PAO Severstal
and subsidiaries

Consolidated financial statements
for the years ended December 31, 2014, 2013 and 2012

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Consolidated financial statements
Years ended December 31, 2014, 2013 and 2012

Contents

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Auditors' Report

To the Shareholders and Board of Directors

PAO Severstal

We have audited the accompanying consolidated financial statements of PAO Severstal (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2014, 2013 and 2012, and the consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for 2014, 2013 and 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, 2013 and 2012, and its financial performance and its cash flows for 2014, 2013 and 2012 in accordance with International Financial Reporting Standards.

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО Г.Р. №011585 * МОСКВА *
КПМГ
KPMG

Mr. Altukhov K.V.

Director (power of attorney dated 1 October 2013 No. 65/13)

ZAO KPMG

17 February 2015

Moscow, Russian Federation

PAO Severstal and subsidiaries

Consolidated income statements
Years ended December 31, 2014, 2013 and 2012

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

		Year ended December 31,		
	Note	**2014**	**2013***	**2012***
Revenue				
Revenue - third parties		8,181,346	9,299,578	10,037,265
Revenue - related parties	11	115,079	133,966	187,956
	4	8,296,425	9,433,544	10,225,221
Cost of sales		(5,448,447)	(6,614,055)	(7,010,372)
Gross profit		2,847,978	2,819,489	3,214,849
General and administrative expenses		(419,307)	(552,904)	(658,314)
Distribution expenses		(717,078)	(934,977)	(1,043,059)
Other taxes and contributions		(96,418)	(131,952)	(132,348)
Share of associates' and joint ventures' (loss)/profit		(24,137)	(4,186)	6,899
(Loss)/gain on disposal of property, plant and equipment and intangible assets		(11,174)	12,473	(23,753)
Net other operating income		14,414	717	25,308
Profit from operations		1,594,278	1,208,660	1,389,582
Impairment of non-current assets	8	(291,587)	(241,714)	(54,117)
Net other non-operating expenses	9	(102,093)	(70,233)	(70,314)
Profit before financing and taxation		1,200,598	896,713	1,265,151
Finance costs, net	6	(208,067)	(258,113)	(283,603)
Foreign exchange (loss)/gain, net	7	(1,806,875)	(310,137)	170,754
(Loss)/profit before income tax		(814,344)	328,463	1,152,302
Income tax benefit/(expense)	10	12,573	(69,911)	(264,983)
(Loss)/profit from continuing operations		(801,771)	258,552	887,319
Loss from discontinued operations	27	(800,852)	(169,349)	(67,520)
(Loss)/profit for the period		(1,602,623)	89,203	819,799
Attributable to:				
shareholders of PAO Severstal		(1,601,668)	82,728	761,962
non-controlling interests		(955)	6,475	57,837
Basic and diluted weighted average number of shares outstanding during the period (millions of shares)	26	810.6	810.6	839.8
Basic and diluted (loss)/earnings per share (US dollars)		(1.98)	0.10	0.91
Basic and diluted (loss)/earnings per share - continuing operations (US dollars)		(0.99)	0.31	1.01
Basic and diluted loss per share - discontinued operations (US dollars)		(0.99)	(0.21)	(0.10)

* These amounts reflect adjustments made in connection with the presentation of discontinued operations.

These consolidated financial statements were approved by the Board of Directors on February 17, 2015.

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

PAO Severstal and subsidiaries

Consolidated statements of comprehensive income
Years ended December 31, 2014, 2013 and 2012

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

	Year ended December 31,		
	2014	2013	2012
(Loss)/profit for the period	(1,602,623)	89,203	819,799
Other comprehensive (loss)/income:			
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses)	23,942	(8,068)	(32,645)
Translation to presentation currency	(1,172,294)	(225,148)	158,598
Total items that will not be reclassified to profit or loss	(1,148,352)	(233,216)	125,953
Items that may be reclassified subsequently to profit or loss			
Translation to presentation currency - foreign operations	(258,489)	92,170	117,955
Changes in fair value of cash flow hedges	-	(2,965)	2,303
Deferred tax on changes in fair value of cash flow hedges	-	422	(405)
Changes in fair value of available-for-sale financial assets	-	(569)	4,503
Deferred tax on changes in fair value of available-for-sale financial assets	-	467	(380)
Total items that may be reclassified subsequently to profit or loss	(258,489)	89,525	123,976
Items that were reclassified to profit or loss			
Realised gains on disposal of available-for-sale financial assets	-	(2,111)	-
Reclassification of the reserves of disposed subsidiaries to loss from discontinued operations (Note 27, 28)	(6,249)	-	(76,089)
Total items that were reclassified to profit or loss	(6,249)	(2,111)	(76,089)
Other comprehensive (loss)/income for the period, net of tax	(1,413,090)	(145,802)	173,840
Total comprehensive (loss)/income for the period	(3,015,713)	(56,599)	993,639
Attributable to:			
shareholders of PAO Severstal	(3,010,514)	(60,624)	921,155
non-controlling interests	(5,199)	4,025	72,484

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

PAO Severstal and subsidiaries

Consolidated statements of financial position
December 31, 2014, 2013 and 2012

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

	Note	December 31, 2014	December 31, 2013	December 31, 2012
Assets				
Current assets:				
Cash and cash equivalents	13	1,896,675	1,035,948	1,726,275
Short-term financial investments	14	21,129	60,016	23,778
Trade accounts receivable	15	648,990	1,356,916	1,040,567
Accounts receivable from related parties	12	14,735	18,620	15,468
Restricted financial assets		-	1,114	-
Inventories	16	823,331	2,018,760	2,352,898
VAT recoverable		63,642	119,151	214,419
Income tax recoverable		29,416	19,048	21,169
Other current assets	17	122,199	276,863	302,120
Total current assets		3,620,117	4,906,436	5,696,694
Non-current assets:				
Long-term financial investments	18	85,748	115,481	108,060
Investments in associates and joint ventures	19	81,436	256,671	316,503
Property, plant and equipment	20	3,336,298	8,254,192	8,462,711
Intangible assets	21	376,755	678,910	820,935
Restricted financial assets		-	39,478	32,970
Deferred tax assets	10	43,814	78,118	100,796
Other non-current assets		16,594	204,441	168,546
Total non-current assets		3,940,645	9,627,291	10,010,521
Total assets		7,560,762	14,533,727	15,707,215
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		500,228	1,145,873	1,057,621
Accounts payable to related parties	12	15,898	42,998	36,234
Short-term debt finance	22	774,493	627,519	1,382,128
Income taxes payable		8,814	10,660	16,604
Other taxes and social security payable		99,719	138,657	152,590
Dividends payable		2,355	28,065	86,538
Other current liabilities	23	332,881	555,401	637,947
Total current liabilities		1,734,388	2,549,173	3,369,662
Non-current liabilities:				
Long-term debt finance	22	2,654,370	4,126,575	4,327,412
Deferred tax liabilities	10	118,393	312,736	338,078
Retirement benefit liabilities	24	48,258	189,913	201,552
Other non-current liabilities	25	167,780	355,073	255,268
Total non-current liabilities		2,988,801	4,984,297	5,122,310
Equity:				
Share capital	26	2,752,728	2,752,728	2,752,728
Treasury shares		(235,657)	(235,657)	(235,657)
Additional capital		312,645	315,922	315,922
Translation reserve		(1,974,195)	(542,186)	(411,658)
Retained earnings		1,964,160	4,692,475	4,767,325
Other reserves		265	1,044	5,800
Total equity attributable to shareholders of PAO Severstal		2,819,946	6,984,326	7,194,460
Non-controlling interests		17,627	15,931	20,783
Total equity		2,837,573	7,000,257	7,215,243
Total equity and liabilities		7,560,762	14,533,727	15,707,215

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

PAO Severstal and subsidiaries

Consolidated statements of cash flows
Years ended December 31, 2014, 2013 and 2012

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

	Year ended December 31,		
	2014	2013*	2012*
Operating activities:			
Profit before financing and taxation	1,200,598	896,713	1,265,151
Adjustments to reconcile profit to cash generated from operations:			
Depreciation and amortization	560,682	607,231	555,703
Impairment of non-current assets (Note 8)	291,587	241,714	54,117
Movements in provision for inventories, receivables and other provisions	59,691	8,381	128,565
Loss/(gain) on disposal of property, plant and equipment and intangible assets	11,174	(12,473)	23,753
Loss/(gain) on disposal of subsidiaries and associates (Note 28)	27,336	1,195	(9,889)
Share of associates' and joint ventures' results less dividends from associates and joint ventures	31,062	8,633	(6,899)
Changes in operating assets and liabilities:			
Trade accounts receivable	19,811	(294,814)	157,802
Amounts receivable from related parties	(4,344)	(2,589)	1,442
VAT recoverable	6,378	87,832	(39,866)
Inventories	(139,144)	196,267	112,671
Trade accounts payable	45,805	37,022	(54,713)
Amounts payable to related parties	3,649	6,477	4,036
Other taxes and social security payable	43,212	(1,414)	3,401
Other non-current liabilities	(27,271)	(33,637)	2,380
Net other changes in operating assets and liabilities	101,347	1,326	57,799
Cash generated from operations	2,231,573	1,747,864	2,255,453
Interest paid	(246,837)	(307,218)	(331,543)
Income tax paid	(54,275)	(63,815)	(196,358)
Net cash from operating activities - continuing operations	1,930,461	1,376,831	1,727,552
Net cash from operating activities - discontinued operations	107,532	201,076	22,807
Net cash from operating activities	2,037,993	1,577,907	1,750,359
Investing activities:			
Additions to property, plant and equipment	(699,947)	(968,008)	(1,185,111)
Additions to intangible assets	(79,457)	(115,958)	(111,729)
Additions to financial investments, associates and joint ventures	(37,284)	(42,126)	(71,759)
Net cash inflow from disposals of subsidiaries (Note 27, 28)	2,012,756	3,628	-
Proceeds from disposal of property, plant and equipment	23,343	57,738	9,586
Proceeds from disposal of financial investments	19,862	13,266	352,749
Interest received	56,170	25,969	105,611
Dividends received	1,101	4,856	13,742
Cash from/(used in) investing activities - continuing operations	1,296,544	(1,020,635)	(886,911)
Cash used in investing activities - discontinued operations	(94,207)	(99,846)	(215,115)
Cash from/(used in) investing activities	1,202,337	(1,120,481)	(1,102,026)
Financing activities:			
Proceeds from debt finance	1,948,868	849,300	1,543,104
Repayments of debt finance	(2,571,583)	(1,408,441)	(1,707,908)
Repayments under lease obligations	(246)	(1,718)	(2,689)
Dividends paid	(1,060,565)	(213,246)	(344,396)
Repurchase of issued shares	-	-	(19,874)
Acquisitions of non-controlling interests	-	(4,083)	(193,883)
Cash used in financing activities - continuing operations	(1,683,526)	(778,188)	(725,646)
Cash used in financing activities - discontinued operations	(367,191)	(363,015)	(109,457)
Cash used in financing activities	(2,050,717)	(1,141,203)	(835,103)
Effect of exchange rates on cash and cash equivalents	(328,886)	(6,550)	7,339
Net increase/(decrease) in cash and cash equivalents	860,727	(690,327)	(179,431)
Less change in cash and cash equivalents of discontinued operations	-	-	42,168
Cash and cash equivalents at beginning of the period	1,035,948	1,726,275	1,863,538
Cash and cash equivalents at end of the period	1,896,675	1,035,948	1,726,275

* These amounts reflect adjustments made in connection with the presentation of discontinued operations.

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

PAO Severstal and subsidiaries

Consolidated statements of changes in equity
Years ended December 31, 2014, 2013 and 2012

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

	Attributable to the shareholders of PAO Severstal							Non-controlling interests	Total
	Share capital	Treasury shares	Additional capital	Translation reserve	Retained earnings	Other reserves	Total		
Balances at December 31, 2011	3,311,288	(1,586,293)	1,165,530	(642,228)	4,386,461	44,738	6,679,496	387,827	7,067,323
Profit for the period	-	-	-	-	761,962	-	761,962	57,837	819,799
Translation to presentation currency	-	-	-	261,700	-	-	261,700	14,853	276,553
Other comprehensive loss	-	-	-	(31,130)	(32,439)	(38,153)	(101,722)	(206)	(101,928)
Deferred tax on other comprehensive loss	-	-	-	-	-	(785)	(785)	-	(785)
Total comprehensive income/(loss) for the period				230,570	729,523	(38,938)	921,155	72,484	993,639
Dividends	-	-	-	-	(311,921)	-	(311,921)	-	(311,921)
Repurchase of issued shares (Note 26)	-	(20,480)	-	-	-	-	(20,480)	-	(20,480)
Cancellation of shares (Note 26)	(558,560)	1,474,965	(916,405)	-	-	-	-	-	-
Issue of convertible bonds (Note 22)	-	-	66,797	-	-	-	66,797	-	66,797
Gold segment separation (Note 27)	-	(103,849)	-	-	-	-	(103,849)	(274,892)	(378,741)
Effect of acquisitions without a change in control	-	-	-	-	(36,738)	-	(36,738)	(164,636)	(201,374)
Balances at December 31, 2012	2,752,728	(235,657)	315,922	(411,658)	4,767,325	5,800	7,194,460	20,783	7,215,243
Profit for the period	-	-	-	-	82,728	-	82,728	6,475	89,203
Translation to presentation currency	-	-	-	(130,528)	-	-	(130,528)	(2,450)	(132,978)
Other comprehensive loss	-	-	-	-	(8,068)	(5,645)	(13,713)	-	(13,713)
Deferred tax on other comprehensive loss	-	-	-	-	-	889	889	-	889
Total comprehensive (loss)/income for the period				(130,528)	74,660	(4,756)	(60,624)	4,025	(56,599)
Dividends	-	-	-	-	(154,305)	-	(154,305)	-	(154,305)
Effect of acquisitions and disposals without a change in control	-	-	-	-	4,795	-	4,795	(8,877)	(4,082)
Balances at December 31, 2013	2,752,728	(235,657)	315,922	(542,186)	4,692,475	1,044	6,984,326	15,931	7,000,257
Loss for the period	-	-	-	-	(1,601,668)	-	(1,601,668)	(955)	(1,602,623)
Translation to presentation currency	-	-	-	(1,426,539)	-	-	(1,426,539)	(4,244)	(1,430,783)
Other comprehensive (loss)/income	-	-	-	(5,470)	23,942	(779)	17,693	-	17,693
Total comprehensive loss for the period				(1,432,009)	(1,577,726)	(779)	(3,010,514)	(5,199)	(3,015,713)
Dividends	-	-	-	-	(1,151,459)	-	(1,151,459)	(262)	(1,151,721)
Repayment of convertible bonds	-	-	(3,277)	-	-	-	(3,277)	-	(3,277)
Effect of acquisitions and disposals without a change in control	-	-	-	-	870	-	870	7,157	8,027
Balances at December 31, 2014	2,752,728	(235,657)	312,645	(1,974,195)	1,964,160	265	2,819,946	17,627	2,837,573

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

1. Operations

These consolidated financial statements of PAO Severstal and subsidiaries comprise the parent company, PAO Severstal ('Severstal' or 'the Parent Company') and its subsidiaries (collectively 'the Group') as listed in Note 28.

