	<u>-</u>	<u>157</u>	<u>2,256</u>

For the year ended 31 December 2018:

	Debt financing	Dividends payable	Derivative financial liabilities (Notes 24, 26)	Total
Balance as at 31 December 2017	<u>2,093</u>	<u>6</u>	<u>157</u>	<u>2,256</u>
Cash-flows changes:	<u>(658)</u>	<u>(1,971)</u>	<u>(12)</u>	<u>(2,641)</u>
Repayments of debt finance	(572)	-	(12)	(584)
Dividends paid	-	(1,971)	-	(1,971)
Interest paid	(86)	-	-	(86)
Foreign exchange gain	-	(6)	-	(6)
Interest accrued	74	-	-	74
Other finance costs	22	-	-	22
Other equity related changes	(76)	1,977	3	1,904
Changes in fair value and gain on disposal of financial instruments (Note 7)	-	-	(63)	(63)
Balance as at 31 December 2018	<u>1,455</u>	<u>6</u>	<u>85</u>	<u>1,546</u>

Bonds issued

In April 2016, the Group issued US\$ 200 million senior unsecured guaranteed convertible bonds maturing in 2021. The conversion rights may be exercised at any time on or after 9 June 2016. The initial conversion price was set at US\$ 13.80 per GDR. If the conversion rights are exercised, it is at the Group's discretion to determine whether to convert bonds into GDRs or to pay a cash amount as defined in the terms of the issue. This settlement option causes the conversion feature of the bond to be classified separately and measured at fair value through profit and loss, while the host liability is accounted for at amortised cost using market interest rate of 5.1% per annum at the date of the issue. The bonds bear an interest rate of 0.5% per annum, which is payable semi-annually in April and October each year, beginning in October 2016. Holders of the bonds have an option to require an early redemption of their bonds on 29 April 2019 at the principal amount plus accrued interest. The Group also has an option for early redemption, exercisable starting from 20 May 2019 provided the value of the GDRs deliverable on conversion of the bonds exceeds 130 per cent of the principal amount of the bonds for a specified period of time. The proceeds from the bonds' issuance were mainly used for general corporate purposes. During 2018 some of holders of the bonds exercised their conversion rights. As a result, as at 31 December 2018 US\$ 103 million of bonds at nominal value were redeemed.

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As at 31 December 2018, the value of conversion option of convertible bonds maturing in 2021 was US\$ 50 million and was determined with reference to the quoted market price (level 2 of the fair value hierarchy) and included in other current liabilities (Note 24) (31 December 2017: US\$ 109 million was included in other non-current liabilities; 31 December 2016: US\$ 88 million was included in other current liabilities).

In February 2017, the Group issued US\$ 250 million senior unsecured guaranteed convertible zero-coupon bonds maturing in 2022. The conversion rights may be exercised at any time on or after 29 March 2017. The initial conversion price was set at US\$ 20.33 per GDR. If the conversion rights are exercised, it is at the Group's discretion to determine whether to convert bonds into GDRs or to pay a cash amount as defined in the terms of the issue. This settlement option causes the conversion feature of the bond to be classified separately and measured at fair value through profit and loss, whilst the host liability is accounted for at amortised cost using market interest rate at 3.9% per annum at the date of the issue. Holders of the bonds have an option to require an early redemption of their bonds on 16 February 2020 at the principal amount. The Group also has an option for early redemption, exercisable starting from 9 March 2020 provided the value of the GDRs deliverable on conversion of the bonds exceeds 130 per cent of the principal amount of the bonds for a specified period of time. The proceeds from the bonds' issuance were mainly used for general corporate purposes.

As at 31 December 2018, the value of the conversion option of convertible bonds maturing in 2022 was US\$ 35 million and was determined with reference to the quoted market price (level 2 of the fair value hierarchy) and included in other non-current liabilities (Note 26) (31 December 2017: US\$ 48 million).

In February 2017, the Group issued US\$ 500 million bonds denominated in US dollars maturing in 2021. These bonds bear an interest rate of 3.85% per annum, which is payable semi-annually in February and August each year, beginning in August 2017. The proceeds from the bonds' issuance were used for general corporate purposes, including refinancing of debt that matured in 2018.

Compliance with covenants

A part of the Group's debt financing is subject to certain covenants. These covenants imply financial and operating limitations relating mostly to PAO Severstal and its material subsidiaries.

Among other things, these covenants with certain carve-outs and subject to material adverse effect where applicable, impose restrictions on encumbrances of the assets, mergers, acquisitions and reorganisation procedures, disposals of material assets, change of business, maintenance of property and insurance, payment of taxes and other claims as well as the incurrence of additional indebtedness. Financial covenants require compliance with certain financial ratios pursuant to the latest Group's consolidated financial statements. The Group complied with all debt covenants as at 31 December 2018, 2017 and 2016.

At the reporting date the Group had US\$ 1,157 million (31 December 2017: US\$ 1,072 million; 31 December 2016: US\$ 675 million) of committed unused long-term credit lines and overdraft facilities.

24. Other current liabilities

	31 December		
	2018	2017	2016
Advances received	107	161	174
Amounts payable to employees	105	120	106
Derivative financial liabilities (Note 23)	50	-	106
Provisions	19	21	9
Retirement benefit liabilities (Note 25)	6	7	6
Finance lease liabilities	6	-	-
Deferred income	-	23	31
Other payables	30	26	25
	<u>323</u>	<u>358</u>	<u>457</u>

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Provisions

The total amount of the provisions is presented in the table below:

	31 December		
	2018	2017	2016
Tax and social security claims	16	16	8
Legal claim	3	5	-
Other	-	-	1
	<u>19</u>	<u>21</u>	<u>9</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 31 December		
	2018	2017	2016
Opening balance	21	9	9
Charge to the income statement	4	12	2
Usage of provisions	(3)	-	-
Reclassified to liabilities related to assets held for sale	-	-	(3)
Translation to presentation currency	(3)	-	1
Closing balance	<u>19</u>	<u>21</u>	<u>9</u>

25. 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 compensation, healthcare benefits, life insurance and other benefits.

The current portion of retirement benefit liabilities is included in caption 'Other current liabilities'. The total amount of the retirement benefit liabilities is presented in the table below:

	31 December		
	2018	2017	2016
Current portion	6	7	6
Non-current portion	56	78	67
	<u>62</u>	<u>85</u>	<u>73</u>

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

	31 December		
	2018	2017	2016
Discount rates:			
Russia	8.9%	7.6%	8.5%
Future rates of benefit increase:			
Russia	4.1%	4.3%	4.5%

The Group's weighted average remaining life of the pensioners and employees, receiving the retirement benefits equaled to 16 years as at 31 December 2018 (31 December 2017: 17 years; 31 December 2016: 17 years).

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During 2016, the Group ceased its contract with pension fund Stalfond, which represented a US\$ 40 million pension liability of the Group. The Group held US\$ 27 million of plan assets in Stalfond, which were transferred to personal accounts of current retirees to meet its pension obligation. Pension obligation to future retirees will be settled by the charity fund Blago.

The movements in the defined benefit obligation were as follows:

	Year ended 31 December		
	2018	2017	2016
Opening balance	85	73	83
Benefits paid	(7)	(8)	(9)
Interest cost	6	6	6
Service cost* (Note 5)	(1)	1	1
Reclassified to liabilities related to assets held for sale	-	-	(2)
Settlement with Stalfond retirees	-	-	(28)
Actuarial (gains)/losses**	(6)	8	7
Translation to presentation currency	(15)	5	15
Closing balance	62	85	73

*In the year ended 31 December 2018 service cost additionally included the effect of the retirement age increase in Russia.

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

The defined benefit obligations were wholly unfunded at the years ended 31 December 2018, 2017 and 2016.

The movements in the plan assets were as follows:

	Year ended 31 December		
	2018	2017	2016
Opening balance	-	-	27
Benefits paid	-	-	(2)
Return on assets	-	-	1
Settlement with Stalfond retirees	-	-	(28)
Translation to presentation currency	-	-	2
Closing balance	-	-	-

The Group's best estimate of contributions expected to be paid to the plan in 2019 is US\$ 6 million.

The Group's retirement benefit service costs are allocated and recognised in the income statement as part of 'Cost of sales' and 'General and administrative expenses' proportionally to related salary expenses.

Interest cost and return on plan assets are recognised as part of 'Finance costs'; actuarial (gains)/losses are recognised as a separate component in other comprehensive income.

26. Other non-current liabilities

	31 December		
	2018	2017	2016
Finance lease liabilities	67	-	-
Decommissioning liabilities	62	76	76
Derivative financial liabilities (Note 23)	35	157	-
Amounts payable to employees	5	5	6
Deferred income	3	7	31
Other liabilities	4	-	11
	176	245	124

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Decommissioning liabilities

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of its mines and production facilities. These costs are expected to be incurred between 2023 – 2051. The present value of expected cash outflows was estimated using existing technology, and discounted using a real discount rate. These rates are as follows:

	Discount rates, %		
Severstal Resources:	2018	2017	2016
Russia	4.1 - 5.3	2.8 - 5.6	3.3 - 4.7

The movements in the decommissioning liabilities were as follows:

	Year ended 31 December		
	2018	2017	2016
Opening balance	76	76	67
Change in assumptions	(8)	(9)	(13)
Interest cost	6	5	7
Translation to presentation currency	(12)	4	15
Closing balance	62	76	76

The change in assumptions related to changes in the discount rate and re-scheduling of the decommissioning of Olcon in 2018, Vorkutaugol in 2017 and 2016.

Finance lease liabilities

	Less than 1 year	1-5 years	More than 5 years
Future minimum lease payments	6	23	63
Less interest	-	(2)	(17)
Present value of minimum lease payments	6	21	46

27. Shareholders' equity

Share Capital

The Parent Company's share capital consists of ordinary shares with a nominal value of RUB 0.01 each. The authorised share capital of Severstal as at 31 December 2018, 2017 and 2016 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 24 September 1993 and sold by the Government at privatisation auctions.

The total value of issued share capital presented in these consolidated financial statements as at 31 December 2018, 2017 and 2016 comprised 837.7 million shares and amounted to US\$ 2,753 million.

All shares carry equal voting and distribution rights.

Reconciliation between weighted average number of shares in issue and weighted average number of shares outstanding during the period (millions of shares):

	Year ended 31 December		
	2018	2017	2016
Weighted average number of shares in issue	837.7	837.7	837.7
Weighted average number of treasury shares	(20.6)	(26.0)	(27.1)
Weighted average number of shares outstanding during the period	817.1	811.7	810.6

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Earnings per share

In 2017 the Group issued US\$ 250 million convertible bonds and in 2016 issued US\$ 200 million convertible bonds (Note 23), which had an effect on earnings per share as demonstrated below:

	Year ended 31 December		
	2018	2017	2016
Profit for the period attributable to shareholders of PAO Severstal	2,051	1,356	1,621
Adjustments related to convertible bonds, net of tax	46	22	53
Adjusted profit for the period attributable to shareholders of PAO Severstal	2,097	1,378	1,674
Basic weighted average number of shares outstanding during the period (millions of shares)	817.1	811.7	810.6
Effect on conversion of convertible bonds (millions of shares)	30.6	30.4	14.5
Diluted/adjusted weighted average number of shares outstanding during the period (millions of shares)	847.7	842.1	825.1
Basic earnings per share (US dollars)	2.51	1.67	2.00
Diluted/adjusted earnings per share (US dollars)	2.47	1.64	2.03

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.

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

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

On 2 December 2016, an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 24.96 (US\$ 0.39 as at 2 December 2016 exchange rate) per share and per GDR for the nine months of the year ended 31 December 2016.

On 9 June 2017, the Meeting of Shareholders approved an annual dividend of RUB 27.73 (US\$ 0.49 at 9 June 2017 exchange rate) per share and per GDR for the year ended 31 December 2016 and an interim dividend of RUB 24.44 (US\$ 0.43 at 9 June 2017 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2017.

On 15 September 2017, an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 22.28 (US\$ 0.39 at 15 September 2017 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2017.

On 24 November 2017, an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 35.61 (US\$ 0.61 at 24 November 2017 exchange rate) per share and per GDR for the first nine months of the year ended 31 December 2017.

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On 8 June 2018, the Meeting of Shareholders approved an annual dividend of RUB 27.72 (US\$ 0.45 at 8 June 2018 exchange rate) per share and per GDR for the year ended 31 December 2017 and an interim dividend of RUB 38.32 (US\$ 0.62 at 8 June 2018 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2018.

On 14 September 2018, an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 45.94 (US\$ 0.67 at 14 September 2018 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2018.

On 23 November 2018, an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 44.39 (US\$ 0.68 at 23 November 2018 exchange rate) per share and per GDR for the first nine months of the year ended 31 December 2018.

28. Assets held for sale

Redaelli Tecna S.p.A.

The Group's assets held for sale represent Redaelli Tecna S.p.A., the Group's subsidiary, that was classified as held for sale as at 31 December 2016.

The major classes of assets and liabilities of Redaelli Tecna S.p.A. measured at the lower of carrying amount and fair value less costs to sell determined based on price offer available as at 31 December 2016.

The loss on remeasurement of Redaelli Tecna S.p.A. to fair value less costs to sell recognised in 2016 was allocated as follows: US\$ 5 million to property, plant and equipment and US\$ 25 million to goodwill.

