PAO Severstal
and subsidiaries

Consolidated financial statements
for the years ended 31 December 2017, 2016 and 2015

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Years ended 31 December 2017, 2016 and 2015

Contents

Independent Auditors' Report

To the Shareholders of PAO "Severstal" and Board of Directors

Opinion

We have audited the consolidated financial statements of PAO "Severstal" (the "Company") and subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2017, 2016 and 2015, the consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Audited entity: PAO "Severstal"

Registration No. in the Unified State Register of Legal Entities 1023501236901.

Cherepovets, Vologodskaya oblast, Russia

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

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203

<table>
<tr><th colspan="2">Acquisition of LLC "Metal-group"</th></tr>
<tr><td colspan="2">Please refer to the Note 29 in the financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>In November 2017, the Group started to consolidate LLC "Metal-group" (the "investee").

The Group recognised provisional amounts for identifiable assets and liabilities of the investee for the purpose of purchase price allocation.

The determination whether the Group controls the investee and the timing of when control was obtained, as well as the allocation of the consideration paid to the provisional amounts for the identifiable assets and liabilities of the investee involved significant judgments and estimates.</td><td>We reviewed management's analysis of the facts and circumstances, to determine whether the Group obtained control over LLC "Metal-group" as it is defined in IFRS.

We read the agreement to acquire the rights to the debt obligations and pledge agreements to evaluate the terms of the transaction.

We critically assessed, with assistance of our legal consulting department, management assumptions made to determine that the Group obtained control over LLC "Metal-group". In particular, we analysed whether the Group had the practical ability to direct relevant activities of the investee and exercise its decision-making rights.

Management involved an external appraiser to determine the fair value of the identifiable assets and liabilities of the investee which is incomplete by the date of our report. We evaluated the competence, capabilities and objectivity of the appraiser.

For property, plant and equipment we evaluated the methodology and inputs applied, as well as the economic obsolescence testing performed, by reconciling market values of property, plant and equipment and price indexes to observable market and other information. We used our own valuation specialists to assist us in the assessment.

We assessed the appropriateness of disclosures in Note 29 to the consolidated financial statements.</td></tr>
</table>

Other Information

Management is responsible for the other information. The other information comprises the Annual Report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Kiseleva L.R.

JSC "KPMG"

Moscow, Russia

1 February 2018

PAO Severstal and subsidiaries

Consolidated income statements
Years ended 31 December 2017, 2016 and 2015
(Amounts expressed in millions of US dollars, except as otherwise stated)

	Note	Year ended 31 December 2017	2016	2015
Revenue				
Revenue - third parties		7,726	5,812	6,323
Revenue - related parties	12	122	104	73
	4	7,848	5,916	6,396
Cost of sales		(4,735)	(3,573)	(3,810)
Gross profit		3,113	2,343	2,586
General and administrative expenses		(286)	(279)	(290)
Distribution expenses		(598)	(462)	(518)
Other taxes and contributions		(71)	(54)	(68)
Share of associates' and joint ventures' gain/(loss)		10	14	(1)
Loss on disposal of property, plant and equipment and intangible assets	9	(3)	(52)	(13)
Net other operating (expenses)/income		(3)	7	7
Profit from operations		2,162	1,517	1,703
Impairment of non-current assets	9	(3)	(135)	(183)
Gain from a bargain purchase	29	135	-	-
Net other non-operating (expenses)/income	10	(421)	12	(51)
Profit before financing and taxation		1,873	1,394	1,469
Finance income	6	49	63	101
Finance costs	6	(158)	(157)	(210)
Loss on remeasurement and disposal of financial instruments	7	(45)	(66)	(14)
Foreign exchange gain/(loss)	8	45	483	(624)
Profit before income tax		1,764	1,717	722
Income tax expense	11	(409)	(97)	(160)
Profit from continuing operations		1,355	1,620	562
Profit from discontinued operation	28	-	-	41
Profit for the period		1,355	1,620	603
Attributable to:				
shareholders of PAO Severstal		1,356	1,621	605
non-controlling interests		(1)	(1)	(2)
Basic weighted average number of shares outstanding during the period (millions of shares)	27	811.7	810.6	810.6
Basic earnings per share (US dollars)		1.67	2.00	0.75
Basic earnings per share - continuing operations (US dollars)		1.67	2.00	0.70
Basic earnings per share - discontinued operation (US dollars)		-	-	0.05
Diluted weighted average number of shares outstanding during the period (millions of shares)		842.1	810.6	810.6
Diluted earnings per share (US dollars)		1.64	2.00	0.75
Diluted earnings per share - continuing operations (US dollars)		1.64	2.00	0.70
Diluted earnings per share - discontinued operation (US dollars)		-	-	0.05

These consolidated financial statements were approved by the Board of Directors on 1 February 2018.

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

PAO Severstal and subsidiaries

Consolidated statements of comprehensive income
Years ended 31 December 2017, 2016 and 2015

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

	Note	Year ended 31 December 2017	2016	2015
Profit for the period		1,355	1,620	603
Other comprehensive income/(loss):				
Items that will not be reclassified to profit or loss				
Actuarial losses		(8)	(7)	(20)
Translation to presentation currency		191	108	(146)
Total items that will not be reclassified to profit or loss		183	101	(166)
Items that may be reclassified subsequently to profit or loss				
Translation to presentation currency - foreign operations		9	14	(205)
Changes in fair value of available-for-sale financial assets		3	-	-
Total items that may be reclassified subsequently to profit or loss		12	14	(205)
Items that were reclassified to profit or loss				
Accumulated translation reserves - foreign operations	10, 29	368	(49)	7
Total items that were reclassified to profit or loss		368	(49)	7
Other comprehensive income/(loss) for the period, net of tax		563	66	(364)
Total comprehensive income for the period		1,918	1,686	239
Attributable to:				
shareholders of PAO Severstal		1,918	1,686	241
non-controlling interests		-	-	(2)

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

PAO Severstal and subsidiaries

Consolidated statements of financial position
31 December 2017, 2016 and 2015

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

	Note	31 December 2017	31 December 2016	31 December 2015
Assets				
Current assets:				
Cash and cash equivalents	14	1,031	1,154	1,647
Short-term financial investments	15	12	19	11
Trade accounts receivable	16	598	485	432
Accounts receivable from related parties	13	16	22	10
Restricted financial assets		1	1	2
Inventories	17	1,058	867	650
VAT recoverable		124	78	58
Income tax recoverable		7	14	36
Other current assets	18	105	86	91
Assets held for sale	28	-	82	-
Total current assets		2,952	2,808	2,937
Non-current assets:				
Long-term financial investments	19	217	231	53
Investments in associates and joint ventures	20	65	55	26
Property, plant and equipment	21	3,701	3,135	2,611
Intangible assets	22	241	221	225
Deferred tax assets	11	24	27	7
Other non-current assets		9	6	8
Total non-current assets		4,257	3,675	2,930
Total assets		7,209	6,483	5,867
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		549	491	421
Accounts payable to related parties	13	18	15	9
Short-term debt finance	23	586	673	507
Income taxes payable		40	21	6
Other taxes and social security payable		113	95	77
Dividends payable		6	6	2
Other current liabilities	24	358	457	275
Liabilities related to assets held for sale	28	-	38	-
Total current liabilities		1,670	1,796	1,297
Non-current liabilities:				
Long-term debt finance	23	1,507	1,340	1,945
Deferred tax liabilities	11	311	115	141
Retirement benefit liabilities	25	78	67	53
Other non-current liabilities	26	245	124	163
Total non-current liabilities		2,141	1,646	2,302
Equity:				
Share capital	27	2,753	2,753	2,753
Treasury shares		(206)	(236)	(236)
Additional capital		308	296	296
Translation reserve		(1,679)	(2,246)	(2,318)
Retained earnings		2,195	2,450	1,758
Other reserves		12	9	-
Total equity attributable to shareholders of PAO Severstal		3,383	3,026	2,253
Non-controlling interests		15	15	15
Total equity		3,398	3,041	2,268
Total equity and liabilities		7,209	6,483	5,867

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

PAO Severstal and subsidiaries

Consolidated statements of cash flows
Years ended 31 December 2017, 2016 and 2015
(Amounts expressed in millions of US dollars, except as otherwise stated)

	Year ended 31 December		
	2017	2016	2015
Operating activities:			
Profit before financing and taxation	1,873	1,394	1,469
Adjustments to reconcile profit to cash generated from operations:			
Depreciation and amortisation	404	343	367
Impairment of non-current assets (Note 9)	3	135	183
Movements in provision for inventories, receivables and other provisions	(5)	16	32
Gain from a bargain purchase (Note 29)	(135)	-	-
Loss on disposal of property, plant and equipment and intangible assets	3	52	13
Loss/(gain) on disposal of subsidiaries (Note 29)	72	(52)	3
Accumulated translation reserves - foreign operations	307	-	-
Share of associates' and joint ventures' results less dividends from associates and joint ventures	(5)	(10)	5
Changes in operating assets and liabilities:			
Trade accounts receivable	(93)	(27)	98
Accounts receivable from related parties	5	(2)	4
VAT recoverable	(42)	(8)	(12)
Inventories	(119)	(123)	(42)
Trade accounts payable	46	32	(49)
Accounts payable to related parties	1	1	(7)
Other taxes and social security payable	13	25	-
Other non-current liabilities	(8)	(19)	(7)
Assets held for sale	2	-	-
Net other changes in operating assets and liabilities	(53)	(13)	38
Cash generated from operations	2,269	1,744	2,095
Interest paid	(138)	(152)	(177)
Income tax paid	(217)	(115)	(51)
Net cash from operating activities - continuing operations	1,914	1,477	1,867
Net cash used in operating activities - discontinued operation	-	-	(14)
Net cash from operating activities	1,914	1,477	1,853
Investing activities:			
Additions to property, plant and equipment	(560)	(494)	(412)
Additions to intangible assets	(31)	(31)	(27)
Business combination, additions to financial investments *	(137)	(227)	(2)
Net cash inflow from disposal of subsidiaries (Note 29)	42	3	4
Proceeds from disposal of property, plant and equipment	15	7	25
Proceeds from disposal of financial investments	36	18	9
Interest received	54	61	99
Dividends received	1	-	-
Cash used in investing activities	(580)	(663)	(304)
Financing activities:			
Proceeds from debt finance	1,306	656	243
Repayments of debt finance **	(1,191)	(1,070)	(1,222)
Net (repayments of)/proceeds from other financing activities	(72)	6	-
Dividends paid	(1,530)	(921)	(723)
Cash used in financing activities	(1,487)	(1,329)	(1,702)
Effect of exchange rates on cash and cash equivalents	30	23	(97)
Net decrease in cash and cash equivalents	(123)	(492)	(250)
Less cash and cash equivalents of assets held for sale at end of the period	-	(1)	-
Cash and cash equivalents at beginning of the period	1,154	1,647	1,897
Cash and cash equivalents at end of the period	1,031	1,154	1,647

* For the year ended 31 December 2017 this amount includes purchase of rights to claim debt obligations for a total consideration of 6 billion roubles (US$ 101 million at the transaction date exchange rate) which were acquired in July 2017 (Note 29).

** These amounts include repurchase and redemption of bonds of US$ nil for the year ended 31 December 2017, repurchase and redemption of bonds of US$ 372 million for the year ended 31 December 2016 and repurchase of bonds of US$ 635 million for the year ended 31 December 2015.