Severstal began operations on August 24, 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On September 24, 1993, as a part of the Russian privatization program, Severstal was registered as a Open Joint Stock Company ('OAO') and privatized. Through participating in Severstal's privatization auctions and other purchases, Alexey Mordashov (the 'Majority Shareholder') had purchased shares in Severstal such that as at December 31, 2014, 2013 and 2012 he controlled indirectly 79.17% of Severstal's share capital. In November, 2014, Severstal changed its legal form from OAO to PAO (Public Joint Stock Company) following the requirements of the amended Russian Civil Code.

Severstal's global depositary receipts (GDRs) have been quoted on the London Stock Exchange since November 2006. Severstal's shares are quoted on the Moscow Exchange ('MICEX'). Severstal's registered office is located at Ul. Mira 30, Cherepovets, Russia.

The Group comprises the following segments:

- *Severstal Resources* – this segment comprises two iron ore complexes, Karelsky Okatysh and Olcon in northwest Russia, and a coal mining complex, Vorkutaugol in northwest Russia. The segment also included PBS Coals, a coal mining complex located in the USA, which was disposed in August, 2014 (Note 28).
- *Gold* (discontinued, Note 27) – this segment comprised the extraction and refining facilities that were located in the Russian Federation, Burkina Faso, Guinea and Kazakhstan and was separated in 2012.
- *Severstal Russian Steel* – this segment consists primarily of the Group's steel production and high-grade automotive galvanizing facilities in Cherepovets; rolling mill 5000 in Kolpino; a large-diameter pipe mill in Izhora, all in northwest Russia; metalware plants located in Russia, Ukraine and Italy; a ferrous scrap metal recycling business operating in northwest and central Russia, as well as various worldwide supporting functions for trading, maintenance and transportation.
- *Severstal International* (discontinued, Note 27) – this segment included an integrated iron and steel mill, Severstal Dearborn LLC, in the Midwest region; a mini-mill, Severstal Columbus LLC, in the southeast of the USA.

A segmental analysis of the consolidated statements of financial position and consolidated income statements is given in Note 29.

Economic environment

The major part of the Group is based in the Russian Federation and is consequently exposed to the economic and political effects of the policies adopted by the Russian government. These conditions and future policy changes could affect the operations of the Group and the realization and settlement of its assets and liabilities.

The recent conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. This development in the environment did not have a significant effect on the Group's operations, however, the longer-term effect of recently 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 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 at Severstal's key export markets is given below:

- Due to termination of the Agreement Suspending the Antidumping Investigation on Certain Hot-Rolled Flat-Rolled Carbon-Quality Steel Products from the Russian Federation by the US Department of Commerce in December 2014 exports of hot-rolled coils and thin sheets from Russia to the USA are currently subject to antidumping duties (73.59% for Severstal and 184.56% for all other producers). These duties were calculated in 1999 and based on non-market economy methodology. Severstal will request the administrative review for re-calculation of duty rate at the end of the next year;
- Exports of hot-rolled plates from Russia to the USA are subject to minimum prices established based on the producer's actual cost and profit on the domestic market. Severstal is the first and currently only Russian company, for which, since September 2005, the hot-rolled plates market is open.

In the past years the European Union ('EU') market was also protected by quotas, however, on August 22, 2012 the Russian Federation acceded to the World Trade Organization ('WTO'). Therefore beginning from August 23, 2012, there are no quantitative restrictions against import of certain steel products originating from the Russian Federation into the EU. Despite the Russian Federation accession to the WTO, the risk of new trade restrictions in the EU against the Russian Federation steel producers persists in the long-term.

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 rubles and in Russian language in accordance with the Federal Law No. 208 – FZ 'On consolidated financial reporting'.

Basis of measurement

The consolidated financial statements are prepared on the historic cost basis except for financial assets at fair value through profit and loss and available-for-sale financial assets stated at fair value.

The Group's statutory financial records are maintained in accordance with the legislative requirements of the countries in which the individual entities are located, which differ in certain respects from IFRS. The accounting policies applied in the preparation of these consolidated financial statements are set out in Note 3.

Critical accounting judgments, estimates and assumptions

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful lives of property, plant and equipment;
- impairment of assets;
- allowances for doubtful debts, obsolete and slow-moving inventories;
- decommissioning liability;
- retirement benefit liabilities;
- litigations; and
- deferred income tax assets.

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Impairment of assets

The Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Allowance for doubtful debts

The Group makes allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Allowance for obsolete and slow-moving inventories

The Group makes allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realizable value. Estimates of net realizable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events 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 liability

The Group reviews its decommissioning liability, representing site restoration provisions, at each reporting date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 'Changes in Existing Decommissioning, Restoration and Similar Liabilities'. The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

Retirement benefit liabilities

The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

Litigations

The Group exercises judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results.

Deferred income tax assets

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognized in the income statement.

Functional and presentation currency

The presentation currency of these consolidated financial statements is the US dollar.

The functional currency is determined separately for each of the Group's entities. For the Russian entities the functional currency is the Russian ruble. The functional currency of the Group's entities located in North America is the US dollar. The functional currency of the majority of the Group's entities located in Western Europe is the Euro.

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

The translation into the presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at the closing exchange rates at the dates of each statement of financial position presented;
- all income and expenses in each income statement are translated at the average exchange rates for the periods presented; and
- all resulting exchange differences are recognized as a separate component in other comprehensive income.

Any conversion of amounts into US dollars should not be construed as a representation that such amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rates used, or at any other exchange rate.

Adoption of amended Standards and Interpretation

A number of amended Standards and Interpretation were adopted for the year ended December 31, 2014, and have been applied in these consolidated financial statements.

Standards and Interpretation	Effective for annual periods beginning on or after
IAS 27 (Amended) "Separate Financial Statements"	January 1, 2014
IAS 32 (Amended) "Financial Instruments: Presentation"	January 1, 2014
IAS 36 (Amended) "Impairment of Assets"	January 1, 2014
IAS 39 (Amended) "Financial Instruments: Recognition and Measurement"	January 1, 2014
IFRS 10 (Amended) "Consolidated Financial Statements"	January 1, 2014
IFRS 12 (Amended) "Disclosure of Interests in Other Entities"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

Amended IAS 27 *Separate Financial Statements* requires an investment entity to account for its investment in a relevant subsidiary at fair value through profit or loss in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated). Amended IAS 27 did not have a significant effect on the Group’s consolidated financial statements.

Amended IAS 32 *Financial Instruments: Presentation* provides clarifications on the application of the offsetting rules of financial instruments. Amended IAS 32 did not have a significant effect on the Group’s consolidated financial statements.

Amended IAS 36 *Impairment of assets* has been issued to reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments to be applied retrospectively. Amended IAS 36 did not have a significant effect on the Group’s consolidated financial statements.

Amended IAS 39 *Financial Instruments: Recognition and Measurement* provides relief from discontinuing hedge accounting if a hedging derivative is novated, provided certain criteria are met. Amended IAS 39 did not have a significant effect on the Group’s consolidated financial statements.

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

Amended IFRS 10 *Consolidated Financial Statements* provides investment entities an exemption from the consolidation of particular subsidiaries and instead requires that an investment entity measures the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement.* Amended IFRS 10 did not have a significant effect on the Group's consolidated financial statements.

Amended IFRS 12 *Disclosure of Interests in Other Entities* requires additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries. Amended IFRS 12 did not have a significant effect on the Group's consolidated financial statements.

IFRIC 21 *Levies* provides guidance on determining the obligation event that gives rise to a liability in connection with a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. IFRIC 21 did not have a significant effect on the Group's consolidated financial statements.

New accounting pronouncements

A number of new Standards and amendments to Standards were not yet effective for the year ended December 31, 2014, and have not been applied in these consolidated financial statements.

Standards	**Effective for annual periods beginning on or after**
IAS 1 (Amended) "Presentation of Financial Statements"	January 1, 2016
IAS 16 (Amended) "Property, Plant and Equipment"	July 1, 2014, January 1, 2016
IAS 19 (Amended) "Employee Benefits"	July 1, 2014, January 1, 2016
IAS 24 (Amended) "Related Party Disclosures"	July 1, 2014
IAS 27 (Amended) "Separate Financial Statements"	January 1, 2016
IAS 28 (Amended) "Investments in Associates and Joint Ventures"	January 1, 2016
IAS 34 (Amended) "Interim Financial Reporting"	January 1, 2016
IAS 37 (Amended) "Provisions, Contingent Liabilities and Contingent Assets"	July 1, 2014
IAS 38 (Amended) "Intangible Assets"	July 1, 2014, January 1, 2016
IAS 39 (Amended) "Financial Instruments: Recognition and Measurement"	July 1, 2014
IAS 40 (Amended) "Investment Property"	July 1, 2014
IAS 41 (Amended) "Agriculture"	January 1, 2016
IFRS 1 (Amended) "First-time Adoption of International Financial Reporting Standards"	July 1, 2014, January 1, 2016
IFRS 2 (Amended) "Share-based Payment"	July 1, 2014
IFRS 3 (Amended) "Business Combinations"	July 1, 2014
IFRS 5 (Amended) "Non-current Assets Held for Sale and Discontinued Operations"	January 1, 2016
IFRS 7 (Amended) "Financial Instruments: Disclosure"	January 1, 2015, January 1, 2016
IFRS 8 (Amended) "Operating Segments"	July 1, 2014
IFRS 9 (Amended) "Financial Instruments"	July 1, 2014, January 1, 2018
IFRS 10 (Amended) "Consolidated Financial Statements"	January 1, 2016
IFRS 11 (Amended) "Joint Arrangements"	January 1, 2016
IFRS 12 (Amended) "Disclosure of Interests in Other Entities"	January 1, 2016
IFRS 13 (Amended) "Fair Value Measurement"	July 1, 2014
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2017

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

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

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

Restatements

During the current year the Group changed the classification of revenue by products to more appropriately reflect their nature.

In order to conform to the current period's presentation the following reclassifications to the prior period were made:

Revenue by product:

	Year ended December 31,	
	2013	2012
Metalware products	(139,362)	(131,812)
Cold-rolled sheet	67,090	73,145
Hot-rolled strip and plate	63,500	51,771
Galvanized and other metallic coated sheet	5,375	6,896
Colour-coated sheet	2,405	-
Other tubes and pipes, formed shapes	992	-

3. Summary of the principal accounting policies

The following significant accounting policies have been consistently applied in the preparation of these consolidated financial statements throughout the Group.

a. Basis of consolidation

Subsidiaries

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

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing these consolidated financial statements; unrealized losses are also eliminated unless the transaction provides an evidence of impairment of the asset transferred.

Acquisition of Subsidiaries

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

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

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

Accounting for business combinations of entities under common control

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

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

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

Business combination achieved in stages

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

Investments in associates

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

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

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

Joint arrangements

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

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

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

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

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

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

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

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

The Group accounts for joint ventures using the equity method.

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

Goodwill

Goodwill is measured as the difference between:

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

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

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

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

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

b. Foreign currency transactions

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

c. Exploration for and evaluation of mineral resources

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

- obtaining of the rights to explore and evaluate mineral reserves and resources including costs directly related to this acquisition;
- researching and analyzing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods;
- compiling prefeasibility and feasibility studies;
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

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

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

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

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

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

d. Development expenditure

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

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

e. Stripping costs

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

- Stripping activity asset; and
- Current stripping costs.

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

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

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

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

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

f. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and, for qualifying assets, borrowing costs capitalized. In the case of assets constructed by the Group, related works and direct project overheads are included in cost. The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Repair and maintenance expenses are charged to the income statement as incurred. Gains or losses on disposals of property, plant and equipment are recognized in the income statement.

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

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

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

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

g. Lease

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

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

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

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

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

h. Intangible assets (excluding goodwill)

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

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

The table below presents the useful lives of intangible assets:

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

The coal mining mineral rights of PBS Coals Limited constituted the major component of the mineral rights prior to the disposal of this entity in August 2014 (Note 28). The major component of the software is SAP business system. The major component of the other intangible assets is land lease rights. Amortization of intangible assets is included in the captions "Cost of sales" and "General and administrative expenses" in the consolidated income statement.

i. Impairment of assets

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

Calculation of recoverable amount

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

Reversals of impairment

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

j. Inventories

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

k. Financial assets

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

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

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

Effective interest method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in the income statement incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

AFS financial assets

Available for sale financial assets are those non-derivative financial assets that are not classified as financial assets at FVTPL, held-to-maturity or loans and receivables and are stated at fair value. Listed shares that are traded in an active market are stated at their market value. Investments in unlisted shares that do not have a quoted market price in an active market are measured at management's estimate of fair value. Gains and losses arising from changes in fair value are recognized in other comprehensive income with the exception of impairment losses, which are recognized directly in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the equity is included in the income statement for the period.

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

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

l. Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Borrowing costs on loans specifically for the purchase or construction of a qualifying asset are capitalized as a part of the cost of the asset they are financing.

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

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

m. Hedging instruments

The Group holds cash flow hedging instruments in order to hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and which could affect profit or loss.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss that has been previously recognized in other comprehensive income remains in equity until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount that has been recognized in other comprehensive income is transferred to the carrying amount of the asset when it is recognized. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

n. Dividends payable

Dividends are recognized as a liability in the period in which they are authorized 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 recognized in the income statement except to the extent that it relates to items recognized in other comprehensive income, in which case it is recognized in other comprehensive income.

Current tax expense is calculated by each entity on the pre-tax income determined in accordance with the tax law of the country, in which the entity is incorporated, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

Deferred tax is not recognized in respect of the following:

- investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future;
- if it arises from the initial recognition of an asset or liability that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss;
- initial recognition of goodwill.

q. Provisions

Employee benefits

The Group pays retirement, healthcare and other long-term benefits to its employees.