The major classes of assets and liabilities of Redaelli Tecna S.p.A. measured at the lower of carrying amount and fair value less costs to sell as at 31 December 2018, 2017 and 2016 were as follows:

	31 December		
	2018	2017	2016
Current assets:			
Cash and cash equivalents	-	-	1
Trade accounts receivable	-	-	23
Inventories	-	-	21
Income tax receivable	-	-	2
Other current assets	-	-	4
Total current assets	-	-	51
Non-current assets:			
Property, plant and equipment	-	-	31
Total non-current assets	-	-	31
Total assets	-	-	82
Current liabilities:			
Trade accounts payable	-	-	12
Short-term debt finance	-	-	2
Other taxes and social security payable	-	-	2
Other current liabilities	-	-	6
Total current liabilities	-	-	22
Non-current liabilities:			
Long-term debt finance	-	-	8
Deferred tax liabilities	-	-	3
Retirement benefit liabilities	-	-	2
Other non-current liabilities	-	-	3
Total non-current liabilities	-	-	16
Total liabilities	-	-	38

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29. 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	31 December			Location	Activity
	2018	2017	2016		
Severstal Russian Steel segment:					
<i>Subsidiaries:</i>					
Severstal TPZ-Sheksna LLC	100.0%	100.0%	100.0%	Russia	Steel constructions
AO Severstal Steel Solutions	100.0%	100.0%	100.0%	Russia	Steel constructions
AO Severstal LPM Balakovo	100.0%	100.0%	100.0%	Russia	Iron & steel mill
SSM-Tyazhmash LLC	n/a	n/a	100.0%	Russia	Repairs & Construction
JSC Domnaremont	100.0%	100.0%	100.0%	Russia	Repairs & Construction
Severstal-Proekt LLC	100.0%	100.0%	100.0%	Russia	Repairs & Construction
Aircompany Severstal Ltd	100.0%	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	100.0%	100.0%	100.0%	Switzerland ¹	Steel sales
SIA Severstal Distribution	100.0%	100.0%	100.0%	Latvia ¹	Steel sales
AS Latvijas Metals	100.0%	100.0%	100.0%	Latvia ¹	Steel sales
Severstal Distribution Spz o.o	100.0%	100.0%	100.0%	Poland ¹	Steel sales
ZAO Severstal Distribution	100.0%	100.0%	100.0%	Belarus ¹	Steel sales
Severstal Distribution LLC	100.0%	100.0%	100.0%	Ukraine ¹	Steel sales
AO Neva-Metall	100.0%	100.0%	100.0%	Russia	Shipping operations
Upcroft Limited	100.0%	100.0%	100.0%	Cyprus	Holding company
Baracom Limited	n/a	n/a	100.0%	Cyprus	Holding company
CJSC Vtorchermet	85.6%	85.6%	85.6%	Russia	Processing scrap
JSC Arhangelski Vtormet	75.0%	75.0%	75.0%	Russia	Processing scrap
AO Severstal Distribution	100.0%	100.0%	100.0%	Russia	Metal sales
AO Izhora Pipe Mill	100.0%	100.0%	100.0%	Russia	Wide pipes
JSC Severstal-Metiz	100.0%	100.0%	100.0%	Russia	Steel machining
PJSC Dneprometiz	n/a	n/a	98.7%	Ukraine	Steel machining
Redaelli Tecna S.p.A.	n/a	n/a	100.0%	Italy	Steel machining
UniFence LLC	100.0%	100.0%	100.0%	Russia	Steel machining
Lybica Holding B.V.	n/a	n/a	100.0%	The Netherlands	Holding company
Lybica Capital B.V.	n/a	n/a	100.0%	The Netherlands	Holding company
Abigrove Limited	100.0%	100.0%	100.0%	Cyprus	Holding company
<i>Associates:</i>					
AO Air Liquide Severstal	25.0%	25.0%	25.0%	Russia	Production of liquid oxygen
Iron Mineral Beneficiation Services (Proprietary) Ltd	50.0%	38.7%	33.2%	Republic of South Africa	Research & investing
<i>Joint ventures:</i>					
Rutgers Severtar LLC	34.7%	34.7%	34.7%	Russia	Production of vacuum pitch
Todlem S.L.	25.0%	25.0%	25.0%	Spain	Holding company
Severstal-Gonvarri-Kaluga LLC	50.0%	50.0%	50.0%	Russia	Iron & steel mill
Gestamp-Severstal-Kaluga LLC	25.0%	25.0%	25.0%	Russia	Production car body components
Gestamp Severstal Vsevolozhsk LLC	25.0%	25.0%	25.0%	Russia	Production car body components
WRS Towers LLC	24.5%	n/a	n/a	Russia	Engine and turbine production
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
SPB-Giproshakht Limited	100.0%	100.0%	100.0%	Russia	Engineering
Mining Holding Company LLC	100.0%	100.0%	100.0%	Russia	Holding company
LLC Metal-group ²	0.0%	0.0%	n/a	Russia	Iron ore
AO YaGOK	100.0%	n/a	n/a	Russia	Iron ore

¹ – Severstal Russian Steel segment contains foreign trading companies, which sell products primarily produced in Russia.

² – Note 29, Acquisition of rights.

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In addition, at the reporting date, a further 28 (31 December 2017: 29; 31 December 2016: 30) subsidiaries, associates and joint ventures, which are not material to the Group, either individually or in aggregate, have been included in these consolidated financial statements.

Information on carrying amounts of associates and joint ventures is disclosed in Note 20 of these consolidated financial statements.

Disposal of subsidiary (other than discontinued operation)

PBS Coals Ltd

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

Redaelli Tecna S.p.A.

In April 2017, the Group sold its 100% stake in Redaelli Tecna S.p.A. to a third party for consideration of EUR 37 million (US\$ 40 million, at the transaction date exchange rate).

The loss on the disposal of US\$ 43 million was recognised in these consolidated financial statements as part of net other non-operating expenses and mostly comprised Redaelli Tecna S.p.A.'s accumulated foreign exchange translation reserves as at the disposal date.

PJSC Dneprometiz

In October 2017, the Group sold its 98.7% stake in PJSC Dneprometiz to a third party for a total consideration of US\$ 10 million.

The loss on the disposal of US\$ 29 million was recognised in these consolidated financial statements as part of net other non-operating expenses and mostly comprised Dneprometiz's accumulated foreign exchange translation reserves as at the disposal date.

A summary of assets and liabilities disposed during 2018, 2017 and 2016 is presented below:

	Year ended 31 December		
	2018	2017	2016
Cash and cash equivalents	-	(4)	-
Trade accounts receivable	-	(4)	-
Inventories	-	(4)	-
Other current assets	-	(3)	-
Property, plant and equipment	-	(3)	-
Long-term financial investments	-	(1)	-
Other non-current assets	-	(1)	-
Assets held for sale	-	(89)	-
Trade accounts payable	-	5	-
Other current liabilities	-	1	-
Liabilities related to assets held for sale	-	44	-
Net identifiable assets	-	(59)	-
Translation to presentation currency - foreign operations*	-	(61)	49
Consideration in cash	-	50	3
Selling costs paid in cash	-	(2)	-
Net (loss)/gain on disposal (Note 10)	-	(72)	52
Less cash of disposed entity	-	(6)	-
Net change in cash and cash equivalents	-	42	3

* These amounts included foreign exchange translation reserves of disposed foreign subsidiaries reclassified to profit or loss from other comprehensive (loss)/income.

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Acquisitions of rights

In July 2017, the Group acquired rights from a third party to claim debt obligations of LLC Metal-group for a total consideration of 6 billion roubles (US\$ 101 million at the transaction date exchange rate). Debt obligations were secured by 100% of LLC Metal-group's participation rights and property.

In November 2017, the Group obtained the ability to exercise its legal rights arisen from acquired rights to claim debt obligations to direct relevant activities of LLC Metal-group and consequently consolidated LLC Metal-group's net assets. As a result, a gain from a bargain purchase of US\$ 135 million was recognised in the consolidated income statement.

The gain represented the difference between LLC Metal-group's amounts of identifiable net assets of US\$ 236 million, excluding loan payable which was eliminated on consolidation as an intercompany balance, over which the Group obtained control, and consideration paid of US\$ 101 million on acquisition of rights for loans, accrued interest and penalties amounted of US\$ 344.9 million (19.9 billion roubles at 31 December 2017 exchange rate).

LLC Metal-group is a mining company based in Russian Federation, which owns and operates iron ore deposits. LLC Metal-group revenue and net loss from the beginning of the period to the consolidation date comprised US\$ 33 million and US\$ 10 million, respectively. The revenue and net loss since the consolidation date included in the Group's profit for the year ended 31 December 2017 amounted to US\$ 4 million and US\$ 6 million, respectively.

A summary of identifiable assets and liabilities of investee is presented below:

	Year ended 31 December		
	2018	2017	2016
Cash and cash equivalents	-	1	-
Trade accounts receivable	-	2	-
VAT recoverable	-	1	-
Inventories	-	5	-
Other current assets	-	3	-
Property, plant and equipment	-	255	-
Trade accounts payable	-	(1)	-
Other taxes and social security payable	-	(2)	-
Other current liabilities	-	(6)	-
Deferred tax liabilities	-	(22)	-
Net identifiable assets and liabilities acquired	-	236	-
Consideration in cash	-	(101)	-
Gain from a bargain purchase	-	135	-
Net change in cash and cash equivalents	-	(100)	-

In November 2018, the Group completed the purchase price allocation of the mining company with no effect on these consolidated financial statements.

30. Segment information

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

	Severstal Resources	Severstal Russian Steel	Inter - segment balances	Conso- lidated
Balances as at 31 December 2018				
Total assets	3,055	5,688	(2,869)	5,874
Total liabilities	780	3,193	(978)	2,995
Balances as at 31 December 2017				
Total assets	3,755	7,342	(3,888)	7,209
Total liabilities	1,094	4,770	(2,053)	3,811
Balances as at 31 December 2016				
Total assets	3,891	7,620	(5,028)	6,483
Total liabilities	1,202	3,769	(1,529)	3,442

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The following is an analysis of the Group's revenue and a reconciliation of profit from operations to EBITDA by segments:

Twelve months ended 31 December 2018:

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Revenue	1,908	7,803	(1,131)	8,580
Profit from operations	872	1,877	(42)	2,707
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	137	268	-	405
Loss on disposal of property, plant and equipment and intangible assets	7	16	-	23
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	6	1	7
EBITDA	<u>1,016</u>	<u>2,167</u>	<u>(41)</u>	<u>3,142</u>
Additional information:				
capital expenditures	301	509	-	810
intersegment revenue	1,061	70	(1,131)	-

Twelve months ended 31 December 2017:

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Revenue	1,727	7,182	(1,061)	7,848
Profit from operations	677	1,482	3	2,162
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	134	268	1	403
Loss on disposal of property, plant and equipment and intangible assets	1	2	-	3
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	9	-	9
EBITDA	<u>812</u>	<u>1,761</u>	<u>4</u>	<u>2,577</u>
Additional information:				
capital expenditures	250	331	-	581
intersegment revenue	995	66	(1,061)	-

Twelve months ended 31 December 2016:

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Revenue	1,154	5,426	(664)	5,916
Profit from operations	235	1,311	(29)	1,517
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	115	227	-	342
Loss on disposal of property, plant and equipment and intangible assets	47	5	-	52
EBITDA	<u>397</u>	<u>1,543</u>	<u>(29)</u>	<u>1,911</u>
Additional information:				
capital expenditures	229	321	-	550
intersegment revenue	609	55	(664)	-

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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

The following is a summary of non-current assets other than financial instruments, investments in associates and joint ventures and deferred tax assets by location:

	31 December		
	2018	2017	2016
Russian Federation	3,672	3,928	3,334
Europe and CIS	13	15	22
	<u>3,685</u>	<u>3,943</u>	<u>3,356</u>

In Europe and CIS the locations are primarily represented by the following countries:

- 31 December 2018: Latvia and Poland;
- 31 December 2017: Latvia and Poland;
- 31 December 2016: Latvia, Ukraine and Poland.

31. Financial instruments

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

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

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

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for the following borrowings:

	31 December 2018		
	Market value	Book value	Difference
Eurobonds 2021	489	503	(14)
Eurobonds 2022	653	635	18
Convertible bonds 2021	142	136	6
Convertible bonds 2022	249	255	(6)
	<u>1,533</u>	<u>1,529</u>	<u>4</u>
	31 December 2017		
	Market value	Book value	Difference
Eurobonds 2018	558	555	3
Eurobonds 2021	512	503	9
Eurobonds 2022	704	635	69
Convertible bonds 2021	288	279	9
Convertible bonds 2022	267	257	10
	<u>2,329</u>	<u>2,229</u>	<u>100</u>
	31 December 2016		
	Market value	Book value	Difference
Eurobonds 2017	615	602	13
Eurobonds 2018	558	555	3
Eurobonds 2022	676	634	42
Convertible bonds 2017	48	43	5
Convertible bonds 2021	254	249	5
	<u>2,151</u>	<u>2,083</u>	<u>68</u>

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

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position and guarantees (Note 32e).

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 allocates each exposure to a credit risk based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, and available press information about customers) and applying experienced credit judgement.

Expected credit loss rate is calculated for accounts receivable based on delinquency status and actual credit loss experience over the past three years.

The Group has developed policies and procedures for the management of credit exposure, including the establishment of a credit committee that actively monitors credit risk.