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

PAO Severstal and subsidiaries

Consolidated statements of changes in equity
Years ended 31 December 2017, 2016 and 2015
(Amounts expressed in millions of US dollars, except as otherwise stated)

	Attributable to the shareholders of PAO Severstal							Non-controlling interests	Total
	Share capital	Treasury shares	Additional capital	Translation reserve	Retained earnings	Other reserves	Total		
Balances as at 31 December 2014	2,753	(236)	313	(1,974)	1,954	-	2,810	17	2,827
Profit/(loss) for the period	-	-	-	-	605	-	605	(2)	603
Translation to presentation currency	-	-	-	(351)	-	-	(351)	-	(351)
Other comprehensive income/(loss)	-	-	-	7	(20)	-	(13)	-	(13)
Total comprehensive (loss)/income for the period				(344)	585	-	241	(2)	239
Dividends	-	-	-	-	(752)	-	(752)	-	(752)
Repayment of convertible bonds (Note 23)	-	-	(17)	-	-	-	(17)	-	(17)
Other	-	-	-	-	(29)	-	(29)	-	(29)
Balances as at 31 December 2015	2,753	(236)	296	(2,318)	1,758	-	2,253	15	2,268
Profit/(loss) for the period	-	-	-	-	1,621	-	1,621	(1)	1,620
Translation to presentation currency	-	-	-	121	-	-	121	1	122
Other comprehensive loss	-	-	-	(49)	(7)	-	(56)	-	(56)
Total comprehensive income for the period				72	1,614	-	1,686	-	1,686
Dividends	-	-	-	-	(922)	-	(922)	-	(922)
Other	-	-	-	-	-	9	9	-	9
Balances as at 31 December 2016	2,753	(236)	296	(2,246)	2,450	9	3,026	15	3,041
Profit/(loss) for the period	-	-	-	-	1,356	-	1,356	(1)	1,355
Translation to presentation currency	-	-	-	199	-	-	199	1	200
Other comprehensive income/(loss)	-	-	-	368	(8)	3	363	-	363
Total comprehensive income for the period				567	1,348	3	1,918	-	1,918
Dividends	-	-	-	-	(1,550)	-	(1,550)	-	(1,550)
Conversion of bonds	-	30	12	-	-	-	42	-	42
Other	-	-	-	-	(53)	-	(53)	-	(53)
Balances as at 31 December 2017	2,753	(206)	308	(1,679)	2,195	12	3,383	15	3,398

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 29.

Severstal began operations on 24 August 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On 24 September 1993, as a part of the Russian privatisation programme, Severstal was registered as an Open Joint Stock Company ('OAO') and privatised. Through participating in Severstal's privatisation auctions and other purchases, Alexey Mordashov (the 'Majority Shareholder') purchased shares in Severstal such that as at 31 December 2017 he controlled indirectly 77.03% (31 December 2016: 79.18%, 31 December 2015: 79.18%) of Severstal's share capital. In November 2014, Severstal changed its legal form from OAO to PAO (Public Joint Stock Company) following the requirements of the amended Russian Civil Code.

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

The Group comprises the following segments:

- *Severstal Resources* – this segment comprises three iron ore complexes, Karelsky Okatysh and Olcon in northwest Russia, LLC Metal-group in western Russia and a coal mining complex, Vorkutaugol in northwest Russia.

- *Severstal Russian Steel* – this segment consists primarily of the Group's steel production and high-grade automotive galvanizing facilities in Cherepovets; rolling mill 5000 and large-diameter pipe mill in Kolpino, all in northwest Russia; metalware plant located in Russia; a ferrous scrap metal recycling business operating in northwest and central Russia, as well as various supporting functions for trading, maintenance and transportation, located in Europe. The segment also included Redaelli Tecna S.p.A. and PJSC Dneprometiz, a metalware plants, which were located in Italy and Ukraine, and were disposed in April and October 2017, respectively (Note 29).

A segmental analysis of the Group's revenue, a reconciliation of profit from operations to EBITDA and total assets and liabilities are presented in Note 30.

Economic environment

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

The conflict in Ukraine in 2014 and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. This development in the environment did not have a significant effect on the Group's operations, however, the longer-term effect of implemented sanctions, as well as the threat of additional future sanctions, is difficult to determine.

International sales of rolled steel from the Group's Russian operations have been the subject of several anti-dumping and countervailing investigations. The Group has taken steps to address the concerns of such investigations and participates actively in their resolution.

A brief description of protective measures effective in Severstal's key export markets is given below:

- Due to termination of the Agreement suspending the anti-dumping investigation on certain hot-rolled flat-rolled carbon-quality steel products from the Russian Federation by the US Department of Commerce in December 2014, exports of hot-rolled coils and thin sheets from Russia to the USA are currently subject to antidumping duties. These duties were calculated in 1999 and based on non-market economy methodology. Severstal requested an administrative review of the recalculation of duty rate in December 2015. The US Department of Commerce published its final decision for the administrative review of hot-rolled steel from Russia and found that Severstal failed to cooperate with the review and assigned it a final antidumping rate of 184.56 percent in June 2017. The Group filed an appeal to the US Court of International Trade for the final results. The litigation is in process. The court decision is expected in 2018.
- Exports of hot-rolled plates from Russia to the USA are subject to minimum prices established based on the producer's actual cost and profit in the domestic market. Severstal is the first and currently only Russian company, for which, since September 2005, the hot-rolled plates market is open.
- In 2016 the United States International Trade Commission completed the anti-dumping and countervailing investigations against Russian cold-rolled products with no anti-dumping or countervailing measures imposed as a result. US steel producers have appealed this decision in the US Court of International Trade and the Group has, in order to protect its legitimate interests, joined these appellate proceedings during 2017. The decision is expected in April 2018.
- In 2016 the European Commission introduced five-year anti-dumping duties against Russian cold-rolled steel products ranging from 18.7% to 36.1%, with a 34.0% duty imposed on the Group's products. The Group believes that the relevant anti-dumping investigations were conducted by the EU authorities with violations. The Group appealed this regulatory decision to impose such duties in the relevant legal institutions and settlement bodies of the EU and the WTO. The court decision is expected in 2018.
- In October 2017, the European Commission imposed anti-dumping measures against hot-rolled steel products from a number of countries, including Russia. The measures are fixed duties from 17.6 to 96.5 euro per tonne, with a 17.6 euro per tonne duty imposed on the Group's products.

2. Basis for preparation of the consolidated financial statements

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

The Group additionally prepared IFRS consolidated financial statements presented in Russian roubles and in the Russian language in accordance with the Federal Law No. 208 – FZ 'On consolidated financial reporting'.

Basis of measurement

The consolidated financial statements are prepared on the historic cost basis except for financial assets and liabilities at fair value through profit and loss and available-for-sale financial assets stated at fair value, and assets held for sale at fair value less costs to sell.

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

Critical accounting judgments, estimates and assumptions

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

Areas of judgement that have the most significant effect on the amounts recognised/disclosed in the consolidated financial statements are:

Useful lives of property, plant and equipment

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

Impairment of assets

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

Taxation

The taxation system and regulatory environment of the Russian Federation are characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations by the various regulatory authorities and jurisdictions, who can impose significant fines and penalties. Management has to apply considerable judgement in determining the appropriate amounts of taxes payable.

Allowance for doubtful debts

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

Allowance for obsolete and slow-moving inventories

The Group makes allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

Decommissioning liabilities

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

Retirement benefit liabilities

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

Litigation

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

Deferred tax assets

Deferred tax assets on deductible temporary differences and tax loss carry forwards are reviewed at each reporting date and recorded only to the extent that it is probable that the temporary differences will reverse in the future and there is sufficient future taxable profit available against which they can be utilised. The estimation of that probability includes judgments based on the expected performance.

Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation of deferred tax assets must be reduced, this reduction will be recognised in the income statement.

Consolidation

For new investees or when there are changes in Group's existing involvement with an investee the Group assess all facts and circumstances to determine whether it has control over the investee. There may be cases which require Management to exercise significant judgement to determine whether it is exposed or has the rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The acquisition method

The acquisition method requires the Group for each business combination to identify the acquirer, date of acquisition, recoginising and measuiring the identified assets and liabilities assumed and any non-controlling interest in the acquiree, and goodwill or gain from a bargain purchase. Assessment of the fair value of identifiable net assets along with resulted goodwill or gain from a bargain purchase based on applicable valuation techniques using market inputs and other assumptions involves significant judgement to determine appropriate amounts to include in the consolidated financial statements at acquisition date.

Functional currency determination

The Group exercises judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions based on the specific facts and circumstances. This is a complex process and different factors are considered in determining the appropriate functional currency. Management regularly reviews the facts and circumstances, which may indicate that the functional currency of an entity should be changed.

The key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Useful lives of property, plant and equipment;
- Impairment of assets;
- Taxation;
- Litigation.

Functional and presentation currency

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

The functional currency is determined separately for each of the Group's entities. The functional currency of the major parts of the Group's entities is the Russian rouble, except for entities located in Latvia and Poland, other entities and currencies are not material to the Group. As at 31 December 2017, the substantial part of the foreign operations had been disposed of or were in the process of being liquidated.

(Amounts expressed in millions 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 recognised as a separate component in other comprehensive income.

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

	2017		2016		2015	
	31 December	Average	31 December	Average	31 December	Average
USD/RUB	57.60	58.35	60.66	67.02	72.88	60.92
EUR/USD	1.20	1.13	1.05	1.11	1.09	1.11

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

Adoption of amended Standards

A number of amended Standards were adopted for the year ended 31 December 2017 and have been applied in these consolidated financial statements.

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

New accounting pronouncements

A number of new and amended Standards were not yet effective for the year ended 31 December 2017 and have not been applied in these consolidated financial statements.

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

IFRS 9 Financial Instruments is intended to replace the current *IAS 39 Financial instruments*: *Recognition and Measurement*. The mandatory effective date is 1 January 2018, with earlier application allowed. The standard provides the amended guidance on the classification, recognition and measurement of financial assets and liabilities and hedge accounting. The major impact from the transition is related to the classification of financial assets and introduced expected credit loss model which results in the earlier recognition of credit losses and is more forward looking than the current incurred loss model.

The Group analysed the classification of all material financial assets and liabilities under the new standard and does not expect any significant effect on the Group's consolidated financial statements. The Group is currently under assessment of the effect of implementation of the new expected credit losses model, including expected credit losses on accounts receivable.

IFRS 15 Revenue from contracts with customers is intended to replace the current *IAS 11 Construction Contracts*, *IAS 18 Revenue* and related *IFRIC*. The mandatory effective date is 1 January 2018, with earlier application allowed. The standard provides amended guidance on revenue recognition. To assess the effect of IFRS 15 on the consolidated financial statements the Group analysed all major contracts with customers. As a result of the analysis performed no significant effect of the adoption of new standard on the Group's consolidated financial statements is expected.

IFRS 16 Leases is intended to replace the current *IAS 17 Leases*. The standard provides amended guidance on recognition, measurement, presentation and disclosure of leases. It states a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less. The Group recognises that the new standard introduces many changes to the accounting for leases. The Group is currently assessing the effect of IFRS 16.

3. Summary of the principal accounting policies

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

a. Basis of consolidation

Subsidiaries

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

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

Business combinations

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

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

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

Investments in associates

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

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

Joint 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.