The Group has two types of retirement benefits: defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts in respect of those benefits. The Group’s only obligation is to pay contributions as they fall due, including contributions to the Russian Federation State pension fund. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans are post-employment benefits plans other than defined contribution plans. The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.). For Russia-based Group's entities, the discount rate used is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the Group’s obligations. The calculation of the Group’s net obligation in respect of defined retirement benefit plans is performed annually using the projected unit credit method. In accordance with this method, the Group’s net obligation is calculated separately for each defined benefit plan. Any actuarial gain or loss arising from the calculation of the retirement benefit liability is fully recognized in other comprehensive income.

Other long-term employee benefits include various compensations, non-monetary benefits and a long-term incentive program.

Decommissioning liability

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of certain of its production sites. Decommissioning liabilities are estimated case-by-case based on available information, taking into account applicable local legal requirements. The estimation is made using existing technology, at current prices, and discounted using a real discount rate. Future decommissioning costs, discounted to net present value, are capitalized and the corresponding decommissioning liability raised as soon as the constructive obligation to incur such costs arises. Future decommissioning costs are capitalized in property, plant and equipment and are depreciated over the life of the related asset. The effect of the time value of money on the decommissioning liability is recognized in the consolidated income statement as an interest expense. Ongoing rehabilitation costs are expensed when incurred.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

Other provisions

Other provisions are recognized in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

r. Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Repurchase of issued shares

When share capital recognized as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

s. Operating income and expenses

The Group presents profit or loss from operations, which includes various types of income and expenses arising in the course of production and sale of the Group's products, disposal of property, plant and equipment, participation in joint ventures and associates and other Group's regular activities.

Certain items are presented separately from profit or loss from operations by virtue of their size, incidence or nature to enable a full understanding of the Group's financial performance. Such items, which are included in profit or loss before financing and taxation, primarily include impairment of non-current assets, negative goodwill and other non-operating income and expenses, as, for example, gain or loss on disposal of subsidiaries and associates and charitable donations.

t. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Sale of goods

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

u. Finance costs, net

Interest income

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

Interest expense

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

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

Gain/(loss) on remeasurement and disposal of financial investments comprises dividend income (except for dividends from equity associates and joint ventures), realized and unrealized gains on financial assets at fair value through profit or loss, realized gains and impairment losses on available-for-sale and held-to-maturity investments.

Other finance costs

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

v. Earnings per share

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year, assuming that shares issued in consideration for the companies acquired from the Majority Shareholder were issued from the moment these companies are included in these consolidated financial statements.

w. Discontinued operations

Discontinued operations are disclosed when a component of the Group either has been disposed of during the reporting period, or is classified as held for sale at the reporting date. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification.

The comparative income statement is presented as if the operation had been discontinued from the beginning of the comparative period.

Assets and liabilities of a disposal group are presented in the statement of financial position separately from other assets and liabilities. Comparative information related to discontinued operations is not amended in the statement of financial position.

x. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The reportable segments' amounts in the disclosure are stated before intersegment elimination and are measured on the same basis as those in the consolidated financial statements, except that:

- non-monetary long-term investments in subsidiaries are translated into the presentation currency at the historic exchange rate;
- no impairment is recognized on investments in subsidiaries;
- no discounting is applyed for intersegment loans;
- in case of transfers of equity investments between segments, such investments are accounted at their historic cost.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

y. Government grants

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

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

4. Revenue

Revenue by product was as follows:

	Year ended December 31,		
	2014	2013*	2012*
Hot-rolled strip and plate	2,366,275	2,745,352	2,768,199
Cold-rolled sheet	804,918	876,604	990,855
Metalware products	663,831	770,523	835,816
Shipping and handling costs billed to customers	633,200	762,964	792,878
Long products	600,753	522,959	547,235
Large diameter pipes	571,080	511,765	562,266
Other tubes and pipes, formed shapes	553,341	508,235	482,746
Pellets and iron ore	494,791	665,533	668,060
Galvanized and other metallic coated sheet	435,407	506,095	579,471
Colour-coated sheet	426,153	476,880	428,642
Coal and coking coal concentrate	221,737	505,031	697,424
Semi-finished products	171,398	196,270	459,514
Scrap	11,392	12,140	17,315
Others	342,149	373,193	394,800
	8,296,425	9,433,544	10,225,221

*These amounts reflect adjustments made in connection with the change in presentation described in Note 2 of these consolidated financial statements.

Revenue by delivery destination was as follows:

	Year ended December 31,		
	2014	2013	2012
Russian Federation	5,300,941	5,927,208	6,412,704
Europe	1,778,122	1,979,266	1,959,044
North America	365,249	235,240	363,963
China and Central Asia	282,579	427,016	571,728
The Middle East	254,298	367,120	329,467
Central and South America	161,275	220,783	354,168
Africa	87,203	80,235	98,199
South-East Asia	66,758	196,676	135,948
	8,296,425	9,433,544	10,225,221

5. Staff costs

Employment costs were as follows:

	Year ended December 31,		
	2014	2013	2012
Wages and salaries	(1,043,327)	(1,299,201)	(1,384,162)
Social security costs	(332,877)	(408,274)	(424,482)
Retirement benefit service costs	(4,427)	(2,952)	(3,216)
	(1,380,631)	(1,710,427)	(1,811,860)

Key management's remuneration for the year ended December 31, 2014, consisting of salaries and bonuses, totalled US$ 23.3 million (2013: US$ 38.9 million; 2012: US$ 38.1 million). Additionally, in 2014, a provision for their long-term incentive programmes was accrued in the amount of US$ 6.8 million (in 2013 the provision was reversed in the amount of US$ 6.4 million and in 2012 the provision was accrued in the amount of US$ 16.1 million). This provision is subject to further adjustments, depending on a range of the Group's financial indicators.

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

6. Finance costs, net

	Year ended December 31,		
	2014	**2013**	**2012**
Interest expense	(256,598)	(275,410)	(336,573)
Interest income	50,828	29,951	64,783
Gain/(loss) on remeasurement and disposal of financial investments:	3,535	(9,626)	(6,581)
Held-for-trading securities			
Remeasurement to fair value	11,254	-	(559)
Held-to-maturity securities and loans			
Loss on disposal	(10,119)	(14,886)	(21,615)
Reversal of impairment/(impairment)	1,403	(693)	1,851
Available-for-sale financial assets			
Net gain on disposal transferred from equity	-	1,540	-
Impairment	(104)	(443)	-
Dividend income	1,101	4,856	13,742
Other finance costs	(5,832)	(3,028)	(5,232)
	(208,067)	(258,113)	(283,603)

7. Foreign exchange (loss)/gain, net

	Year ended December 31,		
	2014	**2013**	**2012**
Foreign exchange (loss)/gain on cash and cash equivalents and debt finance	(1,814,972)	(384,382)	221,227
Foreign exchange (loss)/gain on derivative	(228,451)	18,584	48,193
Foreign exchange gain/(loss) on other assets and liabilities	236,548	55,661	(98,666)
	(1,806,875)	(310,137)	170,754

8. Impairment of non-current assets

	Year ended December 31,		
	2014	**2013**	**2012**
Impairment of property, plant and equipment	(168,587)	(24,033)	(5,462)
Impairment of intangible assets	(115,500)	(154,617)	-
Impairment of goodwill	(7,500)	(63,064)	(48,655)
	(291,587)	(241,714)	(54,117)

For the purpose of impairment testing, the recoverable amount of each cash-generating unit, except PBS Coals Limited and Severstal Liberia Iron Ore Ltd in 2014, 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.

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

Key assumptions management used in their value in use calculations are as follows:

- For all cash-generating units, apart from the Severstal Resources segment, cash flow projections cover a period of five years. Cash flows beyond the five-year period have been extrapolated taking into account business cycles. Cash flow projections for cash-generating units of the Severstal Resources segment cover a period which corresponds to the contractual time of the respective mining licenses.
- Cash flow projections were prepared in nominal terms.
- Cash flow projections during the forecast period are based on long-term price trends for both sales prices and material costs specific for each segment and geographic region and operating cost inflation in line with consumer price inflation for each country. Consumer price inflation expectations (in local currency) during the forecast period are as follows in percentage terms:

	Year ended December 31,		
	2014	2013	2012
USA	n/a	1.9 - 2.3	0.3 - 3.0

- Discount rates for each cash-generating unit were estimated in nominal terms based on the weighted average cost of capital. These rates, presented by segment, are as follows in percentage terms:

	Year ended December 31,		
	2014	2013	2012
Severstal Resources:			
USA	n/a	13.2	14.7

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

PBS Coals Limited

2012

The impairment loss was recognized in 2012 in the amount of US$ 48.7 million and was allocated fully to goodwill.

The carrying amount of goodwill allocated to the cash-generating unit before the impairment loss was US$ 111.7 million as of December 31, 2012.

The following assumptions were used in the impairment test:

- the forecast extraction volumes decrease by 9% in 2013, decrease by 3% in 2014 and remain at this level in 2015, increase by 24% in 2016 and remain constant at the 2016 level thereafter;

- the forecast coking coal concentrate prices decrease by 18% in 2013, increase by 13% in 2014, increase on average by 6% p.a. in 2015 to 2022, further grow on average by 2% p.a.;
- the forecast steam coal prices decrease by 15% in 2013, increase by 13% in 2014, increase on average by 6% p.a. in 2015 to 2022, further grow on average by 2% p.a.;
- operating costs are forecast to decrease by 14% in 2013, remain constant at the 2013 level in 2014 to 2015, increase by 26% in 2016, further grow on average by 4% p.a.;
- pre-tax discount rate of 14.7% (in US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$ 31.5 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$ 267.4 million.

2013

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

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

The following assumptions were used in the impairment test:

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

Changes in the assumptions in 2013 compared to 2012 mainly relate to a decrease in forecasted thermal coal extraction volumes as a result of macroeconomic changes in the USA coal market. Management believes the outlook for thermal coal will continue to face declining structural domestic demand and continued natural gas competition.

The above estimates are particularly sensitive in the following areas:

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

2014

The impairment loss was recognized in 2014 in the amount of US$ 153.9 million and was allocated to property, plant and equipment. Further disclosures are available in Note 28 of these consolidated financial statements.

Severstal Liberia Iron Ore Ltd

2014

During 2014, due to the decrease in iron ore prices the Group assessed the recoverable amount of Severstal Liberia Iron Ore Ltd. As a result, in 2014 the Group recognized an impairment loss of US$ 123.0 million in relation to non-current assets of Severstal Liberia Iron Ore Ltd based on its fair value less costs to sell. The loss was allocated to goodwill in the amount of US$ 7.5 million and to evaluation and exploration assets in the amount of US$ 115.5 million.

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

Other units

2012

The impairment loss was recognized in 2012 in the amount of US$ 3.0 million in relation to specific items of property, plant and equipment.

2013

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

2014

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

Severstal Russian Steel segment

Other units

2012

The impairment loss was recognized in the amount of US$ 2.4 million in 2012 in relation to specific items of property, plant and equipment.

2013

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

2014

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

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

9. Net other non-operating expenses

	Year ended December 31,		
	2014	2013	2012
Social expenditure	(20,308)	(33,770)	(31,995)
Charitable donations	(32,911)	(29,417)	(47,423)
Depreciation of infrastructure assets	(3,185)	(4,577)	(3,405)
(Loss)/gain on disposal of subsidiaries and associates (Note 28)	(27,336)	(1,195)	9,889
Legal claim of disposed subsidiary	(13,469)	-	-
Other	(4,884)	(1,274)	2,620
	(102,093)	(70,233)	(70,314)

10. Taxation

The following is an analysis of the income tax expense:

	Year ended December 31,		
	2014	2013	2012
Current tax charge	(41,270)	(61,937)	(226,611)
Corrections to prior year's current tax charge	9,839	6,617	3,058
Deferred tax benefit/(expense)	44,004	(14,591)	(41,430)
Income tax benefit/(expense)	12,573	(69,911)	(264,983)

The following table is a reconciliation of the reported net income tax expense and the amount calculated by applying the Russian statutory tax rate of 20% to reported profit before income tax.

	Year ended December 31,		
	2014	2013	2012
(Loss)/profit before income tax	(814,344)	328,463	1,152,302
Tax charge at Russian statutory rate	162,869	(65,693)	(230,460)
Profits taxed at different rates	38,087	54,523	20,373
Corrections to prior years' current tax charge	9,839	6,617	3,058
Non-tax deductible expenses, net	(13,726)	(27,178)	(47,378)
Tax-loss carry forwards expired	-	-	(1,057)
Changes in non-recognized deferred tax assets	(122,826)	(22,786)	(17,027)
Reassessment of deferred tax assets and liabilities	(61,670)	(15,394)	7,508
Income tax benefit/(expense)	12,573	(69,911)	(264,983)

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

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

	December 31,		
	2014	**2013**	**2012**
Deferred tax assets:			
Tax-loss carry forwards	171,525	80,740	187,088
Property, plant and equipment	1,847	3,199	5,973
Intangible assets	53	162	262
Inventory	28,829	38,121	46,650
Accounts receivable	16,588	63,262	65,198
Provisions	26,918	140,164	134,284
Financial investments	12,139	89,317	94,087
Other	31,816	71,083	73,268
Gross deferred tax assets	289,715	486,048	606,810
Less offsetting with deferred tax liabilities	(245,901)	(407,930)	(506,014)
Recognized deferred tax assets	43,814	78,118	100,796

	December 31,		
	2014	**2013**	**2012**
Deferred tax liabilities:			
Property, plant and equipment	(293,371)	(574,671)	(615,756)
Provisions	(2,156)	(1,096)	(4,072)
Intangible assets	(45,815)	(89,667)	(143,862)
Inventory	(17,484)	(18,857)	(19,469)
Investments in associates and joint ventures	(2,354)	(22,799)	(29,521)
Accounts receivable	(619)	(2,187)	(2,286)
Financial liabilities	(731)	(207)	(7,152)
Other	(1,764)	(11,182)	(21,974)
Gross deferred tax liabilities	(364,294)	(720,666)	(844,092)
Less offsetting with deferred tax assets	245,901	407,930	506,014
Recognized deferred tax liabilities	(118,393)	(312,736)	(338,078)
Net deferred tax liability	(74,579)	(234,618)	(237,282)

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

	Year ended December 31,		
	2014	**2013**	**2012**
Opening balance	(234,618)	(237,282)	(187,475)
Recognized in income statement	(3,566)	(11,140)	(39,999)
Recognized in other comprehensive income	-	889	(785)
Business de-combinations	26,308	-	-
Translation to presentation currency	137,297	12,915	(9,023)
Closing balance	(74,579)	(234,618)	(237,282)

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

	December 31,		
	2014	2013	2012
Between one and five years	255.3	93.2	86.8
Between five and ten years	67.1	119.7	116.0
Between ten and twenty years	1,866.3	2,475.0	2,216.4
	2,188.7	2,687.9	2,419.2

Taxable differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to US$ 5,307.4 million at December 31, 2014 (December 31, 2013: US$ 6,449.8 million; December 31, 2012: US$ 6,336.6 million).