Additionally, in order to minimise credit risk of the counterparty banks, the analysis is carried out in respect of banks financial stability, and a quarterly review of the risks limits for banks with subsequent following the Group's operations within those established limits.

The maximum exposure to credit risk for financial instruments, including accounts receivable from related parties, was:

	31 December		
	2018	2017	2016
Loans and receivables	621	663	571
Cash and cash equivalents	228	1,031	1,154
Financial assets at FVTOCI	3	205	205
	<u>852</u>	<u>1,899</u>	<u>1,930</u>

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

	31 December		
	2018	2017	2016
Russian Federation	363	388	340
Europe	136	155	86
The Middle East	29	26	40
China and Central Asia	17	-	-
CIS	13	17	12
Africa	12	11	21
Central and South America	1	1	4
North America	-	14	3
	<u>571</u>	<u>612</u>	<u>506</u>

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

	31 December		
	2018	2017	2016
Industrial consumers	347	391	361
Wholesale customers	183	195	120
Retail customers	3	1	1
Other customers	38	25	24
	<u>571</u>	<u>612</u>	<u>506</u>

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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

Concentration of credit risk

2018

The Group has a concentration of cash and short-term bank deposits with Sberbank of Russia and PJSC Bank VTB as at 31 December 2018 of US\$ 91 million, US\$ 68 million, respectively.

2017

The Group has a concentration of cash and short-term bank deposits with Sberbank of Russia of US\$ 907 million at 31 December 2017.

2016

The Group has a concentration of cash and short-term bank deposits with Sberbank of Russia and PJSC Bank VTB of US\$ 714 million and US\$ 316 million, respectively at 31 December 2016.

Impairment losses

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

	31 December					
	2018		2017		2016	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
Not past due	532	-	605	(37)	516	(38)
Past due less than 30 days	35	-	27	-	19	-
Past due 31-90 days	4	(1)	13	(1)	10	(1)
Past due 91-180 days	2	(1)	2	(1)	2	(2)
Past due 181-365 days	39	(39)	5	(1)	4	(4)
More than one year	29	(29)	41	(41)	37	(37)
	<u>641</u>	<u>(70)</u>	<u>693</u>	<u>(81)</u>	<u>588</u>	<u>(82)</u>

The movement in allowance for impairment in respect of trade receivables, including trade receivables from related parties, during the years was as follows:

	Year ended 31 December		
	2018	2017	2016
Opening balance	(81)	(82)	(72)
Impairment loss recognised	(4)	(5)	(19)
Impairment loss reversed	8	8	16
Reclassified to assets held for sale	-	-	2
Translation to presentation currency	7	(2)	(9)
Closing balance	<u>(70)</u>	<u>(81)</u>	<u>(82)</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.

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 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 both short-term and long-term financing needs. This enables the Group to maintain an appropriate level of liquidity and financial capacity and to minimise borrowing costs and achieve an optimal debt profile.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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

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

31 December 2018

	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	1,455	(1,692)	(162)	(307)	(1,223)	-
Trade and other payables	600	(600)	(600)	-	-	-
Finance lease liabilities	73	(69)	(6)	(6)	(14)	(43)
	<u>2,128</u>	<u>(2,361)</u>	<u>(768)</u>	<u>(313)</u>	<u>(1,237)</u>	<u>(43)</u>

31 December 2017

	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	2,093	(2,425)	(634)	(59)	(1,731)	(1)
Trade and other payables	592	(592)	(592)	-	-	-
	<u>2,685</u>	<u>(3,017)</u>	<u>(1,226)</u>	<u>(59)</u>	<u>(1,731)</u>	<u>(1)</u>

31 December 2016

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	2,013	(2,334)	(754)	(599)	(315)	(666)
Trade and other payables	524	(524)	(524)	-	-	-
	<u>2,537</u>	<u>(2,858)</u>	<u>(1,278)</u>	<u>(599)</u>	<u>(315)</u>	<u>(666)</u>

As at 31 December 2018, 2017 and 2016, the Group had no significant bank financing.

Covenant compliance risk

The Group actively monitors compliance with all debt covenants. In case of the risk of default, the Group uses its best effort to avoid or remedy (as the case may be) relevant default and seeks to approach the lenders as soon as possible in order to amend the respective facility agreement or waive a possible default, as the case may be (Note 23).

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.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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

The Group's exposure to foreign currency risk was as follows:

	31 December 2018	
	Euro	USD
Cash and cash equivalents	146	10
Loans and receivables	851	523
Debt finance	(500)	(1,934)
Trade and other payables	(209)	(41)
Derivative financial liabilities	-	(85)
Net exposure	288	(1,527)

	31 December 2017	
	Euro	USD
Financial assets at FVTOCI	4	198
Cash and cash equivalents	12	966
Loans and receivables	342	1,127
Debt finance	(124)	(2,942)
Trade and other payables	(123)	(212)
Derivative financial liabilities	-	(157)
Net exposure	111	(1,020)

	31 December 2016	
	Euro	USD
Financial assets at FVTOCI	-	191
Cash and cash equivalents	34	875
Loans and receivables	1,396	287
Debt finance	(1,969)	(2,324)
Trade and other payables	(96)	(166)
Derivative financial liabilities	-	155
Net exposure	(635)	(982)

Sensitivity analysis

A 10 percent strengthening of the following currencies against the functional currency as at 31 December 2018 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 2017 and 2016.

	Year ended 31 December		
	2018	2017	2016
Net profit			
Euro	26	9	(25)
USD	(121)	(79)	(79)

A 10 percent weakening of these currencies against the functional currency as at 31 December 2018 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 commodity price risk.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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

Interest rate risk

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

The Group's interest-bearing financial instruments at variable rates were:

	31 December		
	2018	2017	2016
Variable rate instruments			
Financial assets	-	5	6
Financial liabilities	(7)	(13)	(12)
	<u>(7)</u>	<u>(8)</u>	<u>(6)</u>

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

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would not have significant effect on profit and equity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017 and 2016.

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The levels in the fair value hierarchy into which the fair value measurements are categorised were disclosed in accordance with IFRS.

	Level 1	Level 2	Level 3	Total
Balance as at 31 December 2018	-	(85)	3	(82)
Financial assets at FVTOCI	-	-	3	3
Derivative financial liabilities (Note 23)	-	(85)	-	(85)
Balance as at 31 December 2017	202	(157)	3	48
Financial assets at FVTOCI	202	-	3	205
Derivative financial liabilities (Note 23)	-	(157)	-	(157)
Balance as at 31 December 2016	202	(106)	3	99
Financial assets at FVTOCI	202	-	3	205
Derivative financial liabilities	-	(106)	-	(106)

Financial assets at fair value through other comprehensive income presented in Level 1 included mainly bonds quoted on an active market.

The description of the levels is presented below:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 – inputs for the asset or liability that are not based on observable market data.

32. Commitments and contingencies

a. For litigation, tax and other liabilities

The taxation system and regulatory environment of the Russian Federation are characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations between the differing regulatory authorities and jurisdictions, who are empowered to impose significant fines, penalties and interest charges. Events during recent years suggest that the regulatory authorities within this country are adopting a more assertive stance regarding the interpretation and enforcement of legislation. This situation creates substantial tax and regulatory risks. In addition, a number of new laws introducing changes to Russian tax legislation were adopted in the

PAO Severstal and subsidiaries

Notes to the consolidated financial statements for the years ended 31 December 2018, 2017 and 2016

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

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 amounts of 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\$ 1 million (31 December 2017: US\$ 2 million, 31 December 2016: US\$ 400 million) and management believes it made adequate provisions for other probable tax claims. 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.

In 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\$ 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.

The judge of the first instance court reduced the amount of the claw-back claim in its decision of 25 May 2018 to US\$ 86 million (31 December 2017: US\$ 142 million, 31 December 2016: US\$ 142 million). Management did not agree both with this claim and the judgement of the first instance court and appealed against the court decision on 18 July 2018. The hearing is scheduled on 28 April 2020. The Group and its legal advisors believe that there are strong grounds in support of the Group's position, however, the group is unable to assess the ultimate outcome of the claim, including the outflow of the financial resources to settle the claim, if any, because it depends on multiple circumstances concerning the facts and the applicability and interpretation of the relevant statutes. In case the Group has to make any payment, the relevant amount paid will be included in Lucchini's creditors' list and will be settled in the course of the bankruptcy procedure.

b. Long-term purchase contracts

In the normal course of business group companies enter into long-term purchase contracts for raw materials. 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\$ 247 million (31 December 2017: US\$ 271 million; 31 December 2016: US\$ 216 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\$ nil (31 December 2017: US\$ nil; 31 December 2016: US\$ 2 million) of guarantees issued, including guarantees issued for related parties, of US\$ nil (31 December 2017: US\$ nil; 31 December 2016: US\$ 1 million).

Steel Capital S.A.
société anonyme

Annual Accounts
for the year ended 31 December 2018

Registered office:
14, rue Edward Steichen
L-2540 Luxembourg
R.C.S. Luxembourg B 116.975

Steel Capital S.A.
société anonyme
Registered office: 14, rue Edward Steichen
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R.C.S. Luxembourg B 116.975
(the "Company")

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Steel Capital S.A.*société anonyme*

Registered office: 14, rue Edward Steichen

L-2540 Luxembourg

R.C.S. Luxembourg B 116.975

(the "Company")

Directors and Other Information**Directors**

Tarvesh Kumar Panchoo (as from 11 April 2019)
 Laura Schlag (as from 11 April 2019)
 Eric-Jan Van de Laar (as from 31 August 2018 until
 10 April 2019)
 Beata Wlodarczak-Mantione (as from 31 August 2018 until
 10 April 2019)
 Agnieszka Szczepankiewicz (as from 10 January 2019)
 Elchin Balajayev (as from 15 August 2018 until 10 January 2019)
 Graeme Jenkins (until 31 August 2018)
 Ingrida Lunyte (until 31 August 2018)
 Kailash Ramassur (until 15 August 2018)

Corporate Administrator (until 15 July 2018)

Deutsche Bank Luxembourg S.A.
 2, boulevard Konrad Adenauer
 L-1115 Luxembourg
 Grand Duchy of Luxembourg

Corporate Administrator (as from 15 July 2018)

Vistra (Luxembourg) S.à r.l.
 14, rue Edward Steichen,
 L-2540 Luxembourg

Principal Banker

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 2, boulevard Konrad Adenauer
 L-1115 Luxembourg
 Grand Duchy of Luxembourg

Lead Manager

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 33, Canada Square
 Canary Wharf
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Joint Lead Managers

Citigroup Global Markets Limited
 Citigroup Centre
 33, Canada Square
 Canary Wharf
 London E14 5LB, United Kingdom

J.P. Morgan Securities PLC
 25, Bank Street
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 United Kingdom

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R.C.S. Luxembourg B 116.975
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Directors and Other Information (*Continued*)

Principal Paying Agent and Trustee

Citibank, N.A., London Branch
Citigroup Centre
33, Canada Square
Canary Wharf
London E14 5LB, United Kingdom

Trustee

Citibank, N.A., London Branch
Citigroup Centre
33, Canada Square
Canary Wharf
London E14 5LB, United Kingdom

Auditor

PricewaterhouseCoopers, Société coopérative
2, rue Gerhard Mercator, B.P. 1443
L-1014 Luxembourg
Grand Duchy of Luxembourg

Steel Capital S.A.
société anonyme
Registered office: 14, rue Edward Steichen
L-2540 Luxembourg
Capital: EUR 31,000.--
(the "Company")

Directors' Report for the year ended 31 December 2018

The Directors present their Report and the Annual Accounts for the year ended 31 December 2018.

1. ACTIVITIES AND REVIEW OF THE DEVELOPMENT OF THE BUSINESS

Steel Capital S.A. is a Luxembourg Company incorporated on 11 May 2006, for an unlimited duration, as a «société anonyme» and is subject to the Luxembourg law of 10 August 10, 1915 on commercial companies, as subsequently amended.

The Company's principal activity is to issue loan participation notes (the "Notes") for the purpose of financing loans to Open Joint Stock Company Severstal (the "Loans") and to its affiliated companies (together referred to as PAO Severstal).

The Company has been performing in line with the agreements and all loans servicing for the interest payments were done on a timely basis, the corresponding payments to Notesholders were also made.

On 19 March 2018, the Loan Participation Notes due 2018 of USD 548,620,000 4.45% matured on the scheduled date and the corresponding loan were fully repaid.

As at 31 December 2018, the Company had 2 active Series in issue.

During the year ended 31 December 2018, the Company did not exercise any research and development activity, neither have a branch nor acquire its own shares.

2. BUSINESS REVIEW

During the year:

- The Company made no profit or loss (2017: EUR NIL);
- There were no credit events that affected the Company.

As at 31 December 2018:

- The Company's net equity was EUR 31,000 (2017: EUR 31,000);
- The Company's total indebtedness was EUR 1,002,001,473 (2017: EUR 1,419,370,414);
- The Company had the following Notes in issue:
 - (i) USD 634,051,000 5.90% Loan Participation Notes due on 2022 (EUR 552,993,920)
 - (ii) USD 500,000,000 3.85% Loan Participation Notes due on 2021 (EUR 436,080,000)

3. FUTURE DEVELOPMENTS

The Directors expect the present level of activity to be sustained for the foreseeable future.