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.

Goodwill

Goodwill is measured as the difference between:

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

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

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

The gain from a bargain purchase represents the excess of the Group's share in the fair value of acquired identifiable assets and the liabilities assumed over the consideration transferred. It is recognised in the income statement at the date of the acquisition.

b. Foreign currency transactions

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

c. Exploration for and evaluation of mineral resources

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

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

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

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

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

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

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

d. Development expenditure

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

e. Stripping costs

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

- Stripping activity asset; and
- Current stripping costs.

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

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

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

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

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

f. Property, plant and equipment

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

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

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

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

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

g. Leases

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

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

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

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

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

h. Intangible assets (excluding goodwill)

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

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

The table below presents the useful lives of intangible assets:

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

The major component of the software is the SAP business system. The major component of other intangible assets is land lease rights. Amortisation of intangible assets is included in the captions “Cost of sales” and “General and administrative expenses” in the consolidated income statement.

i. Impairment of assets

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

Calculation of recoverable amount

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

j. Inventories

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

k. Financial assets

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

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

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

Loans and receivables

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

AFS financial assets

Available-for-sale financial assets are those non-derivative financial assets that are not classified as financial assets at FVTPL, held-to-maturity or loans and receivables and are stated at fair value. Listed shares and other quoted instruments which are traded in an active market are stated at their market value.

Investments in unlisted shares or other instruments those do not have a quoted market price in an active market are measured at management's estimate of fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses, which are recognised directly in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the equity is included in the income statement for the period.

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

l. Other financial liabilities

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

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

m. Hedging instruments

The Group holds derivative financial instruments primarily to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

n. Dividends payable

Dividends are recognised as a liability in the period in which they are authorised by the shareholders.

o. Other taxes and contributions

Other taxes and contributions are taxes and mandatory contributions paid to the government, or government controlled agencies, that are calculated on a variety of bases, but exclude taxes calculated on profits, value added taxes calculated on revenues and purchases and social security costs calculated on wages and salaries. Social security costs are included in cost of sales, distribution expenses and general and administrative expenses in accordance with the nature of related wages and salaries expenses.

p. Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

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

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

Deferred tax assets on deductible temporary differences and tax loss carry forwards are reviewed at each reporting date and recorded only to the extent that it is probable that the temporary differences will reverse in the future and there is sufficient future taxable profit available against which they can be utilised.

Deferred tax is not recognised in respect of the following:

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

q. Provisions

Employee benefits

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

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

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

Other long-term employee benefits include various compensations, non-monetary benefits and a long-term cash-settled share-based incentive programme.

Decommissioning liabilities

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

r. Share capital

Ordinary shares

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

Repurchase of issued shares

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

s. Operating income and expenses

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

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

t. Revenue recognition

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

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

Sale of goods

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

Rendering of services

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

u. Finance income and costs

Interest income

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

Interest expense

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

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

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

Other finance costs

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

v. Earnings per share

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by dividing adjusted profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of shares outstanding, adjusted for the effect of all dilutive potential ordinary shares.

w. Segment reporting

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

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

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

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

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

4. Revenue

Revenue by product was as follows:

	Year ended 31 December		
	2017	2016	2015
Hot-rolled strip and plate	2,458	1,784	1,799
Cold-rolled sheet	783	451	595
Long products	600	477	433
Large diameter pipes	570	459	697
Metalware products	549	488	496
Shipping and handling	541	419	468
Pellets and iron ore	517	312	301
Other tubes and pipes, formed shapes	474	372	387
Galvanized and other metallic coated sheet	470	322	348
Colour-coated sheet	353	298	313
Semi-finished products	219	210	142
Coal and coking coal concentrate	60	105	175
Scrap	6	8	4
Others	248	211	238
	7,848	5,916	6,396

Revenue by delivery destination was as follows:

	Year ended 31 December		
	2017	2016	2015
Russian Federation	4,692	3,805	4,195
Europe	1,471	1,174	1,149
The Middle East	589	336	316
CIS	478	299	408
North America	240	19	53
Africa	152	88	76
Central and South America	113	81	85
South-East Asia	63	58	10
China and Central Asia	50	56	104
	7,848	5,916	6,396

5. Staff costs

Employment costs were as follows:

	Year ended 31 December		
	2017	2016	2015
Wages and salaries	(742)	(639)	(662)
Social security costs	(242)	(208)	(219)
Retirement benefit service costs	(1)	(1)	(1)
	(985)	(848)	(882)

Key management personnel include the following positions within the Group:

- CEO and Senior Vice Presidents;
- Board of Directors of the Company.

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

Key management's remuneration for the year ended 31 December 2017, consisting of salaries and bonuses, totalled US$ 11 million (2016: US$ 10 million; 2015: US$ 10 million).

Additionally, in 2017, a provision for their long-term cash-settled share-based incentive programmes of US$ 1 million was accrued (2016: US$ 3 million; 2015: US$ 2 million). This provision is subject to further adjustments, depending on a range of the Group's financial indicators.

6. Finance income and costs

	Year ended 31 December		
	2017	2016	2015
Finance income			
Interest income	48	63	101
Dividend income	1	-	-
	49	63	101
Finance costs			
Interest expense	(151)	(155)	(202)
Other finance costs	(7)	(2)	(8)
	(158)	(157)	(210)

7. Loss on remeasurement and disposal of financial instruments

	Year ended 31 December		
	2017	2016	2015
Derivative financial liabilities			
Remeasurement to fair value	(24)	(43)	10
Held-to-maturity securities and loans			
Loss on disposal	-	-	(3)
Impairment	(4)	(3)	-
Available-for-sale financial assets			
Loss on disposal	(10)	(8)	-
Impairment	(7)	(12)	(21)
	(45)	(66)	(14)

The impairment of available-for-sale financial assets in 2016 related to a greenfield iron ore deposit in the Republic of Congo, Core Mining, and was due to the uncertain prospects for the development of the field.

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

8. Foreign exchange gain/(loss)

	Year ended 31 December		
	2017	2016	2015
Foreign exchange gain/(loss) on cash and cash equivalents and debt finance	93	524	(655)
Foreign exchange loss on derivative	(15)	(18)	-
Foreign exchange (loss)/gain on other assets and liabilities	(33)	(23)	31
	45	483	(624)

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

9. Impairment of non-current assets

	Year ended 31 December		
	2017	2016	2015
Impairment of property, plant and equipment	(3)	(82)	(79)
Impairment of intangible assets	-	(28)	(104)
Impairment of goodwill	-	(25)	-
	(3)	(135)	(183)

The recoverable amount of Redaelli Tecna S.p.A. in 2016 and Severstal Liberia Iron Ore Ltd in 2015 has been determined based on its fair value less costs to sell.

For the purpose of impairment testing, the recoverable amount of each cash generating unit except above has been determined based on value in use calculations. The value in use calculation uses cash flow projections based on actual operating results and the business plan approved by management and a corresponding discount rate which reflects the time value of money and risks associated with each individual cash-generating unit.

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

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

	Year ended 31 December		
	2017	2016	2015
Russia	n/a	3.2 - 5.7	4.3 - 7.8
Italy	n/a	n/a	1.0 - 2.0

- 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 31 December		
	2017	2016	2015
Severstal Resources:			
Russia (US$ rate)	n/a	14.4	14.5
Severstal Russian Steel:			
Italy (EUR rate)	n/a	n/a	10.0

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

Severstal Liberia Iron Ore Ltd

2015

During 2015, due to the uncertain prospects for the development of the field the Group again assessed the recoverable amount of Severstal Liberia Iron Ore Ltd. As a result, in 2015 the Group recognised an impairment loss of US$ 100 million, which was fully allocated to intangible assets and reduced the carrying amount of the cash generating unit to US$ nil.

AO Olcon

2015

During 2015, due to the decrease in iron ore concentrate prices the Group assessed the recoverable amount of AO Olcon. As a result, an impairment loss was recognised in 2015 of US$ 80 million and US$ 76 million was allocated to property, plant and equipment and US$ 4 million to intangible assets. The carrying amount of the cash generating unit was US$ 80 million as at 31 December 2015.

The following assumptions were used in the impairment test:

- the forecast extraction volumes decrease by 1% in 2016, increase by 3% in 2017, decrease by 1% in 2018, increase by 2% in 2019, decrease on average by 3% p.a. in 2020 to 2026;
- the forecast iron ore concentrate prices increase by 3% in 2016, increase by 5% in 2017, increase by 4% in 2018, increase by 9% in 2019, grow thereafter on average by 2% p.a.;
- operating costs are forecast to decrease by 5% in 2016, increase by 19% in 2017, increase on average by 4% p.a. in 2018 to 2020, further decrease on average by 5% p.a.;
- pre-tax discount rate of 14.5% (in US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$ 6 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$ 79 million.

AO Vorkutaugol

2016

In February 2016, an explosion occurred at the Vorkutaugol’s Severnaya mine which is included in the Severstal Resources segment. In September 2016, the Group announced that the Severnaya mine will be sealed off to avoid the risk of airflow causing further underground fire and explosions in the mine. By 31 December 2016, the Group paid compensation of US$ 2 million to the injured workers and the relatives of those killed and recognised a provision for restructuring of staff of US$ 2 million. Loss on disposal of property, plant and equipment of US$ 41 million and an impairment loss of US$ 12 million was recognised in the period ended 31 December 2016, in relation to all relevant property, plant and equipment of the Severnaya mine.

In 2016, due to the existence of an internal indication of impairment as a result of an explosion occurred at the Vorkutaugol’s Severnaya mine the Group assessed the recoverable amount of AO Vorkutaugol, the carrying amount of which was US$ 279 million as at 31 December 2016.

As a result, based on a value in use calculation, no impairment loss was recognised in 2016.

Sensitivity analysis of the main assumptions of impairment test:

- a 1% increase in discount rate does not cause the impairment of the CGU;
- a 10% decrease in the coking coal concentrate prices does not cause the impairment of the CGU.

Additionally, an impairment loss of US$ 56 million and US$ 28 million was recognised in 2016 in relation to specific items of property, plant and equipment and intangible assets, respectively.

Other units

2015

An impairment loss of US$ 1 million was recognised in 2015 in relation to specific items of property, plant and equipment.

2017

An impairment loss of US$ 3 million was recognised in 2017 in relation to specific items of property, plant and equipment.

Severstal Russian Steel segment

Redaelli Tecna S.p.A.

2015

As a result of a value in use calculation no impairment loss was recognised in 2015, and the recoverable amount of the CGU exceeded its carrying amount by US$ 52 million.

The carrying amount of goodwill allocated to the cash-generating unit was US$ 26 million as at 31 December 2015.

The following assumptions were used in the impairment test:

- the forecast sales volumes increase by 3% in 2016, increase by 3% in 2017 and remain constant at the 2017 level thereafter;
- forecast sales prices decrease by 3% in 2016, increase by 2% in 2017, remain constant at the 2017 level in 2018, increase by 1% in 2019, increase by 3% in 2020 and grow thereafter on average by 2% p.a.;
- operating costs are forecast to decrease by 2% in 2016, increase by 4% in 2017, increase on average by 1% p.a. in 2018 and 2019, increase by 2% in 2020 and grow thereafter on average by 2% p.a.;
- pre-tax discount rate of 10.0% (in EUR terms).

The above estimates are particularly sensitive in the following areas:

- a 4% decrease in the steel prices would cause the CGU's recoverable amount to be equal to its carrying amount.