11. Related party transactions

	Year ended December 31,		
	2014	2013	2012
Revenue - related parties:			
Revenue - associates	41,570	47,909	86,041
Revenue - joint ventures	30,228	43,226	60,298
Revenue - other related parties	43,281	42,831	41,617
Interest income from related parties:			
Interest income from joint ventures	4,769	4,518	2,978
Interest income from other related parties	10,316	10,454	31,022
	130,164	148,938	221,956
Purchases from related parties:			
Purchases from associates:			
Non-capital expenditures	86,495	101,663	73,282
Purchases from joint ventures:			
Non-capital expenditures	5,463	5,137	4,873
Purchases from other related parties:			
Non-capital expenditures	34,512	30,031	38,808
Capital expenditures	500	190	153
Interest expense	-	47	53
	126,970	137,068	117,169

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

12. Related party balances

	December 31,		
	2014	2013	2012
Joint ventures' balances			
Short-term trade accounts receivable	807	4,804	4,557
Short-term loans	471	29,383	-
Long-term loans	48,126	39,026	53,550
Long-term promissory notes	-	29,258	19,900
Short-term trade accounts payable	424	9,701	21,886
Associates' balances			
Short-term trade accounts receivable	3,003	4,501	5,136
Short-term loans	4,778	4,585	-
Long-term loans	-	-	5,446
Short-term trade accounts payable	6,720	25,642	11,392
Other related party balances			
Cash and cash equivalents at related party banks	309,092	373,359	561,946
Accounts receivable from other related parties:			
Short-term trade accounts receivable	8,732	6,274	4,852
Advances paid	551	856	625
Short-term other receivables	1,642	2,185	298
Short-term loans	320	457	1,027
Short-term promissory notes	6,755	1,427	2,407
Long-term other receivables	1,491	3,441	-
Available-for-sale financial assets	450	891	812
	19,941	15,531	10,021
Accounts payable to other related parties:			
Short-term trade accounts payable	5,423	1,446	1,909
Advances received	73	168	433
Short-term other accounts payable	3,258	6,041	614
Long-term other accounts payable	8,960	2,917	-
	17,714	10,572	2,956
Debt financing includes the following balances with other related parties:			
Short-term debt financing	196	92	-
Long-term debt financing	-	-	4,391
	196	92	4,391

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

Loans given to related parties were provided at interest rates ranging from nil to 13% per annum and were given to finance working capital and investments.

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

13. Cash and cash equivalents

	December 31, 2014	December 31, 2013	December 31, 2012
Petty cash	106	307	374
Cash at bank	157,387	235,720	586,216
Bank deposits	1,739,182	799,921	1,139,685
	1,896,675	1,035,948	1,726,275

14. Short-term financial investments

	December 31, 2014	December 31, 2013	December 31, 2012
Held-to-maturity securities	10,871	21,564	5,797
Loans	10,258	38,452	4,981
Available-for-sale financial assets	-	-	12,970
Held-for-trading securities	-	-	30
	21,129	60,016	23,778

15. Trade accounts receivable

	December 31, 2014	December 31, 2013	December 31, 2012
Customers	670,348	1,401,207	1,092,309
Allowance for doubtful debts	(21,358)	(44,291)	(51,742)
	648,990	1,356,916	1,040,567

16. Inventories

	December 31, 2014	December 31, 2013	December 31, 2012
Raw materials and supplies	325,383	1,001,722	1,107,363
Finished goods	199,826	536,239	746,310
Work-in-progress	298,122	480,799	499,225
	823,331	2,018,760	2,352,898

Of the above amounts US$ 24.1 million (December 31, 2013: US$ 21.3 million; December 31, 2012: US$ 36.8 million) were stated at net realizable value.

During the year ended December 31, 2014, the Group recognized a US$ 39.5 million release and a US$ 65.6 million allowance to reduce the carrying amount to a net realizable value (2013: US$ 52.4 million and US$ 50.3 million, respectively; 2012: US$ 48.5 million and US$ 163.3 million, respectively).

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

17. Other current assets

	December 31, 2014	December 31, 2013	December 31, 2012
Advances paid and prepayments	40,167	109,288	135,846
Incentives receivable	17,000	70,000	-
Financial receivable	15,107	-	-
Other taxes and social security prepaid	10,859	15,912	16,431
Derivative financial assets	-	-	34,808
Other assets	39,066	81,663	115,035
	122,199	276,863	302,120

18. Long-term financial investments

	December 31, 2014	December 31, 2013	December 31, 2012
Loans	48,157	39,046	59,079
Available-for-sale financial assets	37,591	46,075	26,870
Held-to-maturity securities	-	30,360	22,111
	85,748	115,481	108,060

19. Investments in associates and joint ventures

The Group's investments in associates and joint ventures companies are described in the table below. The Group structure and certain additional information on investments in associates and joint ventures, including ownership percentages, are presented in Note 28.

	December 31, 2014	December 31, 2013	December 31, 2012
Associates			
ZAO Air Liquide Severstal	20,843	28,360	26,971
Iron Mineral Beneficiation Services (Proprietary) Ltd	11,683	40,768	39,711
Spartan Steel Coating LLC	-	43,700	44,297
SPG Mineracao SA	-	-	43,123
Joint ventures			
Gestamp-Severstal-Kaluga LLC	24,642	30,987	17,379
Severstal-Gonvarri-Kaluga LLC	13,287	10,648	13,794
Gestamp Severstal Vsevolozhsk LLC	10,315	16,481	14,976
Mountain State Carbon LLC	-	67,535	83,832
Double Eagle Steel Coating Company	-	13,285	15,166
Todlem S.L.	-	-	12,252
Other	666	4,907	5,002
	81,436	256,671	316,503

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

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

The following is summarized financial information in respect of associates:

	December 31,		
	2014	2013	2012
Current assets	26,217	61,905	985,327
Non-current assets	92,214	193,321	209,831
Short-term liabilities	18,177	33,811	1,227,467
Long-term liabilities	15,263	45,832	67,055
Equity	84,991	175,583	(99,364)

	Year ended December 31,		
	2014	2013	2012
Revenue	87,934	144,249	1,350,980
Net income/(loss)	20,872	29,137	(202,467)
Other comprehensive (loss)/income	(35,185)	4,496	6,640
Total comprehensive (loss)/income	(14,313)	33,633	(195,827)

The Group's unrecognized share of losses in Lucchini S.p.A. amounted to US$ 113.9 million for the year ended December 31, 2012.

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

	December 31,		
	2014	2013	2012
Current assets	89,770	263,087	205,531
Non-current assets	187,652	506,042	464,199
Short-term liabilities	83,962	180,747	122,533
Long-term liabilities	138,257	232,895	161,498
Equity	55,203	355,487	385,699

	Year ended December 31,		
	2014	2013	2012
Revenue	433,547	451,083	497,000
Net loss	(93,981)	(52,423)	(25,266)
Other comprehensive (loss)/income	(67,423)	(13,219)	8,532
Total comprehensive loss	(161,404)	(65,642)	(16,734)

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

20. Property, plant and equipment

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction-in-progress	Total
Cost:						
December 31, 2011	2,177,548	7,190,059	398,607	100,412	1,734,822	11,601,448
Reclassifications	(27,282)	63,793	(31,341)	(5,170)	-	-
Additions	-	-	-	-	1,424,817	1,424,817
Disposals	(8,535)	(195,882)	(25,364)	(613)	(2,182)	(232,576)
Business de-combinations	(754)	(11,685)	(72)	-	-	(12,511)
Transfers from/(to) other assets and liabilities	3,809	22,502	6,202	346	(5,445)	27,414
Transfers	118,418	1,051,357	113,747	18,445	(1,301,967)	-
Translation to presentation currency	94,938	307,827	14,914	6,730	80,711	505,120
December 31, 2012	2,358,142	8,427,971	476,693	120,150	1,930,756	13,313,712
Reclassifications	(3,036)	(22,946)	25,640	342	-	-
Additions	-	-	-	-	1,147,147	1,147,147
Disposals	(10,824)	(157,111)	(24,823)	(12,071)	(7,374)	(212,203)
Business de-combinations	(10,751)	(3,349)	(433)	-	-	(14,533)
Transfers from/(to) other assets and liabilities	6,974	684	5,760	(2,143)	(14,408)	(3,133)
Transfers	136,874	721,052	79,928	12,181	(950,035)	-
Translation to presentation currency	(123,290)	(417,247)	(22,526)	(8,602)	(128,947)	(700,612)
December 31, 2013	2,354,089	8,549,054	540,239	109,857	1,977,139	13,530,378
Reclassifications	657	1,291	(831)	(1,117)	-	-
Additions	-	-	-	-	743,947	743,947
Business combinations	5,490	53,201	-	-	2,194	60,885
Disposals	(8,288)	(115,595)	(19,828)	(6,286)	(17,652)	(167,649)
Business de-combinations	(620,305)	(2,884,084)	(274,985)	-	(131,153)	(3,910,527)
Transfers (to)/from other assets and liabilities	(7,813)	(7,039)	(63)	(5)	30	(14,890)
Transfers	288,248	852,716	89,535	7,228	(1,237,727)	-
Translation to presentation currency	(782,368)	(2,627,001)	(147,055)	(45,490)	(615,094)	(4,217,008)
December 31, 2014	1,229,710	3,822,543	187,012	64,187	721,684	6,025,136

Of the above amounts of additions to construction-in-progress US$ 33.3 million (2013: US$ 54.7 million, 2012: US$ 34.7 million) is interest capitalized.

The Group applied the weighted average capitalization rate of 5.9% to determine the amount of borrowing costs eligible for capitalization for the year ended December 31, 2014 (2013: 7.2%; 2012: 8.3%).

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

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction-in-progress	Total
Depreciation and impairment:						
December 31, 2011	728,979	3,102,796	199,364	64,562	42,353	4,138,054
Reclassifications	(10,265)	35,225	(22,394)	(2,566)	-	-
Depreciation expense	77,655	542,783	59,585	3,405	-	683,428
Disposals	(5,578)	(167,428)	(24,286)	(561)	-	(197,853)
Business de-combinations	(655)	(10,154)	(68)	-	-	(10,877)
Transfers from/(to) other assets and liabilities	4,725	19,303	(268)	(232)	(4,223)	19,305
Impairment of assets	-	28	29	1,172	4,233	5,462
Translation to presentation currency	40,191	159,948	7,375	3,906	2,062	213,482
December 31, 2012	835,052	3,682,501	219,337	69,686	44,425	4,851,001
Reclassifications	(1,570)	(405)	1,798	177	-	-
Depreciation expense	80,943	604,008	66,517	4,577	-	756,045
Disposals	(5,772)	(131,759)	(19,287)	(11,227)	-	(168,045)
Business de-combinations	(10,568)	(2,774)	(300)	-	-	(13,642)
Transfers from other assets and liabilities	219	4,696	710	-	-	5,625
Impairment of assets	4,452	72,463	18	1,973	59,110	138,016
Translation to presentation currency	(54,164)	(222,058)	(9,195)	(4,926)	(2,471)	(292,814)
December 31, 2013	848,592	4,006,672	259,598	60,260	101,064	5,276,186
Reclassifications	505	(13,296)	12,670	121	-	-
Depreciation expense	69,433	533,103	46,408	3,185	-	652,129
Disposals	(2,404)	(97,595)	(17,278)	(2,781)	(11,626)	(131,684)
Business de-combinations	(315,313)	(1,690,614)	(228,108)	-	(49,263)	(2,283,298)
Transfers from/(to) other assets and liabilities	2	(483)	43	-	-	(438)
Impairment of assets	226,705	708,925	59,938	1,295	20,349	1,017,212
Translation to presentation currency	(335,382)	(1,397,364)	(63,021)	(25,469)	(20,033)	(1,841,269)
December 31, 2014	492,138	2,049,348	70,250	36,611	40,491	2,688,838
Net book values:						
December 31, 2012	1,523,090	4,745,470	257,356	50,464	1,886,331	8,462,711
December 31, 2013	1,505,497	4,542,382	280,641	49,597	1,876,075	8,254,192
December 31, 2014	737,572	1,773,195	116,762	27,576	681,193	3,336,298

Other productive assets include transportation equipment and tools.

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

21. Intangible assets

	Goodwill	Mineral rights	Software	Evaluation and exploration assets	Other intangible assets	Total
Cost:						
December 31, 2011	542,761	391,712	147,367	129,906	154,545	1,366,291
Reclassifications	-	-	312	1,233	(1,545)	-
Additions	-	7,940	48,937	55,953	211	113,041
Transfers from other assets	-	-	2,244	2,241	953	5,438
Translation to presentation currency	9,739	4,586	7,856	1,192	4,414	27,787
December 31, 2012	552,500	404,238	206,716	190,525	158,578	1,512,557
Reclassifications	-	-	(429)	429	-	-
Additions	-	11,682	57,622	46,618	1,037	116,959
Transfers from other assets	-	-	13,386	1,077	18	14,481
Disposals	-	(1,107)	-	-	(44)	(1,151)
Translation to presentation currency	(589)	(6,045)	(14,561)	(2,751)	(5,558)	(29,504)
December 31, 2013	551,911	408,768	262,734	235,898	154,031	1,613,342
Reclassifications	-	-	-	242	(242)	-
Additions	-	2	51,269	27,857	6,976	86,104
Business combinations	-	-	-	-	1,747	1,747
Transfers (to)/from other assets	-	-	(1,964)	-	8,856	6,892
Disposals	-	(28)	(85)	-	(92)	(205)
Business de-combinations	(472,088)	(318,533)	(32,466)	-	(89,540)	(912,627)
Translation to presentation currency	(20,190)	(38,134)	(110,185)	(19,757)	(31,275)	(219,541)
December 31, 2014	59,633	52,075	169,303	244,240	50,461	575,712
Amortization and impairment:						
December 31, 2011	386,833	74,153	29,236	737	104,878	595,837
Reclassifications	-	-	(189)	460	(271)	-
Amortization expense	-	20,237	15,249	1,683	5,448	42,617
Impairment	48,655	-	-	-	-	48,655
Transfers from other assets	-	-	66	-	-	66
Translation to presentation currency	1,589	164	1,025	75	1,594	4,447
December 31, 2012	437,077	94,554	45,387	2,955	111,649	691,622
Reclassifications	-	-	(211)	211	-	-
Amortization expense	-	9,251	18,664	1,569	2,702	32,186
Impairment	63,064	154,617	-	-	-	217,681
Transfers (to)/from other assets	-	(25)	88	(7)	(7)	49
Translation to presentation currency	(2,021)	(384)	(2,194)	(292)	(2,215)	(7,106)
December 31, 2013	498,120	258,013	61,734	4,436	112,129	934,432
Reclassifications	-	-	65	(65)	-	-
Amortization expense	-	766	18,454	2,245	2,404	23,869
Impairment	7,500	-	-	115,500	3,395	126,395
Transfers from other assets	-	-	4,588	-	-	4,588
Business de-combinations	(472,088)	(253,651)	(25,886)	-	(87,866)	(839,491)
Translation to presentation currency	(10,887)	(2,082)	(21,873)	(2,652)	(13,342)	(50,836)
December 31, 2014	22,645	3,046	37,082	119,464	16,720	198,957
Net book values:						
December 31, 2012	115,423	309,684	161,329	187,570	46,929	820,935
December 31, 2013	53,791	150,755	201,000	231,462	41,902	678,910
December 31, 2014	36,988	49,029	132,221	124,776	33,741	376,755