Steel Capital S.A.
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Capital: EUR 31,000.--
(the "Company")

Directors' Report
for the year ended 31 December 2018
(continued)

4. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Company relate to Other loans and other assets held for risk management purposes.

The Company has exposure to the following risks from its use of financial instruments and does not have any externally imposed capital requirements.

(i) Credit risk

Credit risk is the risk of the financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's credit linked assets. The Company's principal financial assets are other loans, cash at bank and in hand, and other debtors which represent the Company's maximum exposure to credit risk in relation to the Notes issued.

The Loans provided involve a degree of risk arising from fluctuations in the amount and timing of receipt of the principal and interest on the loan and the amounts payable to the Noteholders. The risk of default on the assets is borne by the Noteholders as the Notes are issued on a limited recourse basis. Therefore, the Company is not obliged to pay any additional amount to the Noteholders other than the amount receivable on the loans.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations arising from its financial liabilities as they fall due.

The Company's obligation to the Noteholders is limited to the net proceeds upon realisation of the loan towards PAO Severstal. Should the net proceeds be insufficient to make all payments due in respect of the Notes, the other assets of the Company will not be available for payment and the deficit is instead borne by the Noteholders.

The Company does not face major liquidity risk since it is obliged to make payments to the Noteholders in an amount and currency equal to the amount and currency actually received from the Company. Liquidity risk is also limited since in consideration of the Company agreeing to make Loans to PAO Severstal, the latter shall pay on demand to the Lender as and when such amounts are due an amount equal to all ongoing fees and costs in accordance with the Loan arrangement fee of the Facility Agreement 15 March 2013.

(iii) Market risk

Market risk is the risk that changes in market prices, foreign exchange rates and interest rates will affect the Company's income or its value of its holdings of financial instruments. Market risk embodies the potential for both gains and losses and includes interest rate risk, currency risk and price risk.

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Capital: EUR 31,000.--
(the "Company")

Directors' Report
for the year ended 31 December 2018
(continued)

4. PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

(iii) Market risk *(continued)*

(a) Interest rate risk

Interest rate risk is the risk that the Company does not receive adequate interest from the Loan to secure interest payments on the Notes. The Company is not exposed to any interest risk since both the Loans and Note bears the same terms and conditions.

Any default towards the interest receivable on the Loans will be borne by the Noteholders as the Notes are issued on a limited recourse basis.

(b) Currency risk

Currency risk is the risk which arises due to the assets and liabilities of the Company held in foreign currencies, which will be affected by fluctuations in foreign exchange rates. The Company limits its exposure to currency risk by operating bank accounts in currencies other than its presentation currency for receipts and payments in currencies other than its presentation currencies. The Company is exposed to movement in exchange rates between Euro (EUR), its presentation currency, and certain foreign currencies namely US Dollar ("USD").

The Company does not face any major currency risk since all the Notes issued by the Company are held in the same currency as the investment in the Loans. In this case any fluctuation in foreign exchange rates will be offset by each other, therefore, the Company bears limited currency risk.

(c) Price risk

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Company does not consider price risk to be a significant risk to the Company as any fluctuation in the value of loans held by the Company will be borne by the Noteholders.

5. RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The results for the year are set out on page 12. The Company did not make any profit or loss during the year (2017:NIL).

6. DIRECTORS AND THEIR INTERESTS

The Directors who held office on 31 December 2018 did not hold any shares in the Company or in any group company at that date, or during the year. There were no contracts of any significance in relation to the business of the Company in which the Directors had any interest at any time during the year.

Steel Capital S.A.
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Registered office: 14, rue Edward Steichen
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Capital: EUR 31,000.--
(the "Company")

Directors' Report
for the year ended 31 December 2018
(continued)

7. CORPORATE GOVERNANCE STATEMENT

The Company is subject to and complies with the amended law of 10 August 1915 on commercial companies and the Listing Rules of the Irish Stock exchange. The Company does not apply additional requirements in addition to those required by the above. Each of the service providers engaged by the Company is subject to their own corporate governance requirements.

Financial Reporting Process

The Board of Directors ("the Board") is responsible for establishing and maintaining adequate internal control and risk management systems of the Company in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Company's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. These include appointing the Administrator, Vistra (Luxembourg) S.à r.l., to maintain the accounting records of the Company independently of the Arranger and the Custodian. The Administrator is contractually obliged to maintain proper books and records as required by the Corporate Administration agreement. To that end the Administrator performs reconciliations of its records to those of the Arranger and the Custodian. The Administrator is also contractually obliged to prepare for review and approval by the Board the Annual Accounts intended to give a true and fair view.

The Board evaluates and discusses significant accounting and reporting issues as the need arises. From time to time the Board also examines and evaluates the external auditors' performance, qualifications and independence. The Administrator has operating responsibility for internal control in relation to the financial reporting process and the Administrator's report to the Board.

Risk Assessment

The Board is responsible for assessing the risk of irregularities whether caused by fraud or error in financial reporting and ensuring the processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting. The Board has also put in place processes to identify changes in accounting rules and recommendations and to ensure that these changes are accurately reflected in the Company's Annual Accounts.

Control Activities

The Administrator is contractually obliged to design and maintain control structures to manage the risks which are significant for internal control over financial reporting. These control structures include appropriate division of responsibilities and specific control activities aimed at detecting or preventing the risk of significant deficiencies in financial reporting for every significant account in the Annual Accounts and the related notes in the Company's accounts.

Monitoring

The Board has an annual process to ensure that appropriate measures are taken to consider and address the shortcomings identified and measures recommended by the independent auditors.

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Directors' Report
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(continued)

7. CORPORATE GOVERNANCE STATEMENT (Continued)

Monitoring (continued)

Given the contractual obligations on the Administrator, the Board has concluded that there is currently no need for the Company to have a separate internal audit function in order for the board to perform effective monitoring and oversight of the internal control and risk management systems of the Company in relation to the financial reporting process.

Capital Structure

No person has a significant direct or indirect holding of securities in the Company. No person has any special rights of control over the Company's share capital.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the amended law of 10 August 1915 on commercial companies, as amended, and the Listing Rules of the Irish Stock Exchange. The Articles of Association themselves may be amended by special resolution of the shareholders.

Powers of Directors

The Board is responsible for managing the business affairs of the Company in accordance with the Articles of Association. The Directors may delegate certain functions to other parties, subject to the supervision and direction by the Directors.

8. SUBSEQUENT EVENTS

There were no significant events since 31 December 2018, which could influence the presentation of the current Annual Accounts.

9. AUDIT COMMITTEE

Based on Article 1 (20) and Article 52 of the Law of 23 July 2016 concerning the audit profession, the Company is classified as public-interest entity and required to establish an audit committee. However, the Company's sole business is to act as issuer of asset-backed securities as defined in Article 52 5(c) Therefore, it is exempted from the audit committee obligation. The Company has concluded that the establishment of a dedicated audit committee is neither necessary nor appropriate for the nature and extend of the Company's business which consists merely of an interest in assets to which the limited recourse Notes issued are linked.

The Board of Directors,

Luxembourg

Agnieszka Szczepankiewicz
Director



Tarvesh Kumar Panchoo
Director



03. 05. 2019

Annual Accounts Helpdesk :

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RCSL Nr. : B 116 975

Matricule : 2006 2214 261

BALANCE SHEETFinancial year from 01 1 January 2018 to 02 31 December 2018 (in 03 EUR)

Steel Capital S.A.

14, rue Edward SteichenL-2540 Luxembourg**ASSETS**

	Reference(s)	Current year	Previous year
A. Subscribed capital unpaid	101		102
I. Subscribed capital not called	103		104
II. Subscribed capital called but not paid	105		106
B. Formation expenses	107		108
C. Fixed assets	109	989,073,920	110 1,400,825,008
I. Intangible assets	111		112
1. Costs of development	113		114
2. Concessions, patents, licences, trade marks and similar rights and assets, if they were	115		116
a) acquired for valuable consideration and need not be shown under C.I.3	117		118
b) created by the undertaking itself	119		120
3. Goodwill, to the extent that it was acquired for valuable consideration	121		122
4. Payments on account and intangible assets under development	123		124
II. Tangible assets	125		126
1. Land and buildings	127		128
2. Plant and machinery	129		130
3. Other fixtures and fittings, tools and equipment	131		132
4. Payments on account and tangible assets in the course of construction	133		134
III. Financial assets	135	989,073,920	136 1,400,825,008
1. Shares in affiliated undertakings	137		138
2. Loans to affiliated undertakings	139		140
3. Participating interests	141		142
4. Loans to undertakings with which the undertaking is linked by virtue of participating interests	143		144
5. Investments held as fixed assets	145		146
6. Other loans	(3) 147	989,073,920	148 1,400,825,008

The notes to the accounts form an integral part of the Annual Accounts

RCSL Nr. : B 116 975

Matricule : 2006 2214 261

	Reference(s)	Current year	Previous year
D. Current assets	151	12,958,152	152 18,576,005
I. Stocks	153		154
1. Raw materials and consumables	155		156
2. Work in progress	157		158
3. Finished goods and goods for resale	159		160
4. Payments on account	161		162
II. Debtors	163	12,919,589	164 18,537,445
1. Trade debtors	165		166
a) becoming due and payable within one year	167		168
b) becoming due and payable after more than one year	169		170
2. Amounts owed by affiliated undertakings	171		172
a) becoming due and payable within one year	173		174
b) becoming due and payable after more than one year	175		176
3. Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests	177		178
a) becoming due and payable within one year	179		180
b) becoming due and payable after more than one year	181		182
4. Other debtors	183	12,919,589	184 18,537,445
a) becoming due and payable within one year	(4) 185	12,919,589	186 18,537,445
b) becoming due and payable after more than one year	187		188
III. Investments	189		190
1. Shares in affiliated undertakings	191		192
2. Own shares	209		210
3. Other investments	195		196
IV. Cash at bank and in hand	(5) 197	38,563	198 38,560
E. Prepayments	199	401	200 401
TOTAL (ASSETS)	201	1,002,032,473	202 1,419,401,414

The notes to the accounts form an integral part of the Annual Accounts

RCSL Nr. : B 116 975

Matricule : 2006 2214 261

CAPITAL, RESERVES AND LIABILITIES

	Reference(s)	Current year	Previous year
A. Capital and reserves			
	301	31,000	302 31,000
I. Subscribed capital	(6) 303	31,000	304 31,000
II. Share premium account	305		306
III. Revaluation reserve	307		308
IV. Reserves	309		310
1. Legal reserve	311		312
2. Reserve for own shares	313		314
3. Reserves provided for by the articles of association	315		316
4. Other reserves, including the fair value reserve	429		430
a) other available reserves	431		432
b) other non available reserves	433		434
V. Profit or loss brought forward	319		320
VI. Profit or loss for the financial year	321		322
VII. Interim dividends	323		324
VIII. Capital investment subsidies	325		326
B. Provisions			
	331	19,760	332 16,700
1. Provisions for pensions and similar obligations	333		334
2. Provisions for taxation	335		336
3. Other provisions	(7) 337	19,760	338 16,700
C. Creditors			
	435	1,001,981,713	436 1,419,353,714
1. Debenture loans	437	1,001,563,413	438 1,418,505,135
a) Convertible loans	439		440
i) becoming due and payable within one year	441		442
ii) becoming due and payable after more than one year	443		444
b) Non convertible loans	(8) 445	1,001,563,413	446 1,418,505,135
i) becoming due and payable within one year	447	12,489,493	448 474,406,734
ii) becoming due and payable after more than one year	449	989,073,920	450 944,098,401
2. Amounts owed to credit institutions	355		356
a) becoming due and payable within one year	357		358
b) becoming due and payable after more than one year	359		360

The notes to the accounts form an integral part of the Annual Accounts

RCSL Nr. : B 116 975	Matricule : 2006 2214 261
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	Reference(s)	Current year	Previous year
3. Payments received on account of orders in so far as they are shown separately as deductions from stocks	361		362
a) becoming due and payable within one year	363		364
b) becoming due and payable after more than one year	365		366
4. Trade creditors	367		368
a) becoming due and payable within one year	369		370
b) becoming due and payable after more than one year	371		372
5. Bills of exchange payable	373		374
a) becoming due and payable within one year	375		376
b) becoming due and payable after more than one year	377		378
6. Amounts owed to affiliated undertakings	379		380
a) becoming due and payable within one year	381		382
b) becoming due and payable after more than one year	383		384
7. Amounts owed to undertakings with which the undertaking is linked by virtue of participating interests	385		386
a) becoming due and payable within one year	387		388
b) becoming due and payable after more than one year	389		390
8. Other creditors	451	418,300	452 848,579
a) Tax authorities	(9) 393	352,386	394 819,451
b) Social security authorities	395		396
c) Other creditors	(10) 397	65,914	398 29,128
i) becoming due and payable within one year	399	65,914	400 29,128
ii) becoming due and payable after more than one year	401		402
D. Deferred income	403		404
TOTAL (CAPITAL, RESERVES AND LIABILITIES)	405	1,002,032,473	406 1,419,401,414

Annual Accounts Helpdesk :

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Matricule : 2006 2214 261

PROFIT AND LOSS ACCOUNTFinancial year from 01 1 January 2018 to 02 31 December 2018 (in 03 EUR)

Steel Capital S.A.