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

2016

In 2016 the Group recognised an impairment loss of US$ 30 million in relation to non-current assets of Redaelli Tecna S.p.A. based on its fair value less costs to sell. US$ 25 million of the loss was allocated to goodwill and US$ 5 million to property, plant and equipment (Note 28).

The carrying amount of goodwill allocated to the cash-generating unit before the impairment loss was US$ 25 million as at 31 December 2016.

Other units

2015

An impairment loss of US$ 2 million was recognised in 2015 in relation to specific items of property, plant and equipment.

2016

An impairment loss of US$ 9 million was recognised in 2016 in relation to specific items of property, plant and equipment.

10. Net other non-operating (expenses)/income

	Year ended 31 December		
	2017	**2016**	**2015**
Social expenditure	(13)	(14)	(13)
Charitable donations	(26)	(25)	(23)
Depreciation of infrastructure assets	(1)	(1)	(1)
(Loss)/gain on disposal of subsidiaries (Note 29)	(72)	52	(3)
Accumulated translation reserves - foreign operations	(307)	-	-
Other	(2)	-	(11)
	(421)	12	(51)

During 2017, as a result of an internal reorganisation of a number of foreign holding entities, US$ 307 million of translation reserves, arising from operations which had been liquidated or are in the process of being liquidated, were recognised in net other non-operating (expenses)/income.

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

11. Taxation

The following is an analysis of the income tax expense:

	Year ended 31 December		
	2017	**2016**	**2015**
Current tax charge	(242)	(154)	(50)
Corrections to prior year's current tax charge	3	(3)	16
Deferred tax (expense)/benefit	(170)	60	(126)
Income tax expense	(409)	(97)	(160)

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

	Year ended 31 December		
	2017	**2016**	**2015**
Profit before income tax	1,764	1,717	722
Tax charge at Russian statutory rate	(353)	(343)	(144)
(Loss)/profit taxed at different rates	(3)	(6)	18
Corrections to prior years' current tax charge	3	(3)	16
Non-tax deductible expenses, net	(42)	(40)	(30)
Changes in non-recognised deferred tax assets	-	290	(4)
Reassessment of deferred tax assets and liabilities	(14)	5	(16)
Income tax expense	(409)	(97)	(160)

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

The following table sets out the composition of the net deferred tax liability and movements based on the temporary differences arising between the fiscal and reporting balance sheets:

	31 December 2016	Recognised in income statements	Business combination	Translation to presentation currency	31 December 2017
Deferred tax assets:					
Tax loss carry forwards	163	(162)	-	7	8
Property, plant and equipment	5	(2)	-	-	3
Inventory	20	(1)	-	-	19
Accounts receivable	9	4	1	-	14
Provisions	33	(2)	-	2	33
Financial investments	14	1	1	1	17
Other	18	(5)	-	3	16
Gross deferred tax assets	262	(167)	2	13	110
Less offsetting with deferred tax liabilities	(235)	161	(2)	(10)	(86)
Recognised deferred tax assets	27	(6)	-	3	24
Deferred tax liabilities:					
Property, plant and equipment	(280)	(22)	(24)	(18)	(344)
Provisions	(2)	1	-	-	(1)
Intangible assets	(44)	9	-	(2)	(37)
Inventory	(8)	1	-	-	(7)
Accounts receivable	-	(3)	-	-	(3)
Financial liabilities	(7)	7	-	-	-
Other	(9)	4	-	-	(5)
Gross deferred tax liabilities	(350)	(3)	(24)	(20)	(397)
Less offsetting with deferred tax assets	235	(161)	2	10	86
Recognised deferred tax liabilities	(115)	(164)	(22)	(10)	(311)
Net deferred tax liability	(88)	(170)	(22)	(7)	(287)

	31 December 2015	Recognised in income statements	Reclass to liabilities related to assets held for sale	Translation to presentation currency	31 December 2016
Deferred tax assets:					
Tax loss carry forwards	58	84	-	21	163
Property, plant and equipment	2	3	-	-	5
Inventory	10	8	-	2	20
Accounts receivable	14	(7)	-	2	9
Provisions	25	3	-	5	33
Financial investments	34	(27)	-	7	14
Other	15	-	-	3	18
Gross deferred tax assets	158	64	-	40	262
Less offsetting with deferred tax liabilities	(151)	(61)	-	(23)	(235)
Recognised deferred tax assets	7	3	-	17	27
Deferred tax liabilities:					
Property, plant and equipment	(236)	2	3	(49)	(280)
Provisions	(2)	-	-	-	(2)
Intangible assets	(40)	2	-	(6)	(44)
Inventory	(8)	2	-	(2)	(8)
Financial liabilities	(1)	(6)	-	-	(7)
Other	(5)	(4)	-	-	(9)
Gross deferred tax liabilities	(292)	(4)	3	(57)	(350)
Less offsetting with deferred tax assets	151	61	-	23	235
Recognised deferred tax liabilities	(141)	57	3	(34)	(115)
Net deferred tax liability	(134)	60	3	(17)	(88)

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

	31 December 2014	Recognised in income statements	Other movements	Translation to presentation currency	31 December 2015
Deferred tax assets:					
Tax loss carry forwards	172	(120)	-	6	58
Property, plant and equipment	2	-	-	-	2
Inventory	29	(3)	(14)	(2)	10
Accounts receivable	16	1	-	(3)	14
Provisions	27	6	-	(8)	25
Financial investments	12	25	-	(3)	34
Other	32	(12)	-	(5)	15
Gross deferred tax assets	290	(103)	(14)	(15)	158
Less offsetting with deferred tax liabilities	(246)	77	-	18	(151)
Recognised deferred tax assets	44	(26)	(14)	3	7
Deferred tax liabilities:					
Property, plant and equipment	(293)	(12)	-	69	(236)
Provisions	(2)	-	-	-	(2)
Intangible assets	(46)	(2)	-	8	(40)
Inventory	(19)	(6)	14	3	(8)
Investments in associates and joint ventures	(2)	-	-	2	-
Accounts receivable	(1)	-	-	1	-
Financial liabilities	(1)	-	-	-	(1)
Other	(2)	(3)	-	-	(5)
Gross deferred tax liabilities	(366)	(23)	14	83	(292)
Less offsetting with deferred tax assets	246	(77)	-	(18)	151
Recognised deferred tax liabilities	(120)	(100)	14	65	(141)
Net deferred tax liability	(76)	(126)	-	68	(134)

The Group reassessed the recoverability of certain previously unrecognised deferred tax assets and accrued them in 2016 to the extent that it had become probable that future taxable profit would allow the deferred tax assets to be recovered. Amount of future taxable profit was based on the projections performed for the entities included in the consolidated group of taxpayers as defined by the Russian tax code. Main assumptions used related to the production level, costs, selling price and exchange rates.

The Group has not recognised cumulative tax loss carry forwards in the following amounts and with the following expiry dates:

	31 December		
	2017	2016	2015
Between one and five years	218	198	172
Between five and ten years	-	142	1,329
No expiry	348	90	63
	566	430	1,564

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$ 2,497 million as at 31 December 2017 (31 December 2016: US$ 4,078 million; 31 December 2015: US$ 5,525 million).

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

12. Related party transactions

	Year ended 31 December		
	2017	**2016**	**2015**
Revenue - related parties:			
Revenue - associates	32	27	27
Revenue - joint ventures	66	44	22
Revenue - other related parties	24	33	24
Income from services to other related parties	15	7	5
Proceeds from disposal of property, plant and equipment to other related parties	-	-	2
Interest income from related parties:			
Interest income from joint ventures	3	3	4
Interest income from other related parties	-	11	22
	140	125	106
Purchases from related parties:			
Purchases from associates:			
Non-capital expenditures	71	57	61
Purchases from joint ventures:			
Non-capital expenditures	5	3	1
Purchases from other related parties:			
Non-capital expenditures	32	25	23
Capital expenditures	6	4	3
	114	89	88

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

13. Related party balances

	31 December		
	2017	2016	2015
Joint ventures' balances			
Short-term trade accounts receivable	5	3	3
Short-term loans	4	2	2
Long-term loans	20	37	38
Associates' balances			
Short-term trade accounts receivable	3	3	2
Short-term loans	-	6	5
Short-term trade accounts payable	7	6	5
Other related party balances			
Cash and cash equivalents at related party bank*	-	-	168
Accounts receivable from other related parties:			
Short-term trade accounts receivable	6	15	4
Short-term other receivables	2	1	1
Long-term other receivables	-	1	1
	8	17	6
Accounts payable to other related parties:			
Short-term trade accounts payable	3	2	1
Advances received	3	1	1
Short-term other accounts payable	5	6	2
Long-term other accounts payable	7	8	5
Short-term debt financing	2	-	-
	20	17	9

* Since October 2016 JSC Metcombank is no longer a related party to the Group.

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

Loans given to related parties were provided at interest rates ranging from nil to 10.5% per annum and were given to finance working capital and investments.

14. Cash and cash equivalents

	31 December		
	2017	2016	2015
Cash at bank	71	128	113
Bank deposits	960	1,025	1,524
Other cash equivalents	-	1	10
	1,031	1,154	1,647

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

15. Short-term financial investments

	31 December		
	2017	2016	2015
Available-for-sale financial assets	8	11	-
Loans	4	8	10
Held-to-maturity securities	-	-	1
	12	19	11

16. Trade accounts receivable

	31 December		
	2017	2016	2015
Customers	679	567	467
Allowance for doubtful debts	(81)	(82)	(35)
	598	485	432

17. Inventories

	31 December		
	2017	2016	2015
Raw materials and supplies	441	356	298
Finished goods	283	195	149
Work-in-progress	334	316	203
	1,058	867	650

Of the above amounts US$ 7 million (31 December 2016: US$ 6 million; 31 December 2015: US$ 10 million) were stated at net realisable value.

During the year ended 31 December 2017, the Group recognised a US$ 37 million release and a US$ 28 million allowance to account for obsolete and slow-moving inventories and to reduce the carrying amount to net realisable value (2016: US$ 24 million and US$ 34 million, respectively; 2015: US$ 24 million and US$ 33 million, respectively).

18. Other current assets

	31 December		
	2017	2016	2015
Advances paid and prepayments	60	37	34
Other taxes and social security prepaid	5	8	24
Financial receivable	-	-	1
Other assets	40	41	32
	105	86	91

19. Long-term financial investments

	31 December		
	2017	2016	2015
Available-for-sale financial assets	197	194	15
Loans	20	37	38
	217	231	53

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

20. Investments in associates and joint ventures

The Group's investments in associates and joint ventures companies are described in the table below. The Group structure and certain additional information on investments in associates and joint ventures, including ownership percentages, are presented in Note 29.