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

22. Debt finance

	December 31,		
	2014	2013	2012
Eurobonds 2013	-	-	543,552
Eurobonds 2014	-	375,000	375,000
Eurobonds 2016	391,838	500,000	500,000
Eurobonds 2017	705,486	1,000,000	1,000,000
Eurobonds 2018	572,500	600,000	-
Eurobonds 2022	697,289	750,000	750,000
Convertible bonds 2017	451,800	475,000	475,000
Ruble bonds 2013	-	-	493,865
Severstal Columbus bonds	-	525,000	525,000
Bank financing	598,182	519,259	991,393
Factoring of receivables	-	4,540	9,632
Other financing	13,268	22,146	60,195
Accrued interest	37,493	73,122	110,664
Discounting	(28,140)	(52,662)	(71,061)
Unamortized balance of transaction costs	(10,853)	(37,311)	(53,700)
	3,428,863	4,754,094	5,709,540
Total debt is denominated in the following currencies:			
US Dollars	3,129,836	4,455,459	4,743,206
Euro	32,404	295,671	448,332
Rubles	266,623	2,964	518,002
	3,428,863	4,754,094	5,709,540
Total debt is contractually repayable after the balance sheet date as follows:			
Less than one year	774,493	627,519	1,382,128
Between one and five years	1,948,921	3,373,431	3,070,645
After more than five years	705,449	753,144	1,256,767
	3,428,863	4,754,094	5,709,540

Bonds issued

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

In July 2008, the Group issued US$ 1,250.0 million US dollar-denominated bonds maturing in 2013. Bonds bear an interest rate of 9.75% per annum which is payable semi-annually in January and July each year.

In February 2010, the Group’s subsidiary Severstal Columbus issued US dollar-denominated bonds in an aggregate principal amount of US$ 525.0 million maturing in 2018. These bonds bear an interest rate of 10.25% per annum, which is payable semi-annually in February and August each year, beginning in August 2010.

In February 2010, the Group issued ruble-denominated bonds in an aggregate principal amount of US$ 498.0 million maturing in 2013. These bonds bear an interest rate of 9.75% per annum, which is payable semi-annually in February and August each year, beginning in August 2010.

In October 2010, the Group issued US$ 1.0 billion US dollar-denominated bonds maturing in 2017. Bonds bear an interest rate of 6.7% per annum which is payable semi-annually in April and October each year, beginning in April 2011. These bonds were issued under the Group's newly established US$ 3.0 billion Loan Participation Note Programme. The proceeds from the bonds issuance were used to fund the purchase of US$ 706.4 million nominal of Group’s US$ 1,250.0 million Eurobonds in US dollars and for refinancing of certain other Group’s debts. As at December 31, 2014 the amount outstanding under this facility was US$ 705.5 million.

In July 2011, the Group issued US$ 500.0 million bonds denominated in US dollars maturing in 2016. These bonds bear an interest rate of 6.25% per annum, which is payable semi-annually in January and July each year, beginning in January 2012. The proceeds from the bonds issuance were partially utilized to refinance short-term loan facilities. As at December 31, 2014 the amount outstanding under this facility was US$ 391.8 million.

In September 2012, the Group issued US$ 475.0 million senior unsecured convertible bonds maturing in 2017. The initial conversion price was set at US$ 19.08 per share. The conversion rights may be exercised at any time on or after November 5, 2012. The bonds bear an interest rate of 1.0% per annum, which is payable semi-annually in March and September each year, beginning in March 2013, and a yield-to-maturity of 2.0% per annum. Holders of the bonds have an option to require an early redemption of their bonds in September 2015 at the accreted principal amount at such time plus accrued interest. The Group also has an option for early redemption, exercisable starting from October 2015, provided the market value of the Group’s GDRs deliverable on conversion of the bonds exceeds 140.0% of the accreted principal amount of the bonds over a period specified in terms and conditions of the bonds. The proceeds from the bonds issuance were mainly used to refinance existing indebtedness and for other general corporate purposes. As at December 31, 2014 as a result of this transaction US$ 63.5 million was recognized in equity (December 31, 2013: US$ 66.8 million, December 31, 2012: US$ 66.8 million), determined based on the market rate of 5.3% per annum. As at December 31, 2014 the amount outstanding under this facility was US$ 451.8 million.

In October 2012, the Group issued US$ 750.0 million bonds denominated in US dollars maturing in 2022. These bonds bear an interest rate of 5.9% per annum, which is payable semi-annually in April and October each year, beginning in April 2013. The proceeds from the bonds issuance were used for general corporate purposes, including refinancing of debt maturing in 2013. As at December 31, 2014 the amount outstanding under this facility was US$ 697.3 million.

In March 2013, the Group issued US$ 600.0 million bonds denominated in US dollars maturing in 2018. These bonds bear an interest rate of 4.45% per annum, which is payable semi-annually in March and September each year, beginning in September 2013. The proceeds from the bonds issuance were used for general corporate purposes, including refinancing of debt maturing in 2013. As at December 31, 2014 the amount outstanding under this facility was US$ 572.5 million.

Bank financing

In December 2007 the Group entered into a syndicated facility with the European Bank for Reconstruction and Development (EBRD) (subsequently amended in March 2008), for a maximum principal amount of € 600.0 million. The facility expires in 2017 with the outstanding principal amount being amortized from 2009 until the expiration date and bear interest at EURIBOR six month plus 2.0-2.2%.

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

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

- US$ 20.5 million (December 31, 2013: US$ 2,522.5 million; December 31, 2012: US$ 2,716.6 million) of the net book value of plant and equipment;
- US$ nil (December 31, 2013: US$ 1,100.0 million; December 31, 2012: US$ 1,058.6 million) of current assets and revenues from export contracts;
- all Group’s investment in Mountain State Carbon LLC and Double Eagle Steel Coating Company, the Group’s joint ventures, and Spartan Steel Coating LLC, the Group’s associate, at December 31, 2013 and 2012.

A part of the Group’s debt financing is subject to certain covenants. The Group complied with all debt covenants, including equity ratios, during the years ended December 31, 2014, 2013 and 2012.

At the reporting date the Group had US$ nil (December, 31, 2013: US$ nil; December, 31, 2012: US$ 150.0 million) of committed unused short-term credit lines and US$ 388.2 million (December 31, 2013: US$ 1,517.6 million; December 31, 2012: US$ 772.1 million) of committed unused long-term credit lines available to it.

23. Other current liabilities

	December 31,		
	2014	2013	2012
Advances received	169,691	190,428	207,304
Amounts payable to employees	72,964	230,708	279,831
Provisions (Note 25)	31,351	13,412	41,261
Deferred income	30,529	31,911	1,592
Retirement benefit liability (Note 24)	4,423	11,005	4,917
Accrued expenses	647	30,986	17,620
Lease liabilities	241	1,000	2,109
Decommissioning liability (Note 25)	-	3,000	7,195
Derivative financial liabilities	-	-	10,341
Other payables	23,035	42,951	65,777
	332,881	555,401	637,947

24. Retirement benefit liabilities

The Group provides for its employees the following retirement benefits, which are actuarially calculated as defined benefit obligations: lump sums payable to employees on retirement, monthly pensions, jubilee benefits, invalidity and death lump sums, burial expenses compensations, healthcare benefits, life insurance and other benefits.

The current portion of retirement benefit liabilities is included in caption ‘Other current liabilities’. The total amount of the retirement benefit liabilities is presented in the table below:

	December 31,		
	2014	2013	2012
Current portion	4,423	11,005	4,917
Non-current portion	48,258	189,913	201,552
	52,681	200,918	206,469

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

The Group's weighted average duration of the defined benefit obligations equaled to 16 years as at December 31, 2014.

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

	December 31,		
	2014	2013	2012
Discount rates:			
Russia	11.9% to 13.4%	7.8% to 7.9%	6.6% to 7.0%
USA	n/a	4.5%	3.5%
Future rates of benefit increase:			
Russia	5.7% to 5.9%	4.7% to 4.9%	4.7% to 5.3%
USA	n/a	Fixed at 0%	Fixed at 0%

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

	December 31,				
	2014	2013	2012	2011	2010
Present value of the defined benefit obligation	88,426	263,045	273,059	230,517	237,109
Fair value of the plan assets	(35,745)	(62,127)	(66,590)	(59,841)	(55,427)
Retirement benefit liability	52,681	200,918	206,469	170,676	181,682

The movements in the defined benefit obligation were as follows:

	Year ended December 31,		
	2014	2013	2012
Opening balance	263,045	273,059	230,517
Benefits paid	(18,530)	(24,618)	(23,876)
Interest cost	15,559	16,112	16,940
Service cost	4,427	5,550	4,856
Curtailment	-	(526)	-
Actuarial (gains)/losses*	(24,445)	8,337	33,998
Business de-combinations	(69,870)	-	-
Translation to presentation currency	(81,760)	(14,869)	10,624
Closing balance	88,426	263,045	273,059

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

The movements in the plan assets were as follows:

	Year ended December 31,		
	2014	2013	2012
Opening balance	62,127	66,590	59,841
Contributions made during the year	9,206	10,378	13,546
Benefits paid	(12,563)	(14,619)	(16,650)
Return on assets	4,180	4,315	5,045
Actuarial (losses)/gains*	(503)	269	1,353
Translation to presentation currency	(26,702)	(4,806)	3,455
Closing balance	35,745	62,127	66,590

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

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

The defined benefit obligation analysis was as follows:

	December 31,		
	2014	2013	2012
Wholly unfunded	40,719	163,683	161,850
Partly funded	47,707	99,362	111,209
	88,426	263,045	273,059

The plan assets analysis was as follows:

	December 31,		
	2014	2013	2012
Corporate bonds	25,239	41,819	36,839
Shares in mutual funds	9,621	-	14,028
Government bonds	90	5,625	2,511
Cash	88	121	324
Deposits	-	10,395	8,252
Equity instruments	-	4,167	4,231
Other investments	707	-	405
	35,745	62,127	66,590

The Group's best estimate of contributions expected to be paid to the plan in 2015 is US$ 11.2 million.

The Group's retirement benefit service costs are allocated and recognized in the income statement as part of 'Cost of sales' and 'General and administrative expenses' proportionally to related salary expenses, except service costs related to Severstal International segment which were recognized in discontinued operations.

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

25. Other non-current liabilities

	December 31,		
	2014	2013	2012
Deferred income	92,918	142,712	28,545
Decommissioning liability	47,439	149,068	129,300
Derivative financial liabilities	16,574	-	1,191
Provisions	6,671	11,815	15,266
Amounts payable to employees	3,943	28,126	41,229
Lease liabilities	142	1,110	1,502
Other liabilities	93	22,242	38,235
	167,780	355,073	255,268

Decommissioning liability

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of its mines and production facilities. These costs are expected to be incurred between 2018 – 2045. The present value of expected cash outflows were estimated using existing technology, and discounted using a real discount rate. These rates, presented by Severstal Resources, are as follows:

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

	Discount rates, %		
	2014	2013	2012
Severstal Resources:			
Russia	6.8 - 7.5	2.3 - 5.4	2.1 - 3.7
USA	n/a	0.8 - 3.0	4.0 - 6.5

The movements in the decommissioning liability were as follows:

	Year ended December 31,		
	2014	2013	2012
Opening balance	152,068	136,495	119,302
Additional accrual	-	12,594	9,798
Change in assumptions	(16,410)	(738)	8,730
Interest cost	12,718	17,982	11,918
Usage of decommissioning liability	(5,546)	(7,985)	(16,601)
Business de-combinations	(53,709)	-	-
Translation to presentation currency	(41,682)	(6,280)	3,348
Closing balance	47,439	152,068	136,495

The change in assumptions related to the re-scheduling of the decommissioning of the Vorkutaugol in 2014, 2013 and 2012 and PBS Coals mines in 2013 and 2012 and the change in the discount rate.

	December 31,		
	2014	2013	2012
Current portion	-	3,000	7,195
Non-current portion	47,439	149,068	129,300
	47,439	152,068	136,495

Provisions

The current portion of provisions is included in the caption ‘Other current liabilities’. The total amount of the provisions is presented in the table below:

	December 31,		
	2014	2013	2012
Tax and social security claims	15,257	1,512	757
Legal claim of disposed subsidiary	13,469	-	-
Legal claims	-	6,460	32,551
Other employee related	-	4,359	6,066
Environmental claims	-	1,799	4,062
Other	9,296	11,097	13,091
	38,022	25,227	56,527

	December 31,		
	2014	2013	2012
Current portion	31,351	13,412	41,261
Non-current portion	6,671	11,815	15,266
	38,022	25,227	56,527

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

These provisions represent management's best estimate of the potential losses arising in these cases, calculated based on available information and appropriate assumptions used. The actual outcome of those cases is currently uncertain and might differ from the recorded provisions.

The movements in the provisions were as follows:

	Year ended December 31,		
	2014	2013	2012
Opening balance	25,227	56,527	79,673
Charge to the income statement	22,944	(30,552)	(24,277)
Business combinations	2,714	-	-
Usage of provisions	(157)	(702)	-
Business de-combinations	(8,653)	-	-
Translation to presentation currency	(4,053)	(46)	1,131
Closing balance	38,022	25,227	56,527

26. Shareholders' equity

Share Capital

The Parent Company's share capital consists of ordinary shares with a nominal value of RUB 0.01 each. Authorized share capital of Severstal at December 31, 2014, 2013 and 2012 comprised 837,718,660 issued and fully paid shares.

The nominal amount of initial share capital was converted into US dollars using exchange rates during the Soviet period, when the Government contributed the original capital funds to the enterprise. These capital funds were converted into ordinary shares on September 24, 1993 and sold by the Government at privatization auctions.