14, rue Edward Steichen

L-2540 Luxembourg

PROFIT AND LOSS ACCOUNT

	References	Current year	Previous year
1. Net turnover	701	702	
2. Variation in stocks of finished goods and in work in progress	703	704	
3. Work performed by the undertaking for its own purposes and capitalised	705	706	
4. Other operating income	(11) 713	498,896	714 405,384
5. Raw materials and consumables and other external expenses	671	672	
a) Raw materials and consumables	601	602	
b) Other external expenses	603	604	
6. Staff costs	605	606	
a) Wages and salaries	607	608	
b) Social security costs	609	610	
i) relating to pensions	653	654	
ii) other social security costs	655	656	
c) Other staff costs	613	614	
7. Value adjustments	657	658	
a) in respect of formation expenses and of tangible and intangible fixed assets	659	660	
b) in respect of current assets	661	662	
8. Other operating expenses	(12) 621	(100,239)	622 (156,037)
9. Income from participating interests	715	716	
a) derived from affiliated undertakings	717	718	
b) other income from participating interests	719	720	
10. Income from other investments and loans forming part of the fixed assets	721	722	
a) derived from affiliated undertakings	723	724	
b) other income not included under a)	725	726	
11. Other interest receivable and similar income	727	52,237,955	728 95,332,769
a) derived from affiliated undertakings	729	730	
b) other interest and similar income	(13) 731	52,237,955	732 95,332,769
12. Share of profit or loss of undertakings accounted for under the equity method	663	664	
13. Value adjustments in respect of financial assets and of investments held as current assets	665	666	
14. Interest payable and similar expenses	627	(52,237,663)	628 (95,333,331)
a) concerning affiliated undertakings	629	630	
b) other interest and similar expenses	(14) 631	(52,237,663)	632 (95,333,331)
15. Tax on profit or loss	(15) 635	(398,152)	636 (243,970)
16. Profit or loss after taxation	667	797	668 4,815
17. Other taxes not shown under items 1 to 16	(15) 637	(797)	638 (4,815)
18. Profit or loss for the financial year	669	-	670 -

The notes to the accounts form an integral part of the Annual Accounts

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Notes to the Annual Accounts for the year ended 31 December 2018

Note 1 - General information

Steel Capital S.A. is a Luxembourg Company incorporated on 11 May 2006, for an unlimited duration, as a «société anonyme» and is subject to the Luxembourg law of 10 August 1915 on commercial companies, as subsequently amended.

As from 15 July 2018, the corporate administrator of the Company was changed to Vistra (Luxembourg) S.à r.l. and its registered office was transferred from 2, boulevard Konrad Adenauer, L-1115 Luxembourg to 14, rue Edward Steichen, L-2540 Luxembourg.

The Company's financial year starts on 1 January and ends on 31 December of each year.

The Company shall have as its business purpose the issue of loan participation notes for the purpose of financing loans to Open Joint Stock Company Severstal and to its affiliated companies, the granting of security interests over its assets in relation to the issuance of the loan participation notes and the making of deposits at banks or with other depositaries.

The Company may carry out any transaction, whether commercial or financial, which are directly or indirectly connected with its corporate object at the exclusion of any banking activity. In general, the Company may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Note 2 - Summary of significant accounting policies

Note 2.1 - Basis of preparation

The Annual Accounts have been prepared in accordance with Luxembourg legal and regulatory requirements under the historical cost convention.

The preparation of Annual Accounts requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise their judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the Annual Accounts in the year in which the assumptions changed. The Directors believe that the underlying assumptions are appropriate and that the Annual Accounts therefore present the financial position and results fairly.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities in the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Note 2.2 - Significant accounting policies

The main valuation rules applied by the Company are the following:

Note 2.2.1 - Financial assets

Historical cost model

Valuation at purchase price

Other loans are valued at nominal value including the expenses incidental thereto.

In the case of durable depreciation in value according to the opinion of the Board of Directors, value adjustments are made in respect of fixed assets, so that they are valued at the lower figure to be attributed to them at the Balance Sheet date. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

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Notes to the Annual Accounts
for the year ended 31 December 2018
(continued)

Note 2 - Summary of significant accounting policies (continued)

Note 2.2 - Significant accounting policies (continued)

Note 2.2.2 - Debtors

Debtors are valued at their nominal value. They are subject to value adjustments where their recoverability is compromised. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

Note 2.2.3 - Prepayments

This asset item includes expenditures incurred during the financial year but relating to a subsequent financial year.

Note 2.2.4 - Foreign currency translation

Transactions expressed in currencies other than EUR are translated into EUR at the exchange rate effective at the time of the transaction.

Cash at bank and in hand is translated at the exchange rate effective at the Balance Sheet date. Exchange losses and gains are recorded in the Profit and Loss Account of the year.

Other assets and liabilities are translated separately respectively at the lower or at the higher of the value converted at the historical exchange rate or the value determined on the basis of the exchange rates effective at the Balance Sheet date. The unrealised exchange losses are recorded in the Profit and Loss Account. The exchange gains are recorded in the Profit and Loss Account at the moment of their realisation.

Where there is an economic link between an asset and a liability, these are valued in total using year end exchange rate and the net unrealised results are recorded in the Profit and Loss Account.

Note 2.2.5 - Debts

Debts are recorded at their reimbursement value.

Note 2.2.6 - Provisions

Provisions are intended to cover losses or debts, the nature of which is clearly defined and which, at the date of the Balance Sheet, are either likely to be incurred or certain to be incurred but uncertain as to their amount on the date on which they will arise.

Provisions may also be created to cover charges which originate in the financial year under review or have in a previous financial year, the nature of which is clearly defined and which at the date of the Balance Sheet are either likely to be incurred or certain to be incurred but uncertain as to their amount or the date on which they will arise.

Provisions for taxation correspond to the tax liability estimated by the Company for the financial years for which the tax return has not yet been assessed by the tax authorities are recorded under the caption "Tax Authorities". The advance payments are shown in the assets of the Balance Sheet under the "Other debtors" item.

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Notes to the Annual Accounts
for the year ended 31 December 2018
(continued)

Note 2 - Summary of significant accounting policies (continued)

Note 2.2 - Significant accounting policies (continued)

Note 2.2.7 - Interest income and expenses

Interest income and expenses are recorded on an accrual basis in the Profit and Loss Account.

Note 3 - Other loans

Other loans, in the amount of **EUR 989,073,920**, are comprised as follows:

Loans to PAO Severstal:

Loan	CCY	Outstanding amount	Interest rate	Maturity date	Opening balance	(Disposals)	Foreign currency	Closing balance
					as at	during the year	revaluation	as at
					1-Jan-2018			31-Dec-2018
					EUR	EUR	EUR	EUR
Loan 5	USD	634,051,000	5.90%	17-Oct-2022	527,847,985	-	25,145,935	552,993,920
Loan 6	USD	548,620,000	4.45%	19-Mar-2018	456,726,607	(446,395,635)	(10,330,972)	-
Loan 9	USD	500,000,000	3.85%	27-Aug-2021	416,250,416	-	19,829,584	436,080,000
					1,400,825,008	(446,395,635)	34,644,547	989,073,920
							31-Dec-2018	31-Dec-2017
<i>Maturity Analysis:</i>							EUR	EUR
Within one year							-	456,726,607
After more than one year							989,073,920	944,098,401
							989,073,920	1,400,825,008

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**Notes to the Annual Accounts
for the year ended 31 December 2018**
(continued)

Note 4 - Other debtors

	<u>31-Dec-2018</u>	<u>31-Dec-2017</u>
	EUR	EUR
Other debtors, in the amount of EUR 12,919,589 , are comprised as follows:		
Interest receivable on loans	12,489,493	17,680,127
Arrangement fees receivable*	146,009	523,694
Excess Tax advance 2014	31,899	31,899
Tax advance 2015	-	103,750
Tax advance 2016	-	92,603
Tax advance 2017	-	86,810
Tax advance 2018	228,296	-
VAT receivable 2016	2,867	2,867
VAT receivable 2017	8,173	15,695
VAT receivable 2018	12,852	-
	<u>12,919,589</u>	<u>18,537,445</u>

*In consideration of the Company agreeing to make Loans to PAO Severstal, the latter shall pay on demand to the Lender as and when such amounts are due an amount equal to all ongoing fees and costs in accordance with the Loan arrangement fee of the Facility Agreement 15 March 2013.

Note 5 - Cash at bank and in hand

	<u>31-Dec-2018</u>	<u>31-Dec-2017</u>
	EUR	EUR
Cash at bank and in hand, in the amount of EUR 38,563 , are comprised as follows:		
Cash account with Deutsche Bank Luxembourg S.A. - EUR	38,511	38,511
Cash account with Deutsche Bank Luxembourg S.A. - USD	52	49
	<u>38,563</u>	<u>38,560</u>

Note 6 - Capital and reserves

The subscribed capital of the Company consists of 310 shares with a par value of EUR 100 each (EUR 31,000). As at 31 December 2018, 310 shares were issued and fully paid.

The carrying value of the capital and reserves is comprised as follows:

	<u>Subscribed capital</u>
Balance as at 31 December 2017 and 31 December 2018	<u>31,000</u>

Legal reserve

In accordance with Luxembourg Company law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders.

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Notes to the Annual Accounts
for the year ended 31 December 2018
(continued)

Note 7 - Other provisions

	31-Dec-2018	31-Dec-2017
	EUR	EUR
Other provisions, in the amount of EUR 19,760 , are comprised as follows:		
Audit fees	10,000	10,000
Tax advisory fees	9,760	6,700
	19,760	16,700

Note 8 - Non-convertible loans

Non-convertible loans issued, in the amount of **EUR 1,001,563,413**, are comprised of Loan Participation Notes (the "Notes") as follows:

Notes	CCY	Outstanding amount	Interest rate	Maturity date	Balance as at 1-Jan-2018	(Disposals) during the year	Foreign currency revaluation	Balance as at 31-Dec-2018
					EUR	EUR	EUR	EUR
Notes 5	USD	634,051,000	5.90%	17-Oct-2022	527,847,985	-	25,145,935	552,993,920
Notes 6	USD	548,620,000	4.45%	19-Mar-2018	456,726,607	(446,395,635)	(10,330,972)	-
Notes 9	USD	500,000,000	3.85%	27-Aug-2021	416,250,416	-	19,829,584	436,080,000
					1,400,825,008	(446,395,635)	34,644,547	989,073,920
							31-Dec-2018	31-Dec-2017
							EUR	EUR
<i>becoming due and payable within one year</i>								
Principal amount							-	456,726,607
Interest payable on Notes							12,489,493	17,680,127
							12,489,493	474,406,734
<i>becoming due and payable after more than one year</i>								
Principal amount							989,073,920	944,098,401
Total Non-Convertible loans							1,001,563,413	1,418,505,135

On 19 March 2018, the Loan Participation Notes due 2018 of USD 548,620,000 4.45% matured on the scheduled date and the corresponding loan were fully repaid.

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**Notes to the Annual Accounts
for the year ended 31 December 2018**
(continued)

Note 9 - Tax authorities

	31-Dec-2018	31-Dec-2017
	EUR	EUR
Tax authorities, in the amount of EUR 352,386 , are comprised as follows:		
Corporate tax - 2015	-	307,135
Corporate tax - 2016	-	263,530
Corporate tax - 2017	195,098	248,786
Corporate tax - 2018	157,288	-
	352,386	819,451

Note 10 - Other creditors

	31-Dec-2018	31-Dec-2017
	EUR	EUR
Other creditors, in the amount of EUR 65,914 , are comprised as follows:		
Trustee fees	45,580	4,995
Administration fees	10,238	10,238
Tax advisory fees	4,259	7,840
Accountancy fees	4,095	4,095
Annual filing fees	1,538	-
Other costs	205	205
Set up fees	-	1,755
	65,914	29,128

Note 11 - Other operating income

	Year ended 31-Dec-2018	Year ended 31-Dec-2017
	EUR	EUR
Other operating income, in the amount of EUR 498,896 , is comprised as follows:		
Recharge of ongoing fees and expenses*	498,896	404,654
Reversal of overaccrual 2016	-	730
	498,896	405,384

*In consideration of the Company agreeing to make Loans to PAO Severstal, the latter shall pay on demand to the Lender as and when such amounts are due an amount equal to all ongoing fees and costs in accordance with the Loan arrangement fee of the Facility Agreement 15 March 2013.

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**Notes to the Annual Accounts
for the year ended 31 December 2018**
(continued)

	Year ended 31-Dec-2018 EUR	Year ended 31-Dec-2017 EUR
<u>Note 12 - Other operating expenses</u>		
Other operating expenses, in the amount of EUR 100,239 , are comprised as follows:		
Administration fees	19,969	17,500
Trustee fees	45,765	42,732
Audit fees	13,169	20,000
Accountancy fees	7,000	7,000
Tax advisory fees	6,700	34,842
Management fees	2,650	2,650
Listing fees	2,000	1,599
Annual filing fees	1,538	3,971
Reversal of overaccrual of VAT	1,098	16,912
Other costs	350	350
Issue fees	-	1,500
Legal fees	-	861
VAT filing fees	-	6,120
	100,239	156,037
<u>Note 13 - Other interest receivable and similar income</u>		
Other interest and similar income, in the amount of EUR 52,237,955 , are comprised as follows:		
Interest receivable on loans	52,237,663	95,332,769
Currency result	292	-
	52,237,955	95,332,769
<u>Note 14 - Interest payable and similar expenses</u>		
Other interest and similar expenses, in the amount of EUR 52,237,663 , are comprised as follows:		
Interest payable on Notes	52,237,663	95,332,769
Currency result	-	562
	52,237,663	95,333,331

Steel Capital S.A.
société anonyme
Registered office: 14, rue Edward Steichen
L-2540 Luxembourg
R.C.S. Luxembourg B 116.975
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**Notes to the Annual Accounts
for the year ended 31 December 2018**
(continued)

Note 15 -Taxation

The Company is subject to the general tax regulations to all commercial companies in Luxembourg.