	31 December		
	2017	**2016**	**2015**
Associates			
JSC Air Liquide Severstal	14	14	11
Iron Mineral Beneficiation Services (Proprietary) Ltd	6	-	-
Joint ventures			
Rutgers Severtar LLC	17	12	-
Gestamp-Severstal-Kaluga LLC	15	15	7
Severstal-Gonvarri-Kaluga LLC	13	13	7
Gestamp Severstal Vsevolozhsk LLC	-	1	1
	65	55	26

The following is summarised financial information in respect of associates:

	31 December		
	2017	**2016**	**2015**
Current assets	24	17	13
Non-current assets	66	65	59
Short-term liabilities	6	6	9
Long-term liabilities	25	33	25
Equity	59	43	38

	Year ended 31 December		
	2017	**2016**	**2015**
Revenue	71	60	63
Profit for the period	23	18	17
Other comprehensive (loss)/income	(2)	7	(18)
Total comprehensive income/(loss)	21	25	(1)

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

	31 December		
	2017	**2016**	**2015**
Current assets	92	104	61
Non-current assets	165	177	152
Short-term liabilities	33	36	28
Long-term liabilities	91	119	150
Equity	133	126	35

	Year ended 31 December		
	2017	**2016**	**2015**
Revenue	249	197	186
Profit/(loss) for the period	13	42	(24)
Other comprehensive income/(loss)	10	15	(13)
Total comprehensive income/(loss)	23	57	(37)

None of the above associates and joint ventures is individually material to the Group.

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

21. Property, plant and equipment

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction-in-progress	Total
Cost:						
31 December 2014	1,230	3,822	187	64	722	6,025
Reclassifications	7	3	(7)	(3)	-	-
Additions	-	-	-	-	453	453
Disposals	(8)	(125)	(18)	(6)	(13)	(170)
Discontinued operation	-	17	-	-	16	33
Transfers from other assets and liabilities	7	13	-	-	1	21
Transfers	132	313	25	9	(479)	-
Translation to presentation currency	(302)	(896)	(45)	(14)	(148)	(1,405)
31 December 2015	1,066	3,147	142	50	552	4,957
Reclassifications	(2)	2	1	(1)	-	-
Additions	-	-	-	-	519	519
Disposals	(43)	(153)	(3)	(1)	(10)	(210)
Reclassified to assets held for sale	(21)	(35)	-	-	(1)	(57)
Transfers to other assets and liabilities	(4)	(9)	-	-	-	(13)
Transfers	41	347	21	3	(412)	-
Translation to presentation currency	201	632	36	9	114	992
31 December 2016	1,238	3,931	197	60	762	6,188
Reclassifications	-	1	(1)	-	-	-
Additions	-	-	-	-	549	549
Disposals	(5)	(81)	(5)	(8)	(4)	(103)
Business combinations	166	31	7	-	51	255
Business de-combinations	(8)	(4)	-	-	-	(12)
Transfers to other assets and liabilities	(6)	(2)	-	-	-	(8)
Transfers	66	236	145	1	(448)	-
Translation to presentation currency	70	211	16	2	42	341
31 December 2017	1,521	4,323	359	55	952	7,210

Of the above amounts of additions to construction-in-progress, US$ 9 million (2016: US$ 6 million, 2015: US$ 16 million) is capitalised interest.

The Group applied a weighted average capitalisation rate of 5% to determine the amount of borrowing costs eligible for capitalisation for the year ended 31 December 2017 (2016: 5%; 2015: 6%).

(Amounts expressed in millions 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:						
31 December 2014	492	2,049	70	37	41	2,689
Reclassifications	(1)	4	(2)	(1)	-	-
Depreciation expense	44	289	16	1	-	350
Disposals	(5)	(109)	(14)	(5)	-	(133)
Discontinued operation	-	4	-	-	-	4
Impairment	5	29	18	2	25	79
Translation to presentation currency	(115)	(491)	(20)	(7)	(10)	(643)
31 December 2015	420	1,775	68	27	56	2,346
Depreciation expense	46	261	16	1	-	324
Disposals	(27)	(120)	(3)	-	(2)	(152)
Reclassified to assets held for sale	(4)	(22)	-	-	-	(26)
Transfers	1	8	8	-	(17)	-
Impairment	-	16	-	1	65	82
Translation to presentation currency	81	363	21	5	9	479
31 December 2016	517	2,281	110	34	111	3,053
Depreciation expense	54	299	27	1	-	381
Disposals	(5)	(70)	(4)	(1)	(2)	(82)
Business de-combinations	(6)	(3)	-	-	-	(9)
Transfers	-	8	-	-	(8)	-
Impairment	-	-	-	-	3	3
Translation to presentation currency	26	124	6	2	5	163
31 December 2017	586	2,639	139	36	109	3,509
Net book values:						
31 December 2015	646	1,372	74	23	496	2,611
31 December 2016	721	1,650	87	26	651	3,135
31 December 2017	935	1,684	220	19	843	3,701

Other productive assets include transportation equipment and tools.

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

22. Intangible assets

	Goodwill	Mineral rights	Software	Evaluation and exploration assets	Other intangible assets	Total
Cost:						
31 December 2014	60	52	169	244	51	576
Additions	-	-	21	7	-	28
Transfers (to)/from other assets	-	-	(2)	4	(5)	(3)
Disposals	-	-	(1)	-	-	(1)
Translation to presentation currency	(6)	(12)	(41)	(7)	(11)	(77)
31 December 2015	54	40	146	248	35	523
Additions	-	-	25	6	-	31
Disposals	-	-	-	(1)	-	(1)
Translation to presentation currency	2	9	32	5	7	55
31 December 2016	56	49	203	258	42	608
Reclassifications	-	2	-	(2)	-	-
Additions	-	-	24	7	1	32
Business de-combinations	(25)	-	-	-	-	(25)
Translation to presentation currency	1	4	10	2	2	19
31 December 2017	32	55	237	265	45	634
Amortisation and impairment:						
31 December 2014	23	3	37	119	17	199
Amortisation expense	-	1	13	2	1	17
Impairment	-	1	-	101	2	104
Transfers (to)/from other assets	-	-	(5)	-	2	(3)
Translation to presentation currency	(3)	(1)	(10)	(1)	(4)	(19)
31 December 2015	20	4	35	221	18	298
Amortisation expense	-	-	16	1	2	19
Impairment	25	28	-	-	-	53
Translation to presentation currency	2	3	9	1	2	17
31 December 2016	47	35	60	223	22	387
Amortisation expense	-	1	19	2	1	23
Business de-combinations	(25)	-	-	-	-	(25)
Translation to presentation currency	1	2	3	1	1	8
31 December 2017	23	38	82	226	24	393
Net book values:						
31 December 2015	34	36	111	27	17	225
31 December 2016	9	14	143	35	20	221
31 December 2017	9	17	155	39	21	241

23. Debt finance

				31 December		
	Currency	**Maturity**	**Interest rate**	**2017**	**2016**	**2015**
Eurobonds 2016	US dollars	July	6.25%	-	-	262
Eurobonds 2017	US dollars	October	6.7%	-	602	628
Eurobonds 2018	US dollars	March	4.45%	555	555	578
Eurobonds 2021	US dollars	August	3.85%	503	-	-
Eurobonds 2022	US dollars	October	5.9%	635	634	682
Convertible bonds 2017	US dollars	September	1.0%	-	43	63
Convertible bonds 2021	US dollars	April	0.5%	170	162	-
Convertible bonds 2022	US dollars	February	0.0%	209	-	-
Bank financing	EUR, Roubles			14	12	235
Other financing	Roubles			7	5	4
				2,093	2,013	2,452

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

Total debt is denominated in the following currencies:

	31 December		
	2017	2016	2015
US Dollars	2,064	1,998	2,214
Euro	-	4	23
Roubles	29	11	215
	2,093	2,013	2,452

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

	31 December		
	2017	2016	2015
Less than one year	586	673	507
Between one and five years	1,506	709	1,262
After more than five years	1	631	683
	2,093	2,013	2,452

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Debt financing	Dividends payable	Other liabilities	Derrivative financial liabilities (Notes 24, 26)	Total
Balance as at 31 December 2016	2,013	6	19	106	2,144
Cash-flows changes:	(22)	(1,530)	(72)	12	(1,612)
Proceeds from debt finance	1,262	-	-	44	1,306
Repayments of debt finance	(1,159)	-	-	(32)	(1,191)
Net repayments of other financing activities	-	-	(72)	-	(72)
Dividends paid	-	(1,530)	-	-	(1,530)
Interest paid	(125)	-	-	-	(125)
Foreign exchange (gain)/loss	-	(20)	-	15	(5)
Interest accrued	144	-	-	-	144
Other equity related changes	(42)	1,550	53	-	1,561
Changes in fair value	-	-	-	24	24
Balance as at 31 December 2017	2,093	6	-	157	2,256

Bonds issued

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

As at 31 December 2017, the value of conversion option of convertible bonds maturing in 2021 was US$ 109 million and was determined with reference to the quoted market price (level 2 of the fair value hierarchy) and included in other non-current liabilities (Notes 26) (31 December 2016: US$ 88 million was included in other current liabilities). As at 30 September 2017, the Group reclassified the conversion option of the convertible bonds from other current liabilities to other non-current liabilities as the Group does not expect the liability to be settled within twelve months after the reporting date.

In February 2017, the Group issued US$ 250 million senior unsecured guaranteed convertible zero-coupon bonds maturing in 2022. The conversion rights may be exercised at any time on or after 29 March 2017. The initial conversion price was set at US$ 20.33 per GDR. If the conversion rights are exercised, it is at the Group's discretion to determine whether to convert bonds into GDRs or to pay a cash amount as defined in the terms of the issue. This settlement option causes the conversion feature of the bond to be classified separately and measured at fair value through profit and loss, whilst the host liability is accounted for at amortised cost using market interest rate at 3.9% per annum at the date of the issue. Holders of the bonds have an option to require an early redemption of their bonds on 16 February 2020 at the principal amount. The Group also has an option for early redemption, exercisable starting from 9 March 2020 provided the value of the GDRs deliverable on conversion of the bonds exceeds 130 per cent of the principal amount of the bonds for a specified period of time. The proceeds from the bonds issuance were mainly used for general corporate purposes.

As at 31 December 2017, the value of the conversion option of convertible bonds maturing in 2022 was US$ 48 million and was determined with reference to the quoted market price (level 2 of the fair value hierarchy) and included in other non-current liabilities (Note 26).

In February 2017, the Group issued US$ 500 million bonds denominated in US dollars maturing in 2021. These bonds bear an interest rate of 3.85% per annum, which is payable semi-annually in February and August each year, beginning in August 2017. The proceeds from the bonds issuance were used for general corporate purposes, including refinancing of debt maturing in 2018.

Bank financing security

Debt finance arising from banks and committed unused credit lines were secured by US$ nil as at 31 December 2017 (31 December 2016: US$ nil; 31 December 2015: US$ 16 million) of the net book value of plant and equipment.

Compliance with covenants

A part of the Group's debt financing is subject to certain covenants. These covenants imply financial and operating limitations relating mostly to PAO Severstal and its material subsidiaries.

Among other things, these covenants with certain carve-outs and subject to material adverse effect where applicable, impose restrictions on encumbrances of the assets, mergers, acquisitions and reorganisation procedures, disposals of material assets, change of business, maintenance of property and insurance, payment of taxes and other claims as well as the incurrence of additional indebtedness. Financial covenants require compliance with certain financial ratios pursuant to the latest Group's consolidated financial statements. The Group complied with all debt covenants as at 31 December 2017, 2016 and 2015.

At the reporting date the Group had US$ 1,072 million (31 December 2016: US$ 675 million; 31 December 2015: US$ 683 million) of committed unused long-term credit lines.