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

	Number of shares, mln.	US$'000
Share capital at December 31, 2012	837.7	2,752,728
Share capital at December 31, 2013	837.7	2,752,728
Share capital at December 31, 2014	837.7	2,752,728

All shares carry equal voting and distribution rights.

Treasury shares

In March 2012, the Group completed the separation of the Gold segment resulting in the increase of the Group's treasury stock by 192,900,120 shares (Note 27).

On July 26, 2012 the Parent Company's share capital was reduced by cancellation of 169,982,695 shares. As a result, the Group's share capital decreased by US$ 558.6 million, treasury shares decreased by US$ 1,475.0 million, and additional capital decreased by US$ 916.4 million.

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

(Loss)/earnings per share

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

	Year ended December 31,		
	2014	2013	2012
(Loss)/profit for the period attributable to shareholders of PAO Severstal	(1,601,668)	82,728	761,962
Interest expense on convertible bonds, net of tax	20,954	20,312	6,574
Adjusted (loss)/profit for the period attributable to shareholders of PAO Severstal	(1,580,714)	103,040	768,536
Basic and diluted weighted average number of shares outstanding during the period (millions of shares)	810.6	810.6	839.8
Effect on conversion of convertible bonds (millions of shares)	24.6	24.9	6.6
Adjusted weighted average number of shares outstanding during the period (millions of shares)	835.2	835.5	846.4
Basic and diluted (loss)/earnings per share (US dollars)	(1.98)	0.10	0.91
Adjusted (loss)/earnings per share (US dollars)	(1.89)	0.12	0.91

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 uses 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 June 28, 2012 the Meeting of Shareholders approved an annual dividend of RUB 3.56 (US$ 0.11 at June 28, 2012 exchange rate) per share and per GDR for the year 2011 and an interim dividend of RUB 4.07 (US$ 0.12 at June 28, 2012 exchange rate) per share and per GDR for the first quarter of 2012.

On September 27, 2012 the Meeting of Shareholders approved an interim dividend of RUB 1.52 (US$ 0.05 at September 27, 2012 exchange rate) per share and per GDR for the first six months of 2012.

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

On December 20, 2012 an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 3.18 (US$ 0.10 at December 20, 2012 exchange rate) per share and per GDR for the nine months of 2012.

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

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

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

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

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

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

27. Discontinued operations and assets held for sale

The Group’s discontinued operations represented the Severstal International and the Gold segments, following the management’s decision to dispose of these businesses.

The results of discontinued operations were as follows:

	Year ended December 31,		
	2014	**2013**	**2012**
Revenue	3,014,442	3,878,058	4,039,557
Expenses	(3,861,501)	(4,050,731)	(4,067,118)
Loss before income tax	(847,059)	(172,673)	(27,561)
Income tax (expense)/benefit	(54,272)	3,324	(8,614)
Loss, net of tax	(901,331)	(169,349)	(36,175)
Net gain/(loss) on disposal	100,479	-	(31,345)
Loss for the period	(800,852)	(169,349)	(67,520)
Attributable to:			
shareholders of PAO Severstal	(800,852)	(169,349)	(84,286)
non-controlling interests	-	-	16,766

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

Gold segment

In March 2012, the Group completed the separation of the Gold segment by exchange of 100% shares of Nord Gold N.V., the segment's holding company, for the Parent Company's shares and GDRs resulting in the increase of the Group's treasury stock by 192,900,120 shares.

Severstal International segment

In September 2014, the Group sold its 100% stakes in Severstal Dearborn LLC and Severstal Columbus LLC comprising, together with their subsidiaries and investments in joint ventures and associates, the Severstal International reporting segment. The cash consideration received by the Group under the respective sale agreements amounted to US$ 2,024.4 million, after settlement of US$ 385.3 million external debt. A cumulative net loss on the disposal of US$ 811.4 million was recognized in these consolidated financial statements, of which the loss of US$ 911.9 million was primarily recognized as impairment of property, plant and equipment in June, 2014 and included into the expenses of discontinued operation, and net gain on the disposal of US$ 100.5 million recognized in 2014.

A summary of assets and liabilities disposed during the years ended December 31, 2014, 2013 and 2012 is presented below:

	Year ended December 31,		
	2014	2013	2012
Cash and cash equivalents	(62,998)	-	-
Trade accounts receivable	(328,623)	-	-
Inventories	(682,502)	-	-
Other current assets	(36,443)	-	-
Property, plant and equipment	(1,601,500)	-	-
Intangible assets	(8,254)	-	-
Long-term financial investments	(30,085)	-	-
Assets held for sale	-	-	(2,827,037)
Other non-current assets	(108,967)	-	-
Trade accounts payable	383,975	-	-
Accounts payable to related parties	27,244	-	-
Other taxes and social security payable	3,896	-	-
Other current liabilities	28,781	-	-
Long-term debt finance	385,323	-	-
Liabilities related to assets held for sale	-	-	536,649
Other non-current liabilities	101,421	-	-
Net identifiable assets	(1,928,732)	-	(2,290,388)
Translation to presentation currency - foreign operations and other reserves	4,795	-	76,089
Consideration:			
Consideration in cash	2,024,416	-	-
Consideration in other financial assets*	-	-	(107,434)
Net gain/(loss) on disposal	100,479	-	(31,345)
Net change in cash and cash equivalents	1,961,418	-	-

* In the year ended December 31, 2012 the Group recognised an impairment allowance in the amount of US$ 107.4 million within the loss from discontinued operations in respect of consideration in other financial assets receivable from the sale of the North America disposal group, which consisted of several steel making plants in the USA and was sold in 2011.

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

28. Subsidiaries, associates and joint ventures

The following is a list of the Group's significant subsidiaries, associates and joint ventures and the effective ownership holdings therein:

Company	December 31, 2014	2013	2012	Location	Activity
Severstal Russian Steel segment:					
Subsidiaries:					
CJSC Severgal	n/a	100.0%	100.0%	Russia	Hot dip galvanizing
CJSC Severstal SMC-Kolpino	n/a	n/a	100.0%	Russia	Steel constructions
Severstal TPZ-Sheksna LLC	100.0%	100.0%	100.0%	Russia	Steel constructions
CJSC Severstal Steel Solutions	100.0%	100.0%	100.0%	Russia	Steel constructions
ZAO Severstal LPM Balakovo	100.0%	100.0%	100.0%	Russia	Iron & steel mill
SSM-Tyazhmash LLC	100.0%	100.0%	100.0%	Russia	Repairs&construction
JSC Domnaremont	77.3%	77.3%	65.5%	Russia	Repairs&construction
Severstal-Promservice LLC	100.0%	100.0%	99.9%	Russia	Repairs&construction
JSC Metallurgremont	n/a	n/a	75.0%	Russia	Repairs&construction
Victory Industries Inc	n/a	n/a	99.9%	USA	Repairs&construction
Aircompany Severstal Ltd	100.0%	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	100.0%	99.8%	99.8%	Switzerland*	Steel sales
SIA Severstal Distribution***	100.0%	100.0%	100.0%	Latvia*	Steel sales
AS Latvijas Metals	100.0%	100.0%	100.0%	Latvia*	Steel sales
ZAO Severstal Distribution***	100.0%	100.0%	100.0%	Belarus*	Steel sales
Severstal Distribution LLC***	100.0%	100.0%	100.0%	Ukraine*	Steel sales
JSC Neva-Metall	100.0%	100.0%	100.0%	Russia	Shipping operations
Upcroft Limited	100.0%	100.0%	100.0%	Cyprus*	Holding company
Baracom Limited	100.0%	100.0%	100.0%	Cyprus*	Holding company
JSC Vtorchermet	85.6%	85.6%	85.6%	Russia	Processing scrap
ZAO Ruspromresursy	n/a	100.0%	100.0%	Russia	Processing scrap
JSC Murmanskvtormet	n/a	n/a	74.6%	Russia	Processing scrap
JSC Arhangelski Vtormet	75.0%	75.0%	75.0%	Russia	Processing scrap
ZAO Trade House Severstal-Invest	100.0%	100.0%	100.0%	Russia	Metal sales
ZAO North Steel Company	n/a	99.9%	99.9%	Russia	Leasing
AO Rostovmetall**	100.0%	100.0%	100.0%	Russia	Leasing
PPTK-1 LLC	100.0%	100.0%	100.0%	Russia	Leasing
JSC RC Group	n/a	n/a	100.0%	Russia	Leasing
CJSC Izhora Pipe Mill	100.0%	100.0%	100.0%	Russia	Wide pipes
JSC Severstal-Metiz	100.0%	100.0%	100.0%	Russia	Steel machining
JSC Dneprometiz	98.7%	98.7%	98.7%	Ukraine	Steel machining
Redaelli Tecna S.p.A.	100.0%	100.0%	100.0%	Italy	Steel machining
UniFence LLC	100.0%	100.0%	100.0%	Russia	Steel machining
Associates:					
ZAO Air Liquide Severstal	25.0%	25.0%	25.0%	Russia	Production liquid oxygen
Lucchini S.p.A.	n/a	n/a	49.2%	France	Holding company
G.S.I. Lucchini S.p.A.	n/a	n/a	34.1%	Italy	Steel spheres
Servola S.p.A.	n/a	n/a	49.2%	Italy	Asset holding
Sideris Steel S.A.S	n/a	n/a	49.2%	France	Investment holding
Lucchini Holland B.V.	n/a	n/a	49.2%	The Netherlands	Investment holding
Joint ventures:					
Todlem S.L.	25.0%	25.0%	25.0%	Spain	Holding company
Severstal-Gonvarri-Kaluga LLC	50.0%	50.0%	50.0%	Russia	Iron & steel mill
Gestamp-Severstal-Kaluga LLC	25.0%	25.0%	25.0%	Russia	Production car body components
Gestamp Severstal Vsevolozhsk LLC	25.0%	25.0%	25.0%	Russia	Production car body components

(*) – Severstal Russian Steel segment contains Russian production entities, foreign trading companies, which sell products primarily produced in Russia, and other foreign companies, which either provide services to Russian production entities or are managed from Russia.
(**) – Legal form was changed following the requirements of the amended Russian Civil Code.
(***) – The entities were re-named from JSC Severstallat to SIA Severstal Distribution, ZAO SeverStalBel to ZAO Severstal Distribution and Severstal-Ukraine LLC to Severstal Distribution LLC, respectively.

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

Company	December 31, 2014	2013	2012	Location	Activity
Severstal International segment (classified as discontinued operation)*:					
Subsidiaries:					
Severstal US Holdings LLC	n/a	100.0%	100.0%	USA	Holding company
Severstal Dearborn LLC	n/a	100.0%	100.0%	USA	Iron & steel mill
Severstal Columbus LLC	n/a	100.0%	100.0%	USA	Steel mill
Associates:					
Delaco Processing LLC	n/a	49.0%	49.0%	USA	Steel slitting
Spartan Steel Coating LLC	n/a	48.0%	48.0%	USA	Hot dip galvanizing
Joint ventures:					
Double Eagle Steel Coating Company	n/a	50.0%	50.0%	USA	Electro-galvanizing
Mississippi Steel Processing LLC	n/a	20.0%	20.0%	USA	Steel service center
Mountain State Carbon LLC	n/a	50.0%	50.0%	USA	Coking coal
Severstal Resources segment:					
Subsidiaries:					
JSC 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%	99.0%	Russia	Coking coal concentrate
PBS Coals Limited	n/a	100.0%	100.0%	USA	Coking coal concentrate
SPB-Giproshakht Limited	100.0%	100.0%	100.0%	Russia	Engineering
Mining Holding Company LLC	100.0%	100.0%	100.0%	Russia	Holding company
Lybica Holding B.V.	100.0%	100.0%	100.0%	The Netherlands	Holding company
7029740 Canada Limited	100.0%	100.0%	100.0%	Canada	Holding company
Altcom Limited	n/a	n/a	100.0%	Cyprus	Holding company
Associates:					
Iron Mineral Beneficiation Services (Proprietary) Ltd	33.2%	33.2%	33.0%	Republic of South Africa	Research & investing
SPG Mineracao SA	n/a	n/a	25.0%	Brazil	Iron ore

(*) – Note 27.
(**) – Legal form was changed following the requirements of the amended Russian Civil Code.

In addition, at the reporting date, a further 35 (December 31, 2013: 49; December 31, 2012: 70) subsidiaries, associates and a joint venture, which are not material to the Group, either individually or in aggregate, have been included in these consolidated financial statements.

Information on carrying amounts of associates and joint ventures is disclosed in Note 19 of these consolidated financial statements.

Acquisitions of non-controlling interests

Acquisitions in 2012

In January 2012, the Group acquired an additional 15.8% stake in SIA Severstal Distribution for a total consideration of EUR 6.0 million (US$ 7.8 million at the transaction date exchange rate), increasing its ownership interest up to 100%.

In April 2012, the Group acquired an additional 38.5% stake in Severstal Liberia Iron Ore Ltd for a total consideration of US$ 115.0 million, increasing its ownership interest up to 100%.

During October – December 2012, the Group acquired an additional 14.8% stake in AO Vorkutaugol for a total consideration of US$ 70.9 million, increasing its ownership interest up to 99.0%.

Disposals of associates

Disposal in 2012

In January 2012, the Group sold its 21.7% stake in Intex Resources ASA for a total consideration of US$ 20.0 million.

Disposal in 2013

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

Disposal of subsidiary (other than discontinued operation)

In August 2014, the Group sold its 100% stake in PBS Coals Ltd for a preliminary consideration of US$ 53.1 million. A cumulative net loss on the disposal of US$ 181.3 million was recognized in these consolidated financial statements, of which US$ 153.9 million was recognized as impairment of property, plant and equipment in June, 2014 and US$ 27.4 million recognized as part of net other non-operating expense upon the disposal.

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

A summary of assets and liabilities disposed during 2014, 2013 and 2012 is presented below:

	Year ended December 31,		
	2014	2013	2012
Cash and cash equivalents	(1,780)	-	-
Trade accounts receivable	(11,935)	-	-
Inventories	(21,047)	-	-
Other current assets	(2,644)	-	-
Property, plant and equipment	(25,729)	-	-
Intangible assets	(64,882)	-	-
Other non-current assets	(51,792)	-	-
Trade accounts payable	12,049	-	-
Other taxes and social security payable	421	-	-
Other current liabilities	3,550	-	-
Deferred tax liabilities	26,348	-	-
Other non-current liabilities	55,505	-	-
Net identifiable assets	(81,936)	-	-
Translation to presentation currency - foreign operations and other reserves	1,454	-	-
Consideration in cash	53,101	-	-
Net loss on disposal	(27,381)	-	-
Net change in cash and cash equivalents	51,321	-	-

Dilution of Group's ownership

On June 15, 2012, ZAO Mine Vorgashorskaya 2 was merged into AO Vorkutaugol. As a result of this merger, the Group's ownership interest in AO Vorkutaugol reduced from 88.1% to 84.2%.