Note 16 - Personnel

During the year under review, the Company did not employ any personnel and, consequently, no payments for wages, salaries or social securities were made.

Note 17 - Subsequent events

There were no significant events since 31 December 2018, which could influence the presentation of the current Annual Accounts.

Note 18 - Advances, emoluments and loans granted to members of the administrative, managerial and supervisory bodies

No advances, emoluments and loans, were granted to the Board of Directors and any other bodies during the year ended 31 December 2018.

Note 19 - Off-Balance Sheet commitments

The Company has no Off-Balance Sheet commitments as at 31 December 2018.

Audit report

To the Board of Directors of
Steel Capital S.A.

Report on the audit of the annual accounts

Our opinion

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of Steel Capital S.A. (the "Company") as at 31 December 2018, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

What we have audited

The Company's annual accounts comprise:

- the balance sheet as at 31 December 2018;
- the profit and loss account for the year then ended; and
- the notes to the annual accounts, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the EU Regulation No 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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T : +352 494848 1, F : +352 494848 2900, www.pwc.lu*

*Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)
R.C.S. Luxembourg B 65 477 - TVA LU25482518*

Key audit matter	How our audit addressed the Key audit matter
<i>Valuation of the financial assets</i>	
Refer to the accounting policies "2.2.1. Financial assets" and "Note 3. Other Loans"	Our audit procedures to cover the valuation of Other loans included:
Financial assets disclosed under "Note 3. Other Loans" are comprised of loans to PAO Severstal and amount to EUR 989,074 million in the annual accounts as at 31 December 2018. Other Loans are valued at purchase price corresponding to the nominal value, less impairment in case of durable depreciation in value according to the opinion of the Board of Directors.	- understanding of the impairment assessment performed by the Board of Directors. We assessed the appropriateness of the judgment and estimates used in the impairment analysis by reconciling the data used to the audited financial information of PAO Severstal;
The appropriateness of provisions for impairments on Other loans is a key area of judgment for the Board of Directors. The identification of impairment and the determination of the recoverable amount are inherently uncertain processes involving the use of estimates, various assumptions and factors including the financial solvability of the borrower.	- analysing the supporting documents (included but not limited to most recent available financial information of PAO Severstal, economic factors influencing the respective country / industry of PAO Severstal, its credit ratings); and
For a full description of the valuation policy applied to the financial assets, we refer to the description included in the notes to the annual accounts.	- recalculating all interest amounts and verifying that the interest payments are made regularly and there is no indication of delays or default, payments of interests are verified up to the date of this report.
We consider the valuation of the financial assets as key audit matter, given the magnitude of these positions and the degree of judgment included in the estimation performed by the Board of Directors. If the estimates or assumptions used should significantly change, the resulting differences could materially affect the valuation of the financial assets.	We finally assessed the adequacy of the disclosures in the annual accounts.
Other information	
The Board of Directors is responsible for the other information. The other information comprises the information stated in the directors' report and the Corporate Governance Statement but does not include the annual accounts and our audit report thereon.	
Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.	
In connection with our audit of the annual accounts, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially	

misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of the annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts

The objectives of our audit are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

The directors' report is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement is included in the directors' report. The information required by Article 68ter Paragraph (1) Letters c) and d) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

We have been appointed as "Réviseur d'Entreprises Agréé" of the Company by the Board of Directors on 19 March 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 5 years.

Other matter

The Corporate Governance Statement includes, when applicable, the information required by Article 68ter Paragraph (1) Letters a), b), e), f) and g) of the Law of 19 December 2002 on the



commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 3 May 2019

A handwritten signature in blue ink, appearing to read 'H. von Keutz', with a long horizontal flourish extending to the right.

Holger von Keutz

Steel Capital S.A.
société anonyme

Annual Accounts
for the year ended 31 December 2017

Registered office:
2, boulevard Konrad Adenauer
L-1115 Luxembourg
R.C.S. Luxembourg B 116.975

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Registered office: 2, boulevard Konrad Adenauer
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Directors and Other Information

Directors	<p>Graeme Jenkins Kailash Ramassur Ingrida Lunyte (as from 13 June 2017) Anja Hammes (as from October 2016 until 13 June 2017)</p>
Corporate Administrator and Principal Banker	<p>Deutsche Bank Luxembourg S.A. 2, boulevard Konrad Adenauer L-1115 Luxembourg Grand Duchy of Luxembourg</p>
Lead Manager	<p>Citibank Global Markets Limited Citigroup Centre 33 Canada Square Canary Wharf London E14 5LB, United Kingdom</p>
Joint Lead Managers	<p>Citigroup Global Markets Limited Citigroup Centre 33 Canada Square Canary Wharf London E14 5LB, United Kingdom</p> <p>J.P. Morgan Securities PLC 25 Bank Street Canary Wharf London E14 5Jp United Kingdom</p>
Principal Paying Agent and Trustee	<p>Citibank, N.A., London Branch Citigroup Centre 33 Canada Square Canary Wharf London E14 5LB, United Kingdom</p>
Auditor	<p>PricewaterhouseCoopers, Société coopérative 2, rue Gerhard Mercator, B.P. 1443 L-1014 Luxembourg Grand Duchy of Luxembourg</p>

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**Directors' Report
 for the year ended 31 December 2017**

The Directors present their Report and the Annual Accounts for the year ended 31 December 2017.

1. ACTIVITIES AND REVIEW OF THE DEVELOPMENT OF THE BUSINESS

Steel Capital S.A. is a Luxembourg Company incorporated on 11 May 2006, for an unlimited duration, as a «société anonyme» and is subject to the Luxembourg law of August 10, 1915 on commercial companies, as subsequently amended.

The Company's principal activity is to issue loan participation notes (the "Notes") for the purpose of financing loans to Open Joint Stock Company Severstal (the "Loans") and to its affiliated companies (together referred to as PAO Severstal).

The Company has been performing in line with the agreements and all loans servicing for the interest payments were done on a timely basis, the corresponding payments to Notesholders were also made.

On February 2017, the Company issued a USD 500,000,000, 3.85%, Loan Participation Notes, due 2021 for the sole purpose of financing a loan to PAO Severstal. The loan bears fixed interest at a rate of 3.85% per annum, receivable on 27 February and 27 August of each year. The loan will mature on 27 August 2021.

On 25 October 2017, the Loan Participation Notes due 2017 of USD 549,189,000 6.7% matured on the scheduled date and the corresponding loan were fully repaid.

As at 31 December 2017, the Company had 3 active Series in issue.

During the year ended 31 December 2017, the Company did not exercise any research and development activity, neither have a branch nor acquire its own shares.

2. BUSINESS REVIEW

During the year:

- The Company made no profit or loss (2016: EUR NIL);
- There were no credit events that affected the Company.

As at 31 December 2017:

- The Company's net equity was EUR 31,000 (2016: EUR 31,000);
- The Company's total indebtedness was EUR 1,419,371,414 (2016: EUR 1,705,982,025);
- The Company had the following Notes in issue:
 - (i) USD 634,051,000 5.90% Loan Participation Notes due on 2022 (EUR 527,847,985)
 - (ii) USD 548,620,000 4.45% Loan Participation Notes due on 2018 (EUR 456,726,607)
 - (iii) USD 500,000,000 3.85% Loan Participation Notes due on 2021 (EUR 416,250,416)

3. FUTURE DEVELOPMENTS

The Directors expect the present level of activity to be sustained for the foreseeable future.

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Directors' Report
for the year ended 31 December 2017
(continued)

4. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Company relate to Other loans and other assets held for risk management purposes.

The Company has exposure to the following risks from its use of financial instruments and does not have any externally imposed capital requirements.

(i) Credit risk

Credit risk is the risk of the financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's credit linked assets. The Company's principal financial assets are other loans, cash at bank and in hand, and other debtors which represent the Company's maximum exposure to credit risk in relation to the Notes issued.

The Loans provided involve a degree of risk arising from fluctuations in the amount and timing of receipt of the principal and interest on the loan and the amounts payable to the Noteholders. The risk of default on the assets is borne by the Noteholders as the Notes are issued on a limited recourse basis. Therefore, the Company is not obliged to pay any additional amount to the Noteholders other than the amount receivable on the loans.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations arising from its financial liabilities as they fall due.

The Company's obligation to the Noteholders is limited to the net proceeds upon realisation of the loan towards PAO Severstal. Should the net proceeds be insufficient to make all payments due in respect of the Notes, the other assets of the Company will not be available for payment and the deficit is instead borne by the Noteholders.

The Company does not face major liquidity risk since it is obliged to make payments to the Noteholders in an amount and currency equal to the amount and currency actually received from the Company. Liquidity risk is also limited since in consideration of the Company agreeing to make Loans to PAO Severstal, the latter shall pay on demand to the Lender as and when such amounts are due an amount equal to all ongoing fees and costs in accordance with the Loan arrangement fee of the Facility Agreement 15 March 2013.

(iii) Market risk

Market risk is the risk that changes in market prices, foreign exchange rates and interest rates will affect the Company's income or its value of its holdings of financial instruments. Market risk embodies the potential for both gains and losses and includes interest rate risk, currency risk and price risk.

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Directors' Report
for the year ended 31 December 2017
(continued)

4. PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

(iii) Market risk *(continued)*

(a) Interest rate risk

Interest rate risk is the risk that the Company does not receive adequate interest from the Loan to secure interest payments on the Notes. The Company is not exposed to any interest risk since both the Loans and Note bears the same terms and conditions.

Any default towards the interest receivable on the Loans will be borne by the Noteholders as the Notes are issued on a limited recourse basis.

(b) Currency risk

Currency risk is the risk which arises due to the assets and liabilities of the Company held in foreign currencies, which will be affected by fluctuations in foreign exchange rates. The Company limits its exposure to currency risk by operating bank accounts in currencies other than its presentation currency for receipts and payments in currencies other than its presentation currencies. The Company is exposed to movement in exchange rates between Euro (EUR), its presentation currency, and certain foreign currencies namely US Dollar ("USD") and British Pound ("GBP").

The Company does not face any major currency risk since all the Notes issued by the Company are held in the same currency as the investment in the Loans. In this case any fluctuation in foreign exchange rates will be offset by each other, therefore, the Company bears limited currency risk.

(c) Price risk

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Company does not consider price risk to be a significant risk to the Company as any fluctuation in the value of loans held by the Company will be borne by the Noteholders.

5. RESULTS AND DIVIDENDS FOR THE YEAR ENDED 31 DECEMBER 2017

The result for the year is set out on page 11. No dividends are recommended by the Directors for the year under review (2016: EUR NIL).

6. DIRECTORS AND THEIR INTERESTS

The Directors who held office on 31 December 2017 did not hold any shares in the Company or in any group company at that date, or during the year. There were no contracts of any significance in relation to the business of the Company in which the Directors had any interest at any time during the year.

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Directors' Report
for the year ended 31 December 2017
(continued)

7. CORPORATE GOVERNANCE STATEMENT

The Company is subject to and complies with the amended law of 10 August 1915 on commercial companies and the Listing Rules of the Irish Stock exchange. The Company does not apply additional requirements in addition to those required by the above. Each of the service providers engaged by the Company is subject to their own corporate governance requirements.

Financial Reporting Process

The Board of Directors ("the Board") is responsible for establishing and maintaining adequate internal control and risk management systems of the Company in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Company's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. These include appointing the Administrator, Deutsche Bank Luxembourg S.A, to maintain the accounting records of the Company independently of the Arranger and the Custodian. The Administrator is contractually obliged to maintain proper books and records as required by the Corporate Administration agreement. To that end the Administrator performs reconciliations of its records to those of the Arranger and the Custodian. The Administrator is also contractually obliged to prepare for review and approval by the Board the Annual Accounts intended to give a true and fair view.

The Board evaluates and discusses significant accounting and reporting issues as the need arises. From time to time the Board also examines and evaluates the external auditors' performance, qualifications and independence. The Administrator has operating responsibility for internal control in relation to the financial reporting process and the Administrator's report to the Board.

Risk Assessment

The Board is responsible for assessing the risk of irregularities whether caused by fraud or error in financial reporting and ensuring the processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting. The Board has also put in place processes to identify changes in accounting rules and recommendations and to ensure that these changes are accurately reflected in the Company's Annual Accounts.

Control Activities

The Administrator is contractually obliged to design and maintain control structures to manage the risks which are significant for internal control over financial reporting. These control structures include appropriate division of responsibilities and specific control activities aimed at detecting or preventing the risk of significant deficiencies in financial reporting for every significant account in the Annual Accounts and the related notes in the Company's accounts.

Monitoring

The Board has an annual process to ensure that appropriate measures are taken to consider and address the shortcomings identified and measures recommended by the independent auditors.

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Directors' Report
for the year ended 31 December 2017
(continued)

7. CORPORATE GOVERNANCE STATEMENT (Continued)

Monitoring (continued)

Given the contractual obligations on the Administrator, the Board has concluded that there is currently no need for the Company to have a separate internal audit function in order for the board to perform effective monitoring and oversight of the internal control and risk management systems of the Company in relation to the financial reporting process.