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

24. Other current liabilities

	31 December		
	2017	2016	2015
Advances received	161	174	130
Amounts payable to employees	120	106	84
Deferred income	23	31	31
Provisions (Note 26)	21	9	5
Retirement benefit liabilities (Note 25)	7	6	3
Accrued expenses	1	2	-
Derivative financial liabilities (Note 23)	-	106	5
Other payables	25	23	17
	358	457	275

25. Retirement benefit liabilities

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

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

	31 December		
	2017	2016	2015
Current portion	7	6	3
Non-current portion	78	67	53
	85	73	56

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

	31 December		
	2017	2016	2015
Discount rates:			
Russia	7.6%	8.5%	9.5%
Future rates of benefit increase:			
Russia	4.3%	4.5%	5.3%

The Group’s weighted average remaining life of the pensioners and employees, receiving the retirement benefits equaled to 17 years as at 31 December 2017.

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

	31 December				
	2017	2016	2015	2014	2013
Present value of the defined benefit obligation	85	73	83	89	263
Fair value of the plan assets	-	-	(27)	(36)	(62)
Retirement benefit liabilities	85	73	56	53	201

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

During 2016, the Group ceased its contract with pension fund Stalfond, which represented US$ 40 million pension liability of the Group. The Group held US$ 27 million of plan assets in Stalfond, which were transferred to personal accounts of current retirees to meet its pension obligation. Pension obligation to future retirees will be settled by the charity fund Blago.

The movements in the defined benefit obligation were as follows:

	Year ended 31 December		
	2017	**2016**	**2015**
Opening balance	73	83	89
Benefits paid	(8)	(9)	(12)
Interest cost	6	6	9
Service cost	1	1	1
Reclassified to liabilities related to assets held for sale	-	(2)	-
Settlement with Stalfond retirees	-	(28)	-
Actuarial losses*	8	7	20
Translation to presentation currency	5	15	(24)
Closing balance	85	73	83

*Actuarial losses arise primarily from changes in financial assumptions.

The movements in the plan assets were as follows:

	Year ended 31 December		
	2017	**2016**	**2015**
Opening balance	-	27	36
Contributions made during the year	-	-	5
Benefits paid	-	(2)	(9)
Return on assets	-	1	3
Settlement with Stalfond retirees	-	(28)	-
Translation to presentation currency	-	2	(8)
Closing balance	-	-	27

The defined benefit obligation analysis was as follows:

	31 December		
	2017	**2016**	**2015**
Wholly unfunded	85	73	43
Partly funded	-	-	40
	85	73	83

The plan assets analysis was as follows:

	31 December		
	2017	**2016**	**2015**
Corporate bonds	-	-	19
Shares in mutual funds	-	-	7
Equity instruments	-	-	1
	-	-	27

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

The Group's best estimate of contributions expected to be paid to the plan in 2018 is US$ 6 million.

The Group's retirement benefit service costs are allocated and recognised in the income statement as part of 'Cost of sales' and 'General and administrative expenses' proportionally to related salary expenses.

Interest cost and return on plan assets are recognised as part of 'Finance costs'; actuarial losses are recognised as a separate component in other comprehensive income.

26. Other non-current liabilities

	31 December		
	2017	2016	2015
Derivative financial liabilities (Note 23)	157	-	-
Decommissioning liabilities	76	76	67
Deferred income	7	31	59
Amounts payable to employees	5	6	5
Provisions	-	-	4
Other liabilities	-	11	28
	245	124	163

Decommissioning liabilities

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of its mines and production facilities. These costs are expected to be incurred between 2023 – 2051. The present value of expected cash outflows were estimated using existing technology, and discounted using a real discount rate. These rates are as follows:

	Discount rates, %		
Severstal Resources:	2017	2016	2015
Russia	2.8 - 5.6	3.3 - 4.7	3.5 - 5.0

The movements in the decommissioning liabilities were as follows:

	Year ended 31 December		
	2017	2016	2015
Opening balance	76	67	48
Additional accrual	-	-	5
Change in assumptions	(9)	(13)	20
Interest cost	5	7	10
Translation to presentation currency	4	15	(16)
Closing balance	76	76	67

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

The change in assumptions related to the re-scheduling of the decommissioning of Vorkutaugol in 2017 and 2016 and the change in the discount rate.

	31 December		
	2017	2016	2015
Non-current portion	76	76	67
	76	76	67

Provisions

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

	31 December		
	2017	2016	2015
Tax and social security claims	16	8	5
Legal claim	5	-	-
Other	-	1	4
	21	9	9

	31 December		
	2017	2016	2015
Current portion	21	9	5
Non-current portion	-	-	4
	21	9	9

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

The movements in the provisions were as follows:

	Year ended 31 December		
	2017	2016	2015
Opening balance	9	9	38
Charge to the income statement	12	2	2
Usage of provisions	-	-	(29)
Reclassified to liabilities related to assets held for sale	-	(3)	-
Translation to presentation currency	-	1	(2)
Closing balance	21	9	9

27. Shareholders’ equity

Share Capital

The Parent Company’s share capital consists of ordinary shares with a nominal value of RUB 0.01 each. The authorised share capital of Severstal as at 31 December 2017, 2016 and 2015 comprised 837,718,660 issued and fully paid shares.

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

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

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

	Number of shares, mln.	US$ million
Share capital as at 31 December 2015	837.7	2,753
Share capital as at 31 December 2016	837.7	2,753
Share capital as at 31 December 2017	837.7	2,753

All shares carry equal voting and distribution rights.

Reconciliation between weighted average number of shares in issue and weighted average number of shares outstanding during the period (millions of shares):

	Year ended 31 December		
	2017	2016	2015
Weighted average number of shares in issue	837.7	837.7	837.7
Weighted average number of treasury shares	(26.0)	(27.1)	(27.1)
Weighted average number of shares outstanding during the period	811.7	810.6	810.6

Earnings per share

In 2017 the Group issued US$ 250 million convertible bonds and in 2016 issued US$ 200 million convertible bonds (Note 23), which had an effect on earnings per share as demonstrated below:

	Year ended 31 December		
	2017	2016	2015
Profit for the period attributable to shareholders of PAO Severstal	1,356	1,621	605
Finance costs related to convertible bonds, net of tax	22	53	25
Adjusted profit for the period attributable to shareholders of PAO Severstal	1,378	1,674	630
Basic weighted average number of shares outstanding during the period (millions of shares)	811.7	810.6	810.6
Effect on conversion of convertible bonds (millions of shares)	30.4	14.5	18.2
Diluted/adjusted weighted average number of shares outstanding during the period (millions of shares)	842.1	825.1	828.8
Basic earnings per share (US dollars)	1.67	2.00	0.75
Diluted/adjusted earnings per share (US dollars)	1.64	2.03	0.76

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. This policy includes compliance with certain externally imposed minimum capital requirements. The Group's management constantly monitors profitability and leverage ratios and compliance with the minimum capital requirements. The Group also monitors closely the return on capital employed ratio which is defined as profit before financing and taxation for the last twelve months divided by capital employed and the leverage ratio calculated as net debt, comprising of long-term and short-term indebtedness less cash, cash equivalents and short-term bank deposits, divided by shareholder's equity. The level of dividends is also monitored by the Board of Directors of the Group.

There were no changes in the Group's approach to capital management during the year.

Dividends

The maximum dividend payable is restricted to the total accumulated retained earnings of the Parent Company determined according to Russian law.

On 25 May 2015, the Meeting of Shareholders approved an annual dividend of RUB 14.65 (US$ 0.29 as at 25 May 2015 exchange rate) per share and per GDR for the year ended 31 December 2014 and an interim dividend of RUB 12.81 (US$ 0.26 as at 25 May 2015 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2015.

On 15 September 2015, an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 12.63 (US$ 0.19 as at 15 September 2015 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2015.

On 10 December 2015, an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 13.17 (US$ 0.19 as at 10 December 2015 exchange rate) per share and per GDR for the nine months of the year ended 31 December 2015.

On 24 June 2016, the Meeting of Shareholders approved an annual dividend of RUB 20.27 (US$ 0.32 as at 24 June 2016 exchange rate) per share and per GDR for the year ended 31 December 2015 and an interim dividend of RUB 8.25 (US$ 0.13 as at 24 June 2016 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2016.

On 2 September 2016, an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 19.66 (US$ 0.30 as at 2 September 2016 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2016.

On 2 December 2016, an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 24.96 (US$ 0.39 as at 2 December 2016 exchange rate) per share and per GDR for the nine months of the year ended 31 December 2016.

On 9 June 2017, the Meeting of Shareholders approved an annual dividend of RUB 27.73 (US$ 0.49 at 9 June 2017 exchange rate) per share and per GDR for the year ended 31 December 2016 and an interim dividend of RUB 24.44 (US$ 0.43 at 9 June 2017 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2017.

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

On 15 September 2017, an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 22.28 (US$ 0.39 at 15 September 2017 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2017.

On 24 November 2017, an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 35.61 (US$ 0.61 at 24 November 2017 exchange rate) per share and per GDR for the first nine months of the year ended 31 December 2017.

28. Discontinued operation and assets held for sale

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

The results of the discontinued operation were as follows:

	Year ended 31 December		
	2017	**2016**	**2015**
Income*	-	-	41
Profit before income tax	-	-	41
Profit, net of tax	-	-	41
Profit for the period	-	-	41
Attributable to:			
shareholders of PAO Severstal	-	-	41

* This amount included US$ 13 million accrual for taxes receivable and a US$ 29 million adjustment in respect of the disposed SNA assets in the year ended 31 December 2015.

Redaelli Tecna S.p.A.

The Group's assets held for sale represent Redaelli Tecna S.p.A., the Group's subsidiary, that was classified as held for sale as at 31 December 2016.

The major classes of assets and liabilities of Redaelli Tecna S.p.A. measured at the lower of carrying amount and fair value less costs to sell determined based on price offer available as at 31 December 2016.

The loss on remeasurement of Redaelli Tecna S.p.A. to fair value less costs to sell recognised in 2016 was allocated US$ 5 million to property, plant and equipment and US$ 25 million to goodwill.