Transaction within discontinued operation

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

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

29. Segment information

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

	Severstal Resources	Severstal Russian Steel	Inter segment balances	Conso- lidated
Assets				
Current assets:				
Cash and cash equivalents	77,320	1,819,355	-	1,896,675
Short-term financial investments	1,644,952	222,375	(1,846,198)	21,129
Trade accounts receivable	67,488	581,502	-	648,990
Accounts receivable from related parties	89,039	294,989	(369,293)	14,735
Inventories	70,041	761,755	(8,465)	823,331
VAT recoverable	8,848	54,794	-	63,642
Income tax recoverable	4,726	24,690	-	29,416
Other current assets	25,118	97,081	-	122,199
Total current assets	1,987,532	3,856,541	(2,223,956)	3,620,117
Non-current assets:				
Long-term financial investments	1,051,739 *	1,239,633	(2,205,624)	85,748
Investments in associates and joint ventures	12,386	69,050	-	81,436
Property, plant and equipment	954,963	2,409,024	(27,689)	3,336,298
Intangible assets	183,768	192,987	-	376,755
Deferred tax assets	10,122	33,692	-	43,814
Other non-current assets	449	16,145	-	16,594
Total non-current assets	2,213,427	3,960,531	(2,233,313)	3,940,645
Total assets	4,200,959	7,817,072	(4,457,269)	7,560,762
Liabilities				
Current liabilities:				
Trade accounts payable	62,277	437,951	-	500,228
Accounts payable to related parties	4,803	104,623	(93,528)	15,898
Short-term debt finance	644,753	955,369	(825,629)	774,493
Income taxes payable	-	8,814	-	8,814
Other taxes and social security payable	27,606	72,113	-	99,719
Dividends payable	275,514	2,355	(275,514)	2,355
Other current liabilities	68,063	264,818	-	332,881
Total current liabilities	1,083,016	1,846,043	(1,194,671)	1,734,388
Non-current liabilities:				
Long-term debt finance	87,634	4,358,947	(1,792,211)	2,654,370
Deferred tax liabilities	97,359	22,654	(1,620)	118,393
Retirement benefit liabilities	9,714	38,544	-	48,258
Other non-current liabilities	47,497	120,283	-	167,780
Total non-current liabilities	242,204	4,540,428	(1,793,831)	2,988,801
Equity	2,875,739 **	1,430,601	(1,468,767)	2,837,573
Total equity and liabilities	4,200,959	7,817,072	(4,457,269)	7,560,762

* This amount includes US$ 210.0 million of Severstal treasury shares, measured at the Group's share in the Gold segment's net assets as at the date of its separation.
** This amount includes US$ 63.5 million effect of convertible bonds issue (Note 22).

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

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

	Severstal Resources		Severstal Russian Steel	Severstal International	Inter segment balances	Conso-lidated
Assets						
Current assets:						
Cash and cash equivalents	340,280		676,229	19,439	-	1,035,948
Short-term financial investments	2,354,554		292,095	-	(2,586,633)	60,016
Trade accounts receivable	181,790		870,958	304,168	-	1,356,916
Accounts receivable from related parties	130,589		63,639	2,533	(178,141)	18,620
Restricted financial assets	1,114		-	-	-	1,114
Inventories	131,532		1,184,583	722,359	(19,714)	2,018,760
VAT recoverable	25,642		93,509	-	-	119,151
Income tax recoverable	9,198		9,715	135	-	19,048
Other current assets	49,711		184,135	43,017	-	276,863
Total current assets	3,224,410		3,374,863	1,091,651	(2,784,488)	4,906,436
Non-current assets:						
Long-term financial investments	1,000,563	*	6,157,697	29,258	(7,072,037)	115,481
Investments in associates and joint ventures	41,471		89,514	125,686	-	256,671
Property, plant and equipment	1,681,216		4,143,905	2,448,774	(19,703)	8,254,192
Intangible assets	404,505		271,511	2,894	-	678,910
Restricted financial assets	39,463		-	15	-	39,478
Deferred tax assets	3,621		26,929	47,568	-	78,118
Other non-current assets	9,208		67,787	127,446	-	204,441
Total non-current assets	3,180,047		10,757,343	2,781,641	(7,091,740)	9,627,291
Total assets	6,404,457		14,132,206	3,873,292	(9,876,228)	14,533,727
Liabilities						
Current liabilities:						
Trade accounts payable	156,983		544,295	444,595	-	1,145,873
Accounts payable to related parties	22,585		152,688	45,939	(178,214)	42,998
Short-term debt finance	266,399		1,692,438	1,362,510	(2,693,828)	627,519
Income taxes payable	2		10,458	200	-	10,660
Other taxes and social security payable	45,727		88,475	4,455	-	138,657
Dividends payable	-		28,065	-	-	28,065
Other current liabilities	100,536		397,155	57,710	-	555,401
Total current liabilities	592,232		2,913,574	1,915,409	(2,872,042)	2,549,173
Non-current liabilities:						
Long-term debt finance	726,945		3,861,133	731,524	(1,193,027)	4,126,575
Deferred tax liabilities	153,597		163,059	-	(3,920)	312,736
Retirement benefit liabilities	18,816		106,132	64,965	-	189,913
Other non-current liabilities	173,877		147,227	33,969	-	355,073
Total non-current liabilities	1,073,235		4,277,551	830,458	(1,196,947)	4,984,297
Equity	4,738,990	**	6,941,081	1,127,425	(5,807,239)	7,000,257
Total equity and liabilities	6,404,457		14,132,206	3,873,292	(9,876,228)	14,533,727

* This amount includes US$ 210.0 million of Severstal treasury shares, measured at the Group's share in the Gold segment's net assets as at the date of its separation.

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

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

Segmental statements of financial position as at December 31, 2012:

	Severstal Resources		Severstal Russian Steel	Severstal International	Inter segment balances	Conso-lidated
Assets						
Current assets:						
Cash and cash equivalents	317,014		1,361,450	47,811	-	1,726,275
Short-term financial investments	2,079,173		957,347	-	(3,012,742)	23,778
Trade accounts receivable	162,990		648,050	229,527	-	1,040,567
Accounts receivable from related parties	117,983		56,389	1,275	(160,179)	15,468
Inventories	178,618		1,424,633	767,219	(17,572)	2,352,898
VAT recoverable	31,246		183,173	-	-	214,419
Income tax recoverable	9,827		11,207	135	-	21,169
Other current assets	79,267		178,403	44,450	-	302,120
Total current assets	2,976,118		4,820,652	1,090,417	(3,190,493)	5,696,694
Non-current assets:						
Long-term financial investments	951,207	*	5,674,938	19,900	(6,537,985)	108,060
Investments in associates and joint ventures	82,835		89,360	144,308	-	316,503
Property, plant and equipment	1,530,367		4,318,481	2,640,935	(27,072)	8,462,711
Intangible assets	586,374		229,748	4,813	-	820,935
Restricted financial assets	32,970		-	-	-	32,970
Deferred tax assets	7,605		47,236	45,955	-	100,796
Other non-current assets	6,616		21,527	140,403	-	168,546
Total non-current assets	3,197,974		10,381,290	2,996,314	(6,565,057)	10,010,521
Total assets	6,174,092		15,201,942	4,086,731	(9,755,550)	15,707,215
Liabilities						
Current liabilities:						
Trade accounts payable	127,094		538,106	392,421	-	1,057,621
Accounts payable to related parties	5,674		128,670	58,861	(156,971)	36,234
Short-term debt finance	126,148		2,879,696	852,022	(2,475,738)	1,382,128
Income taxes payable	1,575		14,829	200	-	16,604
Other taxes and social security payable	54,177		93,534	4,879	-	152,590
Dividends payable	-		89,079	-	(2,541)	86,538
Other current liabilities	144,955		424,466	68,526	-	637,947
Total current liabilities	459,623		4,168,380	1,376,909	(2,635,250)	3,369,662
Non-current liabilities:						
Long-term debt finance	687,477		3,865,661	1,278,280	(1,504,006)	4,327,412
Deferred tax liabilities	170,530		170,888	-	(3,340)	338,078
Retirement benefit liabilities	23,363		111,031	67,158	-	201,552
Other non-current liabilities	177,185		36,037	42,046	-	255,268
Total non-current liabilities	1,058,555		4,183,617	1,387,484	(1,507,346)	5,122,310
Equity	4,655,914	**	6,849,945	1,322,338	(5,612,954)	7,215,243
Total equity and liabilities	6,174,092		15,201,942	4,086,731	(9,755,550)	15,707,215

* This amount includes US$ 210.0 million of Severstal treasury shares, measured at the Group's share in the Gold segment's net assets as at the date of its separation.

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

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

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

	Severstal Resources	Severstal Russian Steel	Severstal International	Inter segment transactions	Conso-lidated
Revenue					
Revenue - third parties	916,840	7,264,506	-	-	8,181,346
Revenue - related parties	934,636	227,440	-	(1,046,997)	115,079
	1,851,476	7,491,946	-	(1,046,997)	8,296,425
Cost of sales	(1,201,277)	(5,304,364)	-	1,057,194	(5,448,447)
Gross profit	650,199	2,187,582	-	10,197	2,847,978
General and administrative expenses	(88,672)	(344,769)	-	14,134	(419,307)
Distribution expenses	(176,588)	(540,504)	-	14	(717,078)
Other taxes and contributions	(49,120)	(47,298)	-	-	(96,418)
Share of associates' and joint ventures' loss	(696)	(23,441)	-	-	(24,137)
Loss on disposal of property, plant and equipment and intangible assets	(3,055)	(8,312)	-	193	(11,174)
Net other operating income	1,880	23,582	-	(11,048)	14,414
Profit from operations	333,948	1,246,840	-	13,490	1,594,278
Impairment of non-current assets	(276,799)	(14,788)	-	-	(291,587)
Net other non-operating income/(expenses)	40,967	(100,032)	-	(43,028)	(102,093)
Profit before financing and taxation	98,116	1,132,020	-	(29,538)	1,200,598
Interest income	75,688	73,051	-	(97,911)	50,828
Interest expense	(54,636)	(287,898)	-	85,936	(256,598)
Gain on remeasurement and disposal of financial investments	38,572	709,670	-	(744,707)	3,535
Other finance costs	(1,135)	(5,603)	-	906	(5,832)
Foreign exchange loss	(22,397)	(1,784,478)	-	-	(1,806,875)
Profit/(loss) before income tax	134,208	(163,238)	-	(785,314)	(814,344)
Income tax (expense)/benefit	(27,398)	42,270	-	(2,299)	12,573
Profit/(loss) from continuing operations	106,810	(120,968)	-	(787,613)	(801,771)
Loss from discontinued operations	-	-	(802,472)	1,620	(800,852)
Profit/(loss) for the period	106,810	(120,968)	(802,472)	(785,993)	(1,602,623)
Additional information:					
depreciation and amortization expense	220,388	342,568	115,317	(2,275)	675,998
capital expenditures	378,798	400,530	52,022	(1,299)	830,051
intersegment revenue (incl. in revenue from related parties)	929,424	117,573	-	(1,046,997)	-

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

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

	Severstal Resources	Severstal Russian Steel	Severstal International	Inter segment transactions	Conso-lidated
Revenue					
Revenue - third parties	1,469,498	7,830,080	-	-	9,299,578
Revenue - related parties	1,195,243	202,827	-	(1,264,104)	133,966
	2,664,741	8,032,907	-	(1,264,104)	9,433,544
Cost of sales	(1,652,023)	(6,222,619)	-	1,260,587	(6,614,055)
Gross profit	1,012,718	1,810,288	-	(3,517)	2,819,489
General and administrative expenses	(97,365)	(465,705)	-	10,166	(552,904)
Distribution expenses	(292,845)	(642,257)	-	125	(934,977)
Other taxes and contributions	(60,836)	(71,116)	-	-	(131,952)
Share of associates' and joint ventures' loss	(439)	(3,747)	-	-	(4,186)
(Loss)/gain on disposal of property, plant and equipment and intangible assets	(9,994)	22,467	-	-	12,473
Net other operating income	2,900	3,714	-	(5,897)	717
Profit from operations	554,139	653,644	-	877	1,208,660
Impairment of non-current assets	(217,564)	(24,150)	-	-	(241,714)
Net other non-operating expenses	(16,684)	(53,549)	-	-	(70,233)
Profit before financing and taxation	319,891	575,945	-	877	896,713
Interest income	76,773	57,036	-	(103,858)	29,951
Interest expense	(63,389)	(293,497)	-	81,476	(275,410)
Gain/(loss) on remeasurement and disposal of financial investments	5,375	245,452	-	(260,453)	(9,626)
Other finance costs	(232)	(2,796)	-	-	(3,028)
Foreign exchange gain/(loss), net	12,641	(322,778)	-	-	(310,137)
Profit before income tax	351,059	259,362	-	(281,958)	328,463
Income tax expense	(30,278)	(40,954)	-	1,321	(69,911)
Profit from continuing operations	320,781	218,408	-	(280,637)	258,552
Loss from discontinued operations	-	-	(195,930)	26,581	(169,349)
Profit/(loss) for the period	320,781	218,408	(195,930)	(254,056)	89,203
Additional information:					
depreciation and amortization expense	250,232	360,018	181,000	(3,019)	788,231
capital expenditures	553,231	606,461	100,903	3,511	1,264,106
intersegment revenue (incl. in revenue from related parties)	1,181,466	82,638	-	(1,264,104)	-

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

Segmental income statements for the year ended December 31, 2012:

	Severstal Resources	Gold	Severstal Russian Steel	Severstal International	Inter segment transactions	Conso-lidated
Revenue						
Revenue - third parties	1,611,174	-	8,426,091	-	-	10,037,265
Revenue - related parties	1,393,381	-	191,039	-	(1,396,464)	187,956
	3,004,555	-	8,617,130	-	(1,396,464)	10,225,221
Cost of sales	(1,724,862)	-	(6,711,442)	-	1,425,932	(7,010,372)
Gross profit	1,279,693	-	1,905,688	-	29,468	3,214,849
General and administrative expenses	(154,884)	-	(512,583)	-	9,153	(658,314)
Distribution expenses	(313,893)	-	(729,349)	-	183	(1,043,059)
Other taxes and contributions	(66,726)	-	(65,622)	-	-	(132,348)
Share of associates' and joint ventures' (loss)/profit	(990)	-	7,889	-	-	6,899
Loss on disposal of property, plant and equipment and intangible assets	(3,866)	-	(19,887)	-	-	(23,753)
Net other operating income	3,726	-	27,307	-	(5,725)	25,308
Profit from operations	743,060	-	613,443	-	33,079	1,389,582
Impairment of non-current assets	(51,687)	-	(2,430)	-	-	(54,117)
Net other non-operating income/(expenses)	517,830 *	-	(49,189)	-	(538,955)	(70,314)
Profit before financing and taxation	1,209,203	-	561,824	-	(505,876)	1,265,151
Interest income	81,908	-	110,965	-	(128,090)	64,783
Interest expense	(58,001)	-	(365,360)	-	86,788	(336,573)
Gain/(loss) on remeasurement and disposal of financial investments	8,021	-	381,510	-	(396,112)	(6,581)
Other finance costs	(471)	-	(4,761)	-	-	(5,232)
Foreign exchange (loss)/gain, net	(23,465)	-	194,219	-	-	170,754
Profit before income tax	1,217,195	-	878,397	-	(943,290)	1,152,302
Income tax expense	(132,051)	-	(127,284)	-	(5,648)	(264,983)
Profit from continuing operations	1,085,144	-	751,113	-	(948,938)	887,319
Profit/(loss) from discontinued operations	-	153,797	-	(258,770)	37,453	(67,520)
Profit/(loss) for the period	1,085,144	153,797	751,113	(258,770)	(911,485)	819,799
Additional information:						
depreciation and amortization expense	240,357	-	318,297	170,342	(2,951)	726,045
capital expenditures	555,507	-	829,553	155,348	(2,550)	1,537,858
intersegment revenue (incl. in revenue from related parties)	1,301,001	-	95,463	-	(1,396,464)	-

* This amount includes US$ 537.3 million gain on transfer of PAO Severstal shares and GDR's, received as a result of the Gold segment separation, to Severstal Russian Steel, subsequently eliminated within Intersegment transactions.