Capital Structure

No person has a significant direct or indirect holding of securities in the Company. No person has any special rights of control over the Company's share capital.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the amended law of 10 August 1915 on commercial companies, as amended, and the Listing Rules of the Irish Stock Exchange. The Articles of Association themselves may be amended by special resolution of the shareholders.

Powers of Directors

The Board is responsible for managing the business affairs of the Company in accordance with the Articles of Association. The Directors may delegate certain functions to other parties, subject to the supervision and direction by the Directors.

8. SUBSEQUENT EVENTS

There were no significant events since 31 December 2017, which could influence the presentation of the current Annual Accounts.

9. AUDIT COMMITTEE

Based on Article 1 (20) and Article 52 of the Law of 23 July 2016 concerning the audit profession, the Company is classified as public-interest entity and required to establish an audit committee. However, the Company's sole business is to act as issuer of asset-backed securities as defined in Article 52 5(c). Therefore, it is exempted from the audit committee obligation. The Company has concluded that the establishment of a dedicated audit committee is neither necessary nor appropriate for the nature and extend of the Company's business which consists merely of an interest in assets to which the limited recourse Notes issued are linked.

27 -04- 2018

The Board of Directors,

Luxembourg


Graeme Jenkins
 Director


Kailash Ramassur
 Director F-109

Annual Accounts Helpdesk :

Tel. : (+352) 247 88 494

Email : centralebilans@statec.etat.lu

RCSL Nr. : B 116 975

Matricule : 2006 2214 261

BALANCE SHEET

Financial year from 01 1 January 2017 to 02 31 December 2017 (in 03 EUR)

Steel Capital S.A.

2, boulevard Konrad Adenauer

L-1115 Luxembourg

ASSETS

	Reference(s)	Current year	Previous year
A. Subscribed capital unpaid	101		102
I. Subscribed capital not called	103		104
II. Subscribed capital called but not paid	105		106
B. Formation expenses	107		108
C. Fixed assets	109	1,400,825,008	110 1,684,545,237
I. Intangible assets	111		112
1. Costs of development	113		114
2. Concessions, patents, licences, trade marks and similar rights and assets, if they were	115		116
a) acquired for valuable consideration and need not be shown under C.I.3	117		118
b) created by the undertaking itself	119		120
3. Goodwill, to the extent that it was acquired for valuable consideration	121		122
4. Payments on account and intangible assets under development	123		124
II. Tangible assets	125		126
1. Land and buildings	127		128
2. Plant and machinery	129		130
3. Other fixtures and fittings, tools and equipment	131		132
4. Payments on account and tangible assets in the course of construction	133		134
III. Financial assets	135	1,400,825,008	136 1,684,545,237
1. Shares in affiliated undertakings	137		138
2. Loans to affiliated undertakings	139		140
3. Participating interests	141		142
4. Loans to undertakings with which the undertaking is linked by virtue of participating interests	143		144
5. Investments held as fixed assets	145		146
6. Other loans	(3) 147	1,400,825,008	148 1,684,545,237

The notes to the accounts form an integral part of the Annual Accounts

RCSL Nr. : B 116 975

Matricule : 2006 2214 261

	Reference(s)	Current year	Previous year
D. Current assets			
I. Stocks	151	18,576,005	152 21,467,788
1. Raw materials and consumables	153		154
2. Work in progress	155		156
3. Finished goods and goods for resale	157		158
4. Payments on account	159		160
	161		162
II. Debtors	163	18,537,445	164 21,456,317
1. Trade debtors	165		166
a) becoming due and payable within one year	167		168
b) becoming due and payable after more than one year	169		170
2. Amounts owed by affiliated undertakings	171		172
a) becoming due and payable within one year	173		174
b) becoming due and payable after more than one year	175		176
3. Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests	177		178
a) becoming due and payable within one year	179		180
b) becoming due and payable after more than one year	181		182
4. Other debtors	183	18,537,445	184 21,456,317
a) becoming due and payable within one year	(4) 185	18,537,445	186 21,456,317
b) becoming due and payable after more than one year	187		188
III. Investments	189		190
1. Shares in affiliated undertakings	191		192
2. Own shares	209		210
3. Other investments	195		196
IV. Cash at bank and in hand	(5) 197	38,560	198 11,471
E. Prepayments	199	401	200 -
TOTAL (ASSETS)	201	1,419,401,414	202 1,706,013,025

The notes to the accounts form an integral part of the Annual Accounts

RCSL Nr. : B 116 975

Matricule : 2006 2214 261

CAPITAL, RESERVES AND LIABILITIES

	Reference(s)	Current year	Previous year
A. Capital and reserves			
I. Subscribed capital	301	31,000	302 31,000
II. Share premium account	(6) 303	31,000	304 31,000
III. Revaluation reserve	305		306
IV. Reserves	307		308
1. Legal reserve	309		310
2. Reserve for own shares	311		312
3. Reserves provided for by the articles of association	313		314
4. Other reserves, including the fair value reserve	315		316
a) other available reserves	429		430
b) other non available reserves	431		432
V. Profit or loss brought forward	433		434
VI. Profit or loss for the financial year	319		320
VII. Interim dividends	321		322
VIII. Capital investment subsidies	323		324
	325		326
B. Provisions			
1. Provisions for pensions and similar obligations	331	16,700	332 11,700
2. Provisions for taxation	333		334
3. Other provisions	335		336
	(7) 337	16,700	338 11,700
C. Creditors			
1. Debenture loans	435	1,419,353,714	436 1,705,970,325
a) Convertible loans	437	1,418,505,135	438 1,705,312,600
i) becoming due and payable within one year	439		440
ii) becoming due and payable after more than one year	441		442
	443		444
b) Non convertible loans	(8) 445	1,418,505,135	446 1,705,312,600
i) becoming due and payable within one year	447	474,406,734	448 584,085,942
ii) becoming due and payable after more than one year	449	944,098,401	450 1,121,226,658
2. Amounts owed to credit institutions	355		356
a) becoming due and payable within one year	357		358
b) becoming due and payable after more than one year	359		360

The notes to the accounts form an integral part of the Annual Accounts

RCSL Nr. : B 116 975	Matricule : 2006 2214 261
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	Reference(s)	Current year	Previous year
3. Payments received on account of orders in so far as they are shown separately as deductions from stocks			
a) becoming due and payable within one year	361		362
b) becoming due and payable after more than one year	363		364
	365		366
4. Trade creditors	367		368
a) becoming due and payable within one year	369		370
b) becoming due and payable after more than one year	371		372
5. Bills of exchange payable	373		374
a) becoming due and payable within one year	375		376
b) becoming due and payable after more than one year	377		378
6. Amounts owed to affiliated undertakings	379		380
a) becoming due and payable within one year	381		382
b) becoming due and payable after more than one year	383		384
7. Amounts owed to undertakings with which the undertaking is linked by virtue of participating interests	385		386
a) becoming due and payable within one year	387		388
b) becoming due and payable after more than one year	389		390
8. Other creditors	451	848,579	452 657,725
a) Tax authorities	(9) 393	819,451	394 606,748
b) Social security authorities	395		396
c) Other creditors	(10) 397	29,128	398 50,977
i) becoming due and payable within one year	399	29,128	400 50,977
ii) becoming due and payable after more than one year	401		402
D. Deferred income	403		404
TOTAL (CAPITAL, RESERVES AND LIABILITIES)	405	1,419,401,414	406 1,706,013,025

Annual Accounts Helpdesk :

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Email : centralebilans@statec.etat.lu

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PROFIT AND LOSS ACCOUNTFinancial year from 01 1 January 2017 to 02 31 December 2017 (in 03 EUR)

Steel Capital S.A.
 2, boulevard Konrad Adenauer
 L-1115 Luxembourg

PROFIT AND LOSS ACCOUNT

	References	Current year	Previous year
1. Net turnover	701	702	
2. Variation in stocks of finished goods and in work in progress	703	704	
3. Work performed by the undertaking for its own purposes and capitalised	705	706	
4. Other operating income	(11) 713	405,384	714 113,941
5. Raw materials and consumables and other external expenses	671	672	
a) Raw materials and consumables	601	602	
b) Other external expenses	603	604	
6. Staff costs	605	606	
a) Wages and salaries	607	608	
b) Social security costs	609	610	
i) relating to pensions	653	654	
ii) other social security costs	655	656	
c) Other staff costs	613	614	
7. Value adjustments	657	658	
a) in respect of formation expenses and of tangible and intangible fixed assets	659	660	
b) in respect of current assets	661	662	
8. Other operating expenses	(12) 621	(156,037)	622 (75,036)
9. Income from participating interests	715	716	
a) derived from affiliated undertakings	717	718	
b) other income from participating interests	719	720	
10. Income from other investments and loans forming part of the fixed assets	721	722	
a) derived from affiliated undertakings	723	724	
b) other income not included under a)	725	726	
11. Other interest receivable and similar income	727	95,332,769	728 99,451,903
a) derived from affiliated undertakings	729	730	
b) other interest and similar income	(13) 731	95,332,769	732 99,451,903
12. Share of profit or loss of undertakings accounted for under the equity method	663	664	
13. Value adjustments in respect of financial assets and of investments held as current assets	665	666	
14. Interest payable and similar expenses	627	(95,333,331)	628 (99,451,809)
a) concerning affiliated undertakings	629	630	
b) other interest and similar expenses	(14) 631	(95,333,331)	632 (99,451,809)
15. Tax on profit or loss	(15) 635	(243,970)	636 (35,784)
16. Profit or loss after taxation	667	4,815	668 3,215
17. Other taxes not shown under items 1 to 16	(15) 637	(4,815)	638 (3,215)
18. Profit or loss for the financial year	669	-	670 -

The notes to the accounts form an integral part of the Annual Accounts

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**Notes to the Annual Accounts
 for the year ended 31 December 2017**

Note 1 - General information

Steel Capital S.A. is a Luxembourg Company incorporated on 11 May 2006, for an unlimited duration, as a «société anonyme» and is subject to the Luxembourg law of 10 August 1915 on commercial companies, as subsequently amended.

The registered office of the Company is established at 2, boulevard Konrad Adenauer, L-1115 Luxembourg.

The Company's financial year starts on 1 January and ends on 31 December of each year.

The Company shall have as its business purpose the issue of loan participation notes for the purpose of financing loans to Open Joint Stock Company Severstal and to its affiliated companies, the granting of security interests over its assets in relation to the issuance of the loan participation notes and the making of deposits at banks or with other depositaries.

The Company may carry out any transaction, whether commercial or financial, which are directly or indirectly connected with its corporate object at the exclusion of any banking activity. In general, the Company may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Note 2 - Summary of significant accounting policies

Note 2.1 - Basis of preparation

The Annual Accounts have been prepared in accordance with Luxembourg legal and regulatory requirements under the historical cost convention.

The preparation of Annual Accounts requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise their judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the Annual Accounts in the year in which the assumptions changed. The Directors believe that the underlying assumptions are appropriate and that the Annual Accounts therefore present the financial position and results fairly.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities in the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Note 2.2 - Significant accounting policies

The main valuation rules applied by the Company are the following:

Note 2.2.1 - Financial assets

Historical cost model

Valuation at purchase price

Other loans are valued at nominal value including the expenses incidental thereto.

In the case of durable depreciation in value according to the opinion of the Board of Directors, value adjustments are made in respect of fixed assets, so that they are valued at the lower figure to be attributed to them at the Balance Sheet date. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

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**Notes to the Annual Accounts
 for the year ended 31 December 2017**
(continued)

Note 2 - Summary of significant accounting policies (continued)

Note 2.2 - Significant accounting policies (continued)

Note 2.2.2 - Debtors

Debtors are valued at their nominal value. They are subject to value adjustments where their recoverability is compromised. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

Note 2.2.3 - Foreign currency translation

Transactions expressed in currencies other than EUR are translated into EUR at the exchange rate effective at the time of the transaction.

Cash at bank and in hand is translated at the exchange rate effective at the Balance Sheet date. Exchange losses and gains are recorded in the Profit and Loss Account of the year.

Other assets and liabilities are translated separately respectively at the lower or at the higher of the value converted at the historical exchange rate or the value determined on the basis of the exchange rates effective at the Balance Sheet date. The unrealised exchange losses are recorded in the Profit and Loss Account. The exchange gains are recorded in the Profit and Loss Account at the moment of their realisation.

Where there is an economic link between an asset and a liability, these are valued in total using year end exchange rate and the net unrealised results are recorded in the Profit and Loss Account.

Note 2.2.4 - Provisions

Provisions are intended to cover losses or debts, the nature of which is clearly defined and which, at the date of the Balance Sheet, are either likely to be incurred or certain to be incurred but uncertain as to their amount on the date on which they will arise.

Provisions may also be created to cover charges which originate in the financial year under review or have in a previous financial year, the nature of which is clearly defined and which at the date of the Balance Sheet are either likely to be incurred or certain to be incurred but uncertain as to their amount or the date on which they will arise.

Provisions for taxation correspond to the tax liability estimated by the Company for the financial years for which the tax return has not yet been assessed by the tax authorities are recorded under the caption "Tax Authorities". The advance payments are shown in the assets of the Balance Sheet under the "Other debtors" item.