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

The major classes of assets and liabilities of Redaelli Tecna S.p.A. measured at the lower of carrying amount and fair value less costs to sell as at 31 December 2017, 2016 and 2015 were as follows:

	31 December		
	2017	**2016**	**2015**
Current assets:			
Cash and cash equivalents	-	1	-
Trade accounts receivable	-	23	-
Inventories	-	21	-
Income tax receivable	-	2	-
Other current assets	-	4	-
Total current assets	-	51	-
Non-current assets:			
Property, plant and equipment	-	31	-
Total non-current assets	-	31	-
Total assets	-	82	-
Current liabilities:			
Trade accounts payable	-	12	-
Short-term debt finance	-	2	-
Other taxes and social security payable	-	2	-
Other current liabilities	-	6	-
Total current liabilities	-	22	-
Non-current liabilities:			
Long-term debt finance	-	8	-
Deferred tax liabilities	-	3	-
Retirement benefit liabilities	-	2	-
Other non-current liabilities	-	3	-
Total non-current liabilities	-	16	-
Total liabilities	-	38	-

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

29. Subsidiaries, associates and joint ventures

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

Company	31 December 2017	2016	2015	Location	Activity
Severstal Russian Steel segment:					
Subsidiaries:					
Severstal TPZ-Sheksna LLC	100.0%	100.0%	100.0%	Russia	Steel constructions
AO Severstal Steel Solutions [2]	100.0%	100.0%	100.0%	Russia	Steel constructions
AO Severstal LPM Balakovo	100.0%	100.0%	100.0%	Russia	Iron & steel mill
SSM-Tyazhmash LLC [4]	n/a	100.0%	100.0%	Russia	Repairs&construction
JSC Domnaremont	100.0%	100.0%	100.0%	Russia	Repairs&construction
Severstal-Proekt LLC [3]	100.0%	100.0%	100.0%	Russia	Repairs&construction
Aircompany Severstal Ltd	100.0%	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	100.0%	100.0%	100.0%	Switzerland [1]	Steel sales
SIA Severstal Distribution	100.0%	100.0%	100.0%	Latvia [1]	Steel sales
AS Latvijas Metals	100.0%	100.0%	100.0%	Latvia [1]	Steel sales
Severstal Distribution Sp.z o.o	100.0%	100.0%	100.0%	Poland [1]	Steel sales
ZAO Severstal Distribution	100.0%	100.0%	100.0%	Belarus [1]	Steel sales
Severstal Distribution LLC	100.0%	100.0%	100.0%	Ukraine [1]	Steel sales
AO Neva-Metall [2]	100.0%	100.0%	100.0%	Russia	Shipping operations
Upcroft Limited	100.0%	100.0%	100.0%	Cyprus	Holding company
Baracom Limited [5]	n/a	100.0%	100.0%	Cyprus	Holding company
CJSC Vtorchermet	85.6%	85.6%	85.6%	Russia	Processing scrap
JSC Arhangelski Vtormet	75.0%	75.0%	75.0%	Russia	Processing scrap
AO Severstal Distribution	100.0%	100.0%	100.0%	Russia	Metal sales
PPTK-1 LLC	n/a	n/a	100.0%	Russia	Leasing
AO Izhora Pipe Mill [2]	100.0%	100.0%	100.0%	Russia	Wide pipes
JSC Severstal-Metiz	100.0%	100.0%	100.0%	Russia	Steel machining
PJSC Dneprometiz	n/a	98.7%	98.7%	Ukraine	Steel machining
Redaelli Tecna S.p.A.	n/a	100.0%	100.0%	Italy	Steel machining
UniFence LLC	100.0%	100.0%	100.0%	Russia	Steel machining
Lybica Holding B.V. [5]	n/a	100.0%	100.0%	The Netherlands	Holding company
Lybica Capital B.V. [5]	n/a	100.0%	n/a	The Netherlands	Holding company
7029740 Canada Limited	n/a	n/a	100.0%	Canada	Holding company
Abigrove Limited	100.0%	100.0%	n/a	Cyprus	Holding company
Associates:					
JSC Air Liquide Severstal	25.0%	25.0%	25.0%	Russia	Production liquid oxygen
Iron Mineral Beneficiation Services (Proprietary) Ltd	38.7%	33.2%	33.2%	Republic of South Africa	Research & investing
Joint ventures:					
Rutgers Severtar LLC	34.7%	34.7%	34.7%	Russia	Production vacuum pitch
Todlem S.L.	25.0%	25.0%	25.0%	Spain	Holding company
Severstal-Gonvarri-Kaluga LLC	50.0%	50.0%	50.0%	Russia	Iron & steel mill
Gestamp-Severstal-Kaluga LLC	25.0%	25.0%	25.0%	Russia	Production car body components
Gestamp Severstal Vsevolozhsk LLC	25.0%	25.0%	25.0%	Russia	Production car body components

[1] – Severstal Russian Steel segment contains foreign trading companies, which sell products primarily produced in Russia.
[2] – Legal form was changed following the requirements of the amended Russian Civil Code.
[3] – The entities were renamed.
[4] – Merged with Severstal-Proekt LLC.
[5] – Liquidated.

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

	31 December				
Company	**2017**	**2016**	**2015**	**Location**	**Activity**
Severstal Resources segment:					
Subsidiaries:					
AO Karelsky Okatysh	100.0%	100.0%	100.0%	Russia	Iron ore pellets
AO Olcon	100.0%	100.0%	100.0%	Russia	Iron ore concentrate
Severstal Liberia Iron Ore Ltd	100.0%	100.0%	100.0%	Liberia	Iron ore
AO Vorkutaugol	100.0%	100.0%	100.0%	Russia	Coking coal concentrate
SPB-Giproshakht Limited	100.0%	100.0%	100.0%	Russia	Engineering
Mining Holding Company LLC	100.0%	100.0%	100.0%	Russia	Holding company
LLC Metal-group [1]	0.0%	n/a	n/a	Russia	Iron ore

[1] – Acquisition of rights (Note 29).

In addition, at the reporting date, a further 29 (31 December 2016: 30; 31 December 2015: 31) subsidiaries, associates and joint ventures, which are not material to the Group, either individually or in aggregate, have been included in these consolidated financial statements.

Information on carrying amounts of associates and joint ventures is disclosed in Note 20 of these consolidated financial statements.

Disposal of subsidiary (other than discontinued operation)

PBS Coals Ltd

In July 2015, the Group received an instalment of contingent consideration for the sale of PBS Coals Ltd of US$ 4 million.

In September 2016, the Group received a final instalment of contingent consideration for PBS Coals Ltd of US$ 3 million after final settlement with the purchaser.

Redaelli Tecna S.p.A.

In April 2017, the Group sold its 100% stake in Redaelli Tecna S.p.A. to a third party for consideration of EUR 37 million (US$ 40 million, at the transaction date exchange rate).

The loss on the disposal of US$ 43 million was recognised in these consolidated financial statements as part of net other non-operating expenses and mostly comprised Redaelli Tecna S.p.A.'s accumulated foreign exchange translation reserves as at the disposal date.

PJSC Dneprometiz

In October 2017, the Group sold its 98.7% stake in PJSC Dneprometiz to a third party for a total consideration of US$ 10 million.

The loss on the disposal of US$ 29 million was recognised in these consolidated financial statements as part of net other non-operating expenses and mostly comprised Dneprometiz's accumulated foreign exchange translation reserves as at the disposal date.

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

A summary of assets and liabilities disposed during 2017, 2016 and 2015 is presented below:

	Year ended 31 December		
	2017	2016	2015
Cash and cash equivalents	(4)	-	-
Trade accounts receivable	(4)	-	-
Inventories	(4)	-	-
Other current assets	(3)	-	-
Property, plant and equipment	(3)	-	-
Long-term financial investments	(1)	-	-
Other non-current assets	(1)	-	-
Assets held for sale	(89)	-	-
Trade accounts payable	5	-	-
Other current liabilities	1	-	-
Liabilities related to assets held for sale	44	-	-
Net identifiable assets	(59)	-	-
Translation to presentation currency - foreign operations*	(61)	49	(7)
Consideration in cash	50	3	4
Selling costs paid in cash	(2)	-	-
Net (loss)/gain on disposal (Note 10)	(72)	52	(3)
Less cash of disposed entity	(6)	-	-
Net change in cash and cash equivalents	42	3	4

*These amounts included foreign exchange translation reserves of disposed foreign subsidiaries reclassified to profit or loss from other comprehensive income/(loss).

Acquisitions of rights

In July 2017, the Group acquired rights from a third party to claim debt obligations of LLC Metal-group for a total consideration of 6 billion roubles (US$ 101 million at the transaction date exchange rate). Debt obligations were secured by 100% of LLC Metal–group's participation rights and property.

In November 2017, the Group obtained the ability to exercise its legal rights arisen from acquired rights to claim debt obligations to direct relevant activities of LLC Metal-group and consequently consolidated LLC Metal-group's net assets. As control was only obtained late in the financial year, the Group was unable to complete all its procedures in relation to the assessment of fair values and accordingly its assessment of the value of identifiable assets and liabilities on the date of obtaining control is only provisional at the reporting date. As a result, a provisional gain from a bargain purchase of US$ 135 million was recognised in the consolidated income statement.

The provisional gain represents the difference between LLC Metal-group's provisional amounts of identifiable net assets of US$ 236 million, excluding loan payable which was eliminated on consolidation as an intercompany balance, over which the Group obtained control, and consideration paid of US$101 million on acquisition of rights for loans, accrued interest and penalties amounted of US$344.9 million (19.9 billion roubles at 31 December 2017 exchange rate).

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

LLC Metal-group is a mining company based in Russian Federation, which owns and operates iron ore deposits. LLC Metal-group revenue and net loss from the beginning of the period to the consolidation date comprised US$ 33 million and US$10 million, respectively. The revenue and net loss since the consolidation date included in the Group's profit for the year ended 31 December 2017 amounted to US$4 million and US$6 million, respectively.

A summary of identifiable assets and liabilities of investee is presented below:

	Year ended 31 December		
	2017	2016	2015
Cash and cash equivalents	1	-	-
Trade accounts receivable	2	-	-
VAT recoverable	1	-	-
Inventories	5	-	-
Other current assets	3	-	-
Property, plant and equipment	255	-	-
Trade accounts payable	(1)	-	-
Other taxes and social security payable	(2)	-	-
Other current liabilities	(6)	-	-
Deferred tax liabilities	(22)	-	-
Net identifiable assets and liabilities acquired	236	-	-
Consideration in cash	(101)	-	-
Gain from a bargain purchase	135	-	-
Net change in cash and cash equivalents	(100)	-	-

30. Segment information

The Group critically reassessed its performance measures and decision-making process and concluded EBITDA to be among the most appropriate segments' profit or loss measure. Comparative information was changed respectively.

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

	Severstal Resources	Severstal Russian Steel	Inter segment balances	Conso-lidated
Balances as at 31 December 2017				
Total assets	3,755	7,342	(3,888)	7,209
Total liabilities	1,094	4,770	(2,053)	3,811
Balances as at 31 December 2016				
Total assets	3,891	7,620	(5,028)	6,483
Total liabilities	1,202	3,769	(1,529)	3,442
Balances as at 31 December 2015				
Total assets	3,335	6,834	(4,302)	5,867
Total liabilities	860	3,564	(825)	3,599

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

The following is an analysis of the Group's revenue and a reconciliation of profit from operations to EBITDA by segments:

Twelve months ended 31 December 2017:

	Severstal Resources	Severstal Russian Steel	Inter-segment transactions	Consolidated
Revenue	1,727	7,182	(1,061)	7,848
Profit from operations	677	1,482	3	2,162
Adjustments to reconcile profit from operations to EBITDA:				
Depreciation and amortisation of productive assets	134	268	1	403
Loss on disposal of property, plant and equipment and intangible assets	1	2	-	3
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	9	-	9
EBITDA	812	1,761	4	2,577
Additional information:				
capital expenditures	250	331	-	581
intersegment revenue	995	66	(1,061)	-

Twelve months ended 31 December 2016:

	Severstal Resources	Severstal Russian Steel	Inter-segment transactions	Consolidated
Revenue	1,154	5,426	(664)	5,916
Profit from operations	235	1,311	(29)	1,517
Adjustments to reconcile profit from operations to EBITDA:				
Depreciation and amortisation of productive assets	115	227	-	342
Loss on disposal of property, plant and equipment and intangible assets	47	5	-	52
EBITDA	397	1,543	(29)	1,911
Additional information:				
capital expenditures	229	321	-	550
intersegment revenue	609	55	(664)	-

Twelve months ended 31 December 2015:

	Severstal Resources	Severstal Russian Steel	Inter-segment transactions	Consolidated
Revenue	1,240	5,836	(680)	6,396
Profit from operations	269	1,432	2	1,703
Adjustments to reconcile profit from operations to EBITDA:				
Depreciation and amortisation of productive assets	140	227	(1)	366
Loss on disposal of property, plant and equipment and intangible assets	3	10	-	13
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	14	-	14
EBITDA	412	1,683	1	2,096
Additional information:				
capital expenditures	228	253	-	481
intersegment revenue	618	62	(680)	-

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

The following is a summary of non-current assets other than financial instruments, investments in associates and joint ventures and deferred tax assets by location:

	31 December		
	2017	**2016**	**2015**
Russian Federation	3,928	3,334	2,747
Europe and CIS	15	22	89
	3,943	3,356	2,836

In Europe and CIS the locations are primarily represented by the following countries:

- 31 December 2017: Latvia and Poland;
- 31 December 2016: Latvia, Ukraine and Poland;
- 31 December 2015: Latvia, Ukraine and Italy.