(Amounts expressed in thousands 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:

	December 31,		
	2014	2013	2012
Russian Federation	3,520,662	5,916,835	5,861,457
Europe	100,126	118,791	115,816
Africa	97,457	203,229	168,931
North America	-	2,847,254	3,293,635
	3,718,245	9,086,109	9,439,839

The locations are primarily represented by the following countries:

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

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

30. Financial instruments

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

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

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

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for the following borrowings:

	December 31, 2014		
	Market value	**Book value**	**Difference**
Eurobonds 2016	374,248	391,838	(17,590)
Eurobonds 2017	642,133	705,486	(63,353)
Eurobonds 2018	492,350	572,500	(80,150)
Eurobonds 2022	557,831	697,289	(139,458)
Convertible bonds 2017	427,105	451,800	(24,695)
Bank financing	542,236	598,182	(55,946)
	3,035,903	3,417,095	(381,192)

	December 31, 2013		
	Market value	**Book value**	**Difference**
Eurobonds 2014	384,799	375,000	9,799
Eurobonds 2016	533,270	500,000	33,270
Eurobonds 2017	1,079,640	1,000,000	79,640
Eurobonds 2018	593,790	600,000	(6,210)
Eurobonds 2022	727,148	750,000	(22,852)
Convertible bonds 2017	476,344	475,000	1,344
Severstal Columbus bonds	557,813	525,000	32,813
	4,352,804	4,225,000	127,804

	December 31, 2012		
	Market value	**Book value**	**Difference**
Ruble bonds 2013	492,087	493,865	(1,778)
Eurobonds 2013	569,632	543,552	26,080
Eurobonds 2014	409,234	375,000	34,234
Eurobonds 2016	535,780	500,000	35,780
Eurobonds 2017	1,096,900	1,000,000	96,900
Eurobonds 2022	759,608	750,000	9,608
Convertible bonds 2017	480,268	475,000	5,268
Severstal Columbus bonds	553,875	525,000	28,875
	4,897,384	4,662,417	234,967

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

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

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position and guarantees (Note 31e).

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

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

The maximum exposure to credit risk for financial instruments, including accounts receivable from related parties, was:

	December 31,		
	2014	**2013**	**2012**
Cash and cash equivalents	1,896,675	1,035,948	1,726,275
Loans and receivables	777,445	1,613,025	1,180,733
Available-for-sale financial assets	37,591	46,075	39,840
Held-to-maturity securities	10,871	51,924	27,908
Derivative financial assets	-	-	34,808
Held-for-trading securities	-	-	30
Restricted financial assets	-	40,592	32,970
	2,722,582	2,787,564	3,042,564

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

	December 31,		
	2014	**2013**	**2012**
Russian Federation	413,021	674,788	600,511
Europe	158,712	304,624	177,984
North America	39,289	345,743	258,131
The Middle East	21,447	17,684	9,925
South-East Asia	10,507	4,729	712
China and Central Asia	7,924	18,987	4,145
Central and South America	5,420	5,439	3,722
Africa	5,362	519	54
	661,682	1,372,513	1,055,184

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

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

	December 31, 2014	December 31, 2013	December 31, 2012
Industrial consumers	477,341	954,456	804,000
Wholesale customers	132,482	332,060	177,709
Retail customers	28,027	14,821	13,629
Other customers	23,832	71,176	59,846
	661,682	1,372,513	1,055,184

Impairment losses

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

	December 31, 2014		2013		2012	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
Not past due	602,859	(38,225)	1,237,219	(40,821)	887,464	(47,569)
Past due less than 30 days	76,917	(278)	122,122	(20)	173,504	(1,672)
Past due 31-90 days	21,202	(5,755)	50,111	(5,428)	36,335	(1,641)
Past due 91-180 days	4,451	(2,790)	10,400	(4,104)	4,658	(577)
Past due 181-365 days	3,814	(2,440)	5,095	(2,912)	2,997	(2,631)
More than one year	12,542	(10,615)	37,814	(36,963)	55,271	(50,955)
	721,785	(60,103)	1,462,761	(90,248)	1,160,229	(105,045)

The impairment allowance at December 31, 2014 included the impairment allowance in respect of trade receivables from related parties for the total amount of US$ nil (December 31, 2013: US$ 2.0 million; December 31, 2012: US$ 50.1 million).

The movement in allowance for impairment in respect of trade receivables, including trade receivables from related parties, during the years was as follows:

	Year ended December 31, 2014	2013	2012
Opening balance	(90,248)	(105,045)	(89,959)
Impairment loss recognized	(27,778)	(25,780)	(45,653)
Impairment loss reversed	39,748	37,581	34,661
Translation to presentation currency	18,175	2,996	(4,094)
Closing balance	(60,103)	(90,248)	(105,045)

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.

Concentration of credit risk

2014

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

2013

The Group has a concentration of cash and short-term bank deposits with OAO Metcombank, OAO Gazprombank, OAO Bank VTB and AB Russia that at December 31, 2013 represented US$ 373.1 million, US$ 289.4 million, US$ 144.3 million and US$ 100.7 million, respectively.

2012

The Group has a concentration of cash and short-term bank deposits with OAO Bank VTB, OAO Metcombank, AB Russia and OAO Sberbank Russia that at December 31, 2012 represented US$ 428.5 million, US$ 290.3 million, US$ 271.6 million and US$ 254.9 million, respectively.

Liquidity risk

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

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

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

(Amounts expressed in thousands 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:

December 31, 2014

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	3,428,863	(3,988,270)	(910,289)	(748,473)	(1,502,831)	(826,677)
Lease liabilities	383	(393)	(211)	(182)	-	-
Trade and other payables	538,514	(538,514)	(538,479)	(35)	-	-
Derivative financial liabilities	16,574	(16,574)	-	(16,574)	-	-
	3,984,334	(4,543,751)	(1,448,979)	(765,264)	(1,502,831)	(826,677)

December 31, 2013

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	4,754,094	(6,015,345)	(820,905)	(283,484)	(3,977,556)	(933,400)
Lease liabilities	2,110	(2,294)	(682)	(647)	(965)	-
Trade and other payables	1,280,784	(1,280,957)	(1,258,682)	(20,055)	(2,220)	-
	6,036,988	(7,298,596)	(2,080,269)	(304,186)	(3,980,741)	(933,400)

December 31, 2012

	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	5,709,540	(7,209,143)	(1,623,905)	(888,299)	(3,166,531)	(1,530,408)
Lease liabilities	3,611	(3,611)	(1,878)	(27)	(1,706)	-
Trade and other payables	1,284,405	(1,287,610)	(1,248,073)	(35,444)	(4,093)	-
Derivative financial liabilities	11,532	(13,487)	(11,899)	(1,588)	-	-
	7,009,088	(8,513,851)	(2,885,755)	(925,358)	(3,172,330)	(1,530,408)

2014

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

2013

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

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

2012

At December 31, 2012, the Group has a concentration of bank financing with European Bank for Reconstruction and Development and Citibank N.A. of US$ 349.2 million and US$ 415.6 million, respectively.

Covenant compliance risk

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

Currency risk

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

The Group's exposure to foreign currency risk was as follows based on notional amounts:

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

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

	December 31, 2012					
	Euro	USD	GBP	RUB	CAD	NOK
Held-to-maturity securities	-	24,621	-	-	-	-
Loans and receivables	154,816	1,270,082	-	11,659	3,693	2,186
Cash and cash equivalents	201,895	1,156,546	-	44	-	-
Derivative financial assets	-	34,808	-	-	-	-
Debt finance	(2,047,611)	(4,135,921)	-	(21,559)	(3,671)	-
Trade and other payables	(188,811)	(156,424)	(92)	(126)	-	(4)
Net exposure	(1,879,711)	(1,806,288)	(92)	(9,982)	22	2,182

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

Sensitivity analysis

A 10 percent strengthening of the following currencies against the functional currency at December 31, 2014 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 2013 and 2012.

	Year ended December 31,		
	2014	**2013**	**2012**
Net profit			
Euro	(118,622)	(179,229)	(154,348)
USD	(198,126)	(229,096)	(143,282)
GBP	(19)	(11)	(8)
CHF	87	(347)	-
CAD	-	-	3
RUB	(319)	5,919	(902)
PLN	198	-	-
NOK	-	-	143

A 10 percent weakening of these currencies against the functional currency at December 31, 2014 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

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

The Group's interest-bearing financial instruments at variable rates were:

	December 31,		
	2014	**2013**	**2012**
Variable rate instruments			
Financial assets	25,167	45,828	44,219
Financial liabilities	(331,640)	(494,515)	(978,008)
	(306,473)	(448,687)	(933,789)

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

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased/(decreased) profit and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013 and 2012.

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

	Net profit	
	100 bp increase	**100 bp decrease**
December 31, 2014		
Financial assets	220	(220)
Financial liabilities	(2,641)	2,641
Cash flow sensitivity (net)	(2,421)	2,421
December 31, 2013		
Financial assets	424	(424)
Financial liabilities	(4,381)	4,381
Cash flow sensitivity (net)	(3,957)	3,957
December 31, 2012		
Financial assets	442	(442)
Financial liabilities	(8,897)	8,897
Cash flow sensitivity (net)	(8,455)	8,455

Fair value hierarchy

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

	Level 1	Level 2	Level 3	Total
Balance at 31 December 2014	-	(16,574)	37,591	21,017
Available-for-sale financial assets	-	-	37,591	37,591
Derivative financial liabilities	-	(16,574)	-	(16,574)
Balance at 31 December 2013	1,276	-	44,799	46,075
Available-for-sale financial assets	1,276	-	44,799	46,075
Balance at 31 December 2012	6,078	23,306	33,762	63,146
Available-for-sale financial assets	6,078	-	33,762	39,840
Held-for-trading securities	-	30	-	30
Derivative financial assets	-	34,808	-	34,808
Derivative financial liabilities	-	(11,532)	-	(11,532)

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.

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

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy:

	Available-for-sale financial assets	Held-for-trading securities
Balance at 31 December 2014	37,591	-
Sales of financial instruments	(582)	-
Other reclassifications	(6,626)	-
Balance at 31 December 2013	44,799	-
Purchases of financial instruments	160	-
Reclassification from investments in associates (Note 28)	22,941	-
Other reclassifications	(12,064)	-
Balance at 31 December 2012	33,762	-
Issues of financial instruments	8,450	-
Other movements	1,047	(109)
Balance at 31 December 2011	24,265	109

31. Commitments and contingencies

a. For litigation, tax and other liabilities

As of 31 December, 2014, the actual contingent claims related to utilities supply agreements and factoring agreements made by counterparties to certain Group's entities amounted to approximately US$ 24.4 million and US$ 15.8 million, respectively (December 31, 2013: US$ 31.2 million, US$ 43.8 million and US$ 26.9 million related to land rent agreements, utilities supply agreements and post-retirement obligation, respectively). Management does not agree with these claims and has made all necessary steps to protect its position. Management is unable to assess the ultimate outcome of the claims and the outflow of financial resources to settle such claims, if any.

The taxation system and regulatory environment of the Russian Federation are relatively new and characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations between the differing regulatory authorities and jurisdictions, who are empowered to impose significant fines, penalties and interest charges. Events during recent years suggest that the regulatory authorities within this country are adopting a more assertive stance regarding the interpretation and enforcement of legislation. This situation creates substantial tax and regulatory risks. In addition, a number of new laws introducing changes to the Russian tax legislation have been adopted in the fourth quarter 2014 and are effective January 1, 2015. In particular, those changes are aimed at regulating transactions with offshore companies and their activities, including the withholding of dividends tax, which may potentially impact the Group's tax position and create additional tax risks going forward. Management believes that it has complied in all material respects with all relevant legislation. At the reporting date, the actual and potential contingent claims for taxes, fines and penalties made by the Russian tax authorities to certain Group's entities amounted to approximately US$ 2.0 million (December 31, 2013: US$ 19.6 million; December 31, 2012: US$ 18.1 million). Management does not agree with the tax authorities' claims and believes that the Group has complied with existing legislation in all material respects. Management is unable to assess the ultimate outcome of the claims and the outflow of financial resources to settle such claims, if any. Management believes that it has made adequate provisions for other probable tax claims.

b. Long-term purchase and sales contracts

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

c. Capital commitments

At the reporting date the Group had contractual capital commitments of US$ 244.0 million (December 31, 2013: US$ 488.3 million; December 31, 2012: US$ 777.0 million).

d. Insurance

The Group has insured 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$ 15.4 million (December 31, 2013: US$ 21.3 million; December 31, 2012: US$ 39.1 million) of guarantees issued, including guarantees issued for related parties, of US$ 3.9 million (December 31, 2013: US$ 8.5 million; December 31, 2012: US$ 23.0 million).