Note 2.2.5 - Prepayments

This asset item includes expenditures incurred during the financial year but relating to a subsequent financial year.

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Notes to the Annual Accounts
for the year ended 31 December 2017
(continued)

Note 2 - Summary of significant accounting policies (continued)

Note 2.2 - Significant accounting policies (continued)

Note 2.2.6 - Debts

Debts are recorded at their reimbursement value.

Note 2.2.8 - Interest income and expenses

Interest income and expenses are recorded on an accrual basis in the Profit and Loss Account.

Note 3 - Other loans

Other loans, in the amount of EUR 1,400,825,008, are comprised as follows:

Loans to PAO Severstal:

Loan	CCY	Outstanding amount	Interest rate	Maturity date	Opening balance as at 1-Jan-2017 EUR	Additions/ (Disposals) during the year EUR	Foreign currency revaluation EUR	Closing balance as at 31-Dec-2017 EUR
Loan 3	USD	594,189,000	6.70%	25-Oct-2017	563,318,579	(503,081,026)	(60,237,553)	-
Loan 5	USD	634,051,000	5.90%	17-Oct-2022	601,109,593	-	(73,261,608)	527,847,985
Loan 6	USD	548,620,000	4.45%	19-Mar-2018	520,117,065	-	(63,390,458)	456,726,607
Loan 9	USD	500,000,000	3.85%	27-Aug-2021	-	471,053,303	(54,802,887)	416,250,416
					<u>1,684,545,237</u>	<u>(32,027,723)</u>	<u>(251,692,506)</u>	<u>1,400,825,008</u>
							31-Dec-2017 EUR	31-Dec-2016 EUR
<i>Maturity Analysis:</i>								
Within one year							456,726,607	563,318,579
After more than one year							944,098,401	1,121,226,658
							<u>1,400,825,008</u>	<u>1,684,545,237</u>

On February 2017, the Company issued a USD 500,000,000, 3.85%, Loan Participation Notes, due 2021 for the sole purpose of financing a loan to PAO Severstal. The loan bears fixed interest at a rate of 3.85% per annum, receivable on 27 February and 27 August of each year. The loan will mature on 27 August 2021.

On 25 October 2017, the Loan Participation Notes due 2017 of USD 549,189,000 6.7% matured on the scheduled date and the corresponding loan were fully repaid.

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Notes to the Annual Accounts
for the year ended 31 December 2017
(continued)

Note 4 - Other debtors

	<u>31-Dec-2017</u>	<u>31-Dec-2016</u>
	EUR	EUR
Other debtors, in the amount of EUR 18,537,445 , are comprised as follows:		
Interest receivable on loans	17,680,127	20,767,363
Arrangement fees receivable*	523,694	408,483
Refund from tax authorities being excess Tax advance 2014, as per 2016 audited FS	31,899	31,899
Tax advance 2015	103,750	103,750
Tax advance 2016	92,603	92,335
Tax advance 2017	86,810	-
VAT receivable 2012	-	3,918
VAT receivable 2013	-	9,495
VAT receivable 2014	-	9,110
VAT receivable 2015	-	15,810
VAT receivable 2016	2,867	14,154
VAT receivable 2017	15,695	-
	<u>18,537,445</u>	<u>21,456,317</u>

*In consideration of the Company agreeing to make Loans to Severstal, the latter shall pay on demand to the Lender as and when such amounts are due an amount equal to all ongoing fees and costs in accordance with the Loan arrangement fee of the Facility Agreement 15 March 2013.

Note 5 - Cash at bank and in hand

	<u>31-Dec-2017</u>	<u>31-Dec-2016</u>
	EUR	EUR
Cash at bank and in hand, in the amount of EUR 38,560 , are comprised as follows:		
Cash account with Deutsche Bank Luxembourg S.A. - EUR	38,511	11,415
Cash account with Deutsche Bank Luxembourg S.A. - USD	49	56
	<u>38,560</u>	<u>11,471</u>

Note 6 - Capital and reserves

The subscribed capital of the Company consists of 310 shares with a par value of EUR 100 each (EUR 31,000). As at 31 December 2017, 310 shares were issued and fully paid.

The carrying value of the capital and reserves is comprised as follows:

	<u>Subscribed capital</u>
Balance as at 1 January 2017 and 31 December 2017	<u>31,000</u>

Legal reserve

In accordance with Luxembourg Company law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders.

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Notes to the Annual Accounts
for the year ended 31 December 2017
(continued)

Note 7 - Other provisions

	<u>31-Dec-2017</u>	<u>31-Dec-2016</u>
	EUR	EUR
Other provisions, in the amount of EUR 16,700, are comprised as follows:		
Audit fees	10,000	11,700
Tax advisory fees	6,700	-
	<u>16,700</u>	<u>11,700</u>

Note 8 - Non-convertible loans

Non-convertible loans issued, in the amount of EUR 1,418,505,135, are comprised of Loan Participation Notes (the "Notes") as follows:

Notes	CCY	Outstanding amount	Interest rate	Maturity date	Balance as at 1-Jan-2017	Additions/ (Disposals) during the year	Foreign currency revaluation	Balance as at 31-Dec-2017
					EUR	EUR	EUR	EUR
Notes 3	USD	594,189,000	6.70%	25-Oct-2017	563,318,579	(503,081,026)	(60,237,553)	-
Notes 5	USD	634,051,000	5.90%	17-Oct-2022	601,109,593	-	(73,261,608)	527,847,985
Notes 6	USD	548,620,000	4.45%	19-Mar-2018	520,117,065	-	(63,390,458)	456,726,607
Notes 9	USD	500,000,000	3.85%	27-Aug-2021	-	471,053,303	(54,802,887)	416,250,416
					<u>1,684,545,237</u>	<u>(32,027,723)</u>	<u>(251,692,506)</u>	<u>1,400,825,008</u>

	<u>31-Dec-2017</u>	<u>31-Dec-2016</u>
	EUR	EUR
<i>becoming due and payable within one year</i>		
Principal amount	456,726,607	563,318,579
Interest payable on Notes	17,680,127	20,767,363
	<u>474,406,734</u>	<u>584,085,942</u>
<i>becoming due and payable after more than one year</i>		
Principal amount	944,098,401	1,121,226,658
Total Non-Convertible loans	<u>1,418,505,135</u>	<u>1,705,312,600</u>

On February 2017, the Company issued a USD 500,000,000, 3.85%, Loan Participation Notes, due 2021 for the sole purpose of financing a loan to PAO Severstal. The loan bears fixed interest at a rate of 3.85% per annum, receivable on 27 February and 27 August of each year. The loan will mature on 27 August 2021.

On 25 October 2017, the Loan Participation Notes due 2017 of USD 549,189,000 6.7% matured on the scheduled date and the corresponding loan were fully repaid.

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**Notes to the Annual Accounts
for the year ended 31 December 2017**
(continued)

Note 9 - Tax authorities

	31-Dec-2017	31-Dec-2016
	EUR	EUR
Tax authorities, in the amount of EUR 819,451, are comprised as follows:		
Corporate tax - 2013	-	36,078
Corporate tax - 2014	-	5
Corporate tax - 2015	307,135	307,135
Corporate tax - 2016	263,530	263,530
Corporate tax - 2017	248,786	-
	819,451	606,748

Note 10 - Other creditors

	31-Dec-2017	31-Dec-2016
	EUR	EUR
Other creditors, in the amount of EUR 29,128, are comprised as follows:		
Administration fees	10,238	10,238
Tax advisory fees	7,840	6,146
Accountancy fees	4,095	4,096
Set up fees	1,755	-
Other costs	205	206
Trustee fees	4,995	9,954
Interest on late tax payment	-	308
Professional fees	-	15,817
VAT filing fees	-	4,212
	29,128	50,977

Note 11 - Other operating income

	Year ended 31-Dec-2017	Year ended 31-Dec-2016
	EUR	EUR
Other operating income, in the amount of EUR 405,384, is comprised as follows:		
Recharge of ongoing fees and expenses*	404,654	113,941
Reversal of overaccral 2016	730	-
	405,384	113,941

*In consideration of the Company agreeing to make Loans to Severstal, the latter shall pay on demand to the Lender as and when such amounts are due an amount equal to all ongoing fees and costs in accordance with the Loan arrangement fee of the Facility Agreement 15 March 2013.

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**Notes to the Annual Accounts
for the year ended 31 December 2017
(continued)**

	Year ended 31-Dec-2017	Year ended 31-Dec-2016
	EUR	EUR
<u>Note 12 - Other operating expenses</u>		
Other operating expenses, in the amount of EUR 156,307, are comprised as follows:		
Trustee fees	42,732	8,999
Tax advisory fees	34,842	8,925
Audit fees	20,000	8,430
Administration fees	17,500	16,013
Reversal of overaccrual of VAT	16,912	-
Accountancy fees	7,000	6,405
VAT filing fees	6,120	6,588
Annual filing fees	3,971	708
Management fees	2,650	2,650
Listing fees	1,599	1,920
Issue fees	1,500	-
Legal fees	861	-
Other costs	350	320
Professional fees	-	13,520
Interest on late tax payment	-	558
	156,037	75,036
<u>Note 13 - Other interest receivable and similar income</u>		
Other interest and similar income, in the amount of EUR 95,332,769, is comprised as follows:		
Interest receivable on loans	95,332,769	99,451,809
Currency result	-	94
	95,332,769	99,451,903
<u>Note 14 - Interest payable and similar expenses</u>		
Other interest and similar expenses, in the amount of EUR 95,333,331, are comprised as follows:		
Interest payable on Notes	95,332,769	99,451,809
Currency result	562	-
	95,333,331	99,451,809
<u>Note 15 - Taxation</u>		

The Company is subject to the general tax regulations to all commercial companies in Luxembourg.

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**Notes to the Annual Accounts
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(continued)

Note 16 - Personnel

During the year under review, the Company did not employ any personnel and, consequently, no payments for wages, salaries or social securities were made.

Note 17 - Subsequent events

There were no significant events since 31 December 2017, which could influence the presentation of the current Annual Accounts.

Note 18 - Advances, emoluments and loans granted to members of the administrative, managerial and supervisory bodies

No advances, emoluments and loans, were granted to the Board of Directors and any other bodies during the year ended 31 December 2017.

Note 19 - Off-Balance Sheet commitments

The Company has no Off-Balance Sheet commitments as at 31 December 2017.



Audit report

To the Board of Directors of

Steel Capital S.A.

Report on the audit of the annual accounts

Our opinion

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of Steel Capital S.A. (the “Company”) as at 31 December 2017, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

What we have audited

The Company’s annual accounts comprise:

- the balance sheet as at 31 December 2017;
- the profit and loss account for the year then ended; and
- the notes to the annual accounts, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the “Commission de Surveillance du Secteur Financier” (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the “Responsibilities of the “Réviseur d’entreprises agréé” for the audit of the annual accounts” section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

Préparé par PricewaterhouseCoopers, Société coopérative, 2 rue Gerhard Mercator, B.P. 1443, L-1014 Luxembourg
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Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)
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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Valuation of the financial assets	
<p>Refer to the accounting policies “2.2.1. Financial assets” and “Note 3. Other Loans”.</p> <p>Financial assets disclosed under “Note 3. Other Loans” are comprised of Loans to PAO Severstal and amount to EUR 1,400.8 million in the annual accounts as at 31 December 2017. Other Loans are valued at purchase price corresponding to the nominal value, less impairment in case of durable depreciation in value according to the opinion of the Board of Directors.</p> <p>The appropriateness of provisions for impairments on Other loans is a key area of judgment for the Board of Directors. The identification of impairment and the determination of the recoverable amount are inherently uncertain processes involving the use of estimates, various assumptions and factors including the financial solvability of the borrower.</p> <p>For a full description of the valuation policy applied to the financial assets, we refer to the description included in the notes to the annual accounts.</p> <p>We consider the valuation of the financial assets as key audit matter, given the magnitude of these positions and the degree of judgment included in the estimation performed by the Board of Directors. If the estimates or assumptions used should significantly change, the resulting differences could materially affect the valuation of the financial assets.</p>	<p>Our audit procedures to cover the valuation of Other loans included:</p> <ul style="list-style-type: none"> • understanding of the impairment assessment performed by the Board of Directors. We assessed the appropriateness of the judgment and estimates used in the impairment analysis by reconciling the data used to the audited financial information of the borrower; • analysing the supporting documents (included but not limited to most recent available financial information of the borrower, economic factors influencing the respective country/industry of the borrower, its credit ratings); and • recalculating all interest amounts and verifying that the interest payments are made regularly and there is no indication of delays or default, payments of interests are verified up to the date of this report; • We finally assessed the adequacy of the disclosures in the annual accounts.



Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the Annual report including the Directors' Report and the Corporate Governance Statement but does not include the annual accounts and our audit report thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of the annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts

The objectives of our audit are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit.



We also:

- identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.



Report on other legal and regulatory requirements

The Directors' Report is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement is included in the Directors' Report. The information required by Article 68ter Paragraph (1) Letters c) and d) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

We have been appointed as "Réviseur d'Entreprises Agréé" of the Company by the Board of Directors on 25 July 2014 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is five years.

Other matter

The Corporate Governance Statement includes the information required by Article 68ter Paragraph (1) Letters a), b), e), f) and g) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 27 April 2018

A handwritten signature in blue ink, appearing to read "H. von Keutz", with a long horizontal stroke extending to the right.

Holger von Keutz

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