31. Financial instruments

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

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

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

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

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

	31 December 2017		
	Market value	Book value	Difference
Eurobonds 2018	558	555	3
Eurobonds 2021	512	503	9
Eurobonds 2022	704	635	69
Convertible bonds 2021	288	279	9
Convertible bonds 2022	267	257	10
	2,329	2,229	100

	31 December 2016		
	Market value	Book value	Difference
Eurobonds 2017	615	602	13
Eurobonds 2018	558	555	3
Eurobonds 2022	676	634	42
Convertible bonds 2017	48	43	5
Convertible bonds 2021	254	249	5
	2,151	2,083	68

	31 December 2015		
	Market value	Book value	Difference
Eurobonds 2016	261	262	(1)
Eurobonds 2017	657	628	29
Eurobonds 2018	571	578	(7)
Eurobonds 2022	647	682	(35)
Convertible bonds 2017	61	63	(2)
	2,197	2,213	(16)

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

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position and guarantees (Note 32e).

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

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

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

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

	31 December		
	2017	2016	2015
Cash and cash equivalents	1,031	1,154	1,647
Loans and receivables	663	571	507
Available-for-sale financial assets	205	205	15
Restricted financial assets	1	1	2
Held-to-maturity securities	-	-	1
	1,900	1,931	2,172

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

	31 December		
	2017	2016	2015
Russian Federation	388	340	300
Europe	155	86	75
The Middle East	26	40	46
CIS	17	12	11
North America	14	3	6
Africa	11	21	1
Central and South America	1	4	1
China and Central Asia	-	-	1
	612	506	441

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

	31 December		
	2017	2016	2015
Industrial consumers	391	361	355
Wholesale customers	195	120	67
Retail customers	1	1	1
Other customers	25	24	18
	612	506	441

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

Impairment losses

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

	31 December					
	2017		2016		2015	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
Not past due	605	(37)	516	(38)	405	(37)
Past due less than 30 days	27	-	19	-	56	-
Past due 31-90 days	13	(1)	10	(1)	18	(5)
Past due 91-180 days	2	(1)	2	(2)	4	(3)
Past due 181-365 days	5	(1)	4	(4)	16	(14)
More than one year	41	(41)	37	(37)	14	(13)
	693	(81)	588	(82)	513	(72)

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

	Year ended 31 December		
	2017	2016	2015
Opening balance	(82)	(72)	(60)
Impairment loss recognised	(5)	(19)	(32)
Impairment loss reversed	8	16	9
Reclassified to assets held for sale	-	2	-
Translation to presentation currency	(2)	(9)	11
Closing balance	(81)	(82)	(72)

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

2017

The Group has a concentration of cash and short-term bank deposits with Sberbank of Russia of US$ 907 million at 31 December 2017.

2016

The Group has a concentration of cash and short-term bank deposits with Sberbank of Russia, PJSC Bank VTB of US$ 714 million and US$ 316 million, respectively at 31 December 2016.

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

2015

The Group has a concentration of cash and short-term bank deposits with Sberbank of Russia, PJSC Bank VTB and JSC Metcombank of US$ 1,107 million, US$ 199 million and US$ 163 million, respectively at 31 December 2015.

Liquidity risk

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

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

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

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

31 December 2017

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	2,093	(2,425)	(634)	(59)	(1,731)	(1)
Trade and other payables	592	(592)	(592)	-	-	-
Derivative financial liabilities	157	(157)	-	-	(157)	-
	2,842	(3,174)	(1,226)	(59)	(1,888)	(1)

31 December 2016

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	2,013	(2,334)	(754)	(599)	(315)	(666)
Trade and other payables	524	(524)	(524)	-	-	-
Derivative financial liabilities	106	(106)	(106)	-	-	-
	2,643	(2,964)	(1,384)	(599)	(315)	(666)

31 December 2015

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	2,452	(2,867)	(599)	(796)	(709)	(763)
Trade and other payables	448	(448)	(448)	-	-	-
Derivative financial liabilities	5	(5)	(5)	-	-	-
	2,905	(3,320)	(1,052)	(796)	(709)	(763)

As at 31 December 2017 and 2016, the Group has no significant bank financing.

As at 31 December 2015, the Group has a concentration of bank financing with Sberbank of Russia of US$ 206 million.

Covenant compliance risk

The Group actively monitors compliance with all debt covenants. In case of the risk of default, the Group uses its best effort to avoid or remedy (as the case may be) relevant default and seeks to approach the lenders as soon as possible in order to amend the respective facility agreement or waive a possible default, as the case may be (Note 23).

Currency risk

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

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

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

The Group's exposure to foreign currency risk was as follows:

	31 December 2017	
	Euro	**USD**
Available-for-sale financial assets	4	198
Loans and receivables	342	1,127
Cash and cash equivalents	12	966
Debt finance	(124)	(2,942)
Trade and other payables	(123)	(212)
Derivative financial liabilities	-	(157)
Net exposure	111	(1,020)

	31 December 2016	
	Euro	**USD**
Available-for-sale financial assets	-	191
Loans and receivables	1,396	287
Cash and cash equivalents	34	875
Debt finance	(1,969)	(2,324)
Trade and other payables	(96)	(166)
Derivative financial instruments	-	155
Net exposure	(635)	(982)

	31 December 2015	
	Euro	**USD**
Loans and receivables	208	149
Cash and cash equivalents	42	1,278
Restricted financial assets	2	-
Debt finance	(1,900)	(2,484)
Trade and other payables	(79)	(60)
Net exposure	(1,727)	(1,117)

Sensitivity analysis

A 10 percent strengthening of the following currencies against the functional currency as at 31 December 2017 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 2016 and 2015.

	Year ended 31 December		
	2017	**2016**	**2015**
Net profit			
Euro	9	(25)	(137)
USD	(79)	(79)	(89)

A 10 percent weakening of these currencies against the functional currency as at 31 December 2017 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

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

Commodity price risk

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

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

Interest rate risk

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

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

	31 December		
	2017	**2016**	**2015**
Variable rate instruments			
Financial assets	5	6	7
Financial liabilities	(13)	(12)	(28)
	(8)	(6)	(21)

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

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would not have (decreased)/increased profit and equity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2016 and 2015.

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

Fair value hierarchy

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

	Level 1	Level 2	Level 3	Total
Balance as at 31 December 2017	202	(157)	3	48
Available-for-sale financial assets	202	-	3	205
Derivative financial liabilities (Note 23)	-	(157)	-	(157)
Balance as at 31 December 2016	202	(106)	3	99
Available-for-sale financial assets	202	-	3	205
Derivative financial liabilities	-	(106)	-	(106)
Balance as at 31 December 2015	-	(5)	15	10
Available-for-sale financial assets	-	-	15	15
Derivative financial liabilities	-	(5)	-	(5)

Available-for-sale financial assets presented in Level 1 included mainly bonds quoted on an active market.

The description of the levels is presented below:

Level 1 - quoted prices in active markets for identical assets or liabilities;
Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
Level 3 – inputs for the asset or liability that are not based on observable market data.

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

	Available-for-sale financial assets
Balance as at 31 December 2017	3
Balance as at 31 December 2016	3
Impairment (Note 7)	(12)
Balance as at 31 December 2015	15
Purchases of financial instruments	2
Impairment (Note 7)	(21)
Other reclassifications	(4)
Balance as at 31 December 2014	38

32. Commitments and contingencies

a. For litigation, tax and other liabilities

The taxation system and regulatory environment of the Russian Federation are characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations between the differing regulatory authorities and jurisdictions, who are empowered to impose significant fines, penalties and interest charges. Events during recent years suggest that the regulatory authorities within this country are adopting a more assertive stance regarding the interpretation and enforcement of legislation. This situation creates substantial tax and regulatory risks. In addition, a number of new laws introducing changes to Russian tax legislation were adopted in the fourth quarter of 2014 and were effective from 1 January 2015. In particular, those changes are aimed at regulating transactions with foreign companies and their activities, including the withholding of dividends tax, which may potentially impact the Group's tax position and create additional tax risks going forward. At the reporting date the amounts of the actual and potential contingent claims for taxes, fines and penalties made by the Russian tax authorities to certain Group's entities amounted to approximately US$ 2 million (31 December 2016: US$ 400 million, 31 December 2015: US$ 44 million) and management believes it made adequate provisions for other probable tax claims. Management does not agree with the tax authorities' claims and believes that the Group has complied in all material respects with all existing, relevant legislation. Management is unable to assess the ultimate outcome of the claims and the outflow of financial resources to settle such claims, if any.

As at 31 December 2017, a claw-back claim had been made by Lucchini S.p.A's ('Lucchini') extraordinary commissioner against the Group's subsidiary amounting to approximately US$ 142 million (31 December 2016: US$ 142 million, 31 December 2015: US$ 142 million). The bankruptcy claw-back action is a remedy offered by the Italian Bankruptcy Act to allow commissioners to declare ineffective, vis-à-vis all creditors of a bankrupt company, certain payments and transactions executed in the period preceding the insolvency declaration that altered the equal treatment of all the unsecured creditors of an insolvent debtor. Lucchini was previously the Group's subsidiary and was deconsolidated in 2011 and currently is under the bankruptcy procedure. This claim relates to cash received by the Group's subsidiary for supplies of raw materials to Lucchini primarily during the period when Lucchini was already not part of the Group. Management does not agree with this claim and believes strongly it has made all necessary steps to protect its position. Management is unable to assess the ultimate outcome of the claim, including the outflow of the financial resources to settle the claim, if any, because it depends on multiple circumstances concerning the facts and the applicability and interpretation of the relevant statutes. In case the Group has to make any payment, the relevant amount paid will be included in Lucchini's creditors' list and will be settled in the course of the bankruptcy procedure.

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$ 271 million (31 December 2016: 216 million; 31 December 2015: US$ 189 million).

d. Insurance

The Group has insured the major part of its property and equipment to compensate for expenses arising from accidents. In addition, certain Group's entities have insurance for business interruption on various basis, from reimbursement of certain fixed costs to a gross profit reimbursement and/or insurance of a third-party liability in respect of property or environmental damage. The Group believes that, with respect to each of its production facilities, it maintains insurance at levels generally in line with the relevant local market standards. However, the Group does not have full insurance coverage.

e. Guarantees

At the reporting date the Group had US$ nil (31 December 2016: US$ 2 million; 31 December 2015: US$ 3 million) of guarantees issued, including guarantees issued for related parties, of US$ nil (31 December 2016: US$ 1 million; 31 December 2015: US$ 1 million).