METINVEST

ANNUAL REPORT AND ACCOUNTS 2017

NEW HORIZONS

METINVEST GROUP IS A VERTICALLY INTEGRATED GROUP OF STEEL AND MINING COMPANIES THAT MANAGES EVERY LINK OF THE VALUE CHAIN, FROM MINING AND PROCESSING IRON ORE AND COAL TO MAKING AND SELLING SEMI-FINISHED AND FINISHED STEEL PRODUCTS. IT HAS VAST IRON ORE RESERVES, COAL MINES AND STEELMAKING ASSETS IN UKRAINE, EUROPE AND THE US, AS WELL AS A DEDICATED SALES NETWORK COVERING ALL KEY GLOBAL MARKETS.

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REACHING NEW HORIZONS

INTRODUCTION FROM YURIY RYZHENKOV, CHIEF EXECUTIVE OFFICER

IN 2017, METINVEST EMBARKED ON ITS SECOND DECADE AS A GROUP, DELIVERED STRONG OPERATIONAL AND FINANCIAL RESULTS AND, MOST IMPORTANTLY, SET A CLEAR AND AMBITIOUS AGENDA TO 2030. WE ARE PUTTING IN PLACE LONG-TERM INVESTMENTS, PRODUCT AND GEOGRAPHIC SALES STRATEGIES THAT AIM TO ENSURE OUR PROFITABILITY AND SUSTAINABILITY. IN ADDITION, THE GROUP IS INVESTING IN FURTHER REDUCING ITS ENVIRONMENTAL IMPACT TO APPROACH THE STANDARDS OF OUR LEADING EUROPEAN PEERS.

SETTING THE STAGE FOR LONG-TERM SUSTAINABILITY

METINVEST MADE TREMENDOUS PROGRESS IN 2017 IN SECURING ITS LONG-TERM AGENDA OF GROWTH AND SUSTAINABILITY. AMONG OTHER BREAKTHROUGHS, THE GROUP ADJUSTED ITS OPERATING MODEL AND UPDATED ITS TECHNOLOGICAL STRATEGY 2030, WITH ATTENDANT PRODUCT STRATEGY AND GEOGRAPHIC FOCUS, TO ENSURE IT IS READY TO TAKE ADVANTAGE OF PRUDENT OPPORTUNITIES ON THE GLOBAL MARKETPLACE.

OPERATIONS

CRUDE STEEL PRODUCTION

7,630KT

Azovstal and Ilyich Steel increased output by 15% and 13% year-on-year, respectively, following major blast furnace overhauls.

IRON ORE CONCENTRATE PRODUCTION

27,464KT

Although iron ore concentrate production declined by 7% year-on-year, the Group's focus shifted to high-quality products.

COKE PRODUCTION

4,736KT

Coke production rose by 10% year-on-year, primarily driven by Avdiivka Coke resuming operations using all eight coke oven batteries.

COKING COAL CONCENTRATE PRODUCTION

2,590KT

US mines increased production by 7% year-on-year to 2,461 thousand tonnes, of which the lion's share was diverted to the Group's Ukrainian coke plants for intragroup consumption.

IRON ORE SELF-SUFFICIENCY

282%

Iron ore self-sufficiency remains a strategic, long-term competitive advantage, while surplus volumes allow to capture margin on sales to external customers.

COKE SELF-SUFFICIENCY

120%

Self-sufficiency in coke facilities shields Metinvest from fluctuations in prices for this raw material and the potential for a consequent decrease in steel production.

OPERATING MODEL ADJUSTED

In 2017, Metinvest adapted following a loss of certain production capacities for reasons beyond the Group's control. In a clear demonstration of the strength and flexibility of the business, steel capacity utilisation was maximised at the Mariupol plants. The Group was able to secure sources for square billets, while coal capacity was diverted from Metinvest's US mines to internal consumption and also diversified to third parties.

PREMIUM PRODUCT SALES INCREASED

To secure long-term demand for its products, Metinvest increased sales of premium products in 2017. As a result, the share of high value-added steel products in the sales mix (excluding resales) reached 52%. The share of 68% Fe iron ore concentrate in external sales reached 26%, up 17 percentage points year-on-year, while that of 65% Fe pellets reached 54%, up 16 percentage points year-on-year.

LIABILITY MANAGEMENT CONDUCTED

In April 2018, Metinvest successfully returned to capital markets and completed the refinancing of its US$2,271 million of debt, consisting of the US$1,592 million issue of new Eurobonds and securing US$765 million in its PXF facility. The transaction provided the Group US$205 million of additional liquidity. The refinancing serves to manage and extend Metinvest's debt maturity profile, while taking advantage of a favourable market environment.

NEW TECHNOLOGICAL STRATEGY

The Technological Strategy 2030 has been approved. It aims to deliver on the Group's overall Corporate Strategy. This includes enhancing operational safety and reducing the environmental footprint. The plan envisages increasing steel production capacity at Azovstal and Ilyich Steel to 11 million tonnes per year, while focusing on downstream and cost efficiencies. The Group is pursuing a quality-over-quantity strategy in iron ore to penetrate premium markets while maintaining its low-cost advantage.

PREMIUM MARKETS PRIORITISED

Reallocating iron ore products from China to Europe captured the Atlantic Basin premium. Greater sales to Europe were achieved due to new long-term contracts with numerous customers.

SELLER NOTES FULLY REPAID

By February 2018, Metinvest fully repaid US$90 million of Sellers notes, which represent consideration payable for the acquisition of United Coal, the Group's US coking coal asset. United Coal is now a debt-free company and the Group's debt burden and cost of funding have been reduced.

FINANCIALS

REVENUES

US$**8,931**M

Group revenues rose by 44% year-on-year, mainly amid higher prices, as well as greater volumes.

EBITDA

US$**2,044**M

EBITDA jumped 77% year-on-year, primarily driven by sales price growth amid improved product quality and the reallocation of iron ore volumes to premium markets.

NET DEBT

US$**2,298**M

Net debt, which excludes subordinated shareholder funding, fell by 1% year-on-year as Metinvest's cash position improved by 15% year-on-year to US$259 million at the end of 2017 on the back of better liquidity.

CAPEX

US$**542**M

Investments in technology and maintenance increased by 45% year-on-year to continue organic growth in line with the approved Technological Strategy 2030.

EBITDA MARGIN

23%

The EBITDA margin increased by 4 percentage points year-on-year, mainly amid a favourable global price environment and the Group's operational improvements achieved during the year.

NET DEBT TO EBITDA

1.1X

The ratio went down from 2.0x in the end of 2016, reflecting a strong performance and financial debt discipline in 2017.

STRATEGIC REPORT

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PRODUCT FOCUS

STRUCTURAL SECTIONS

459 KT

Structural sections are long steel products that are rolled from billets at Azovstal (Ukraine) and Promet Steel (Bulgaria). They include angles, channels, beams and other profiles used in the construction, machinery and transportation industries. In 2017, Metinvest sold 459 thousand tonnes of its own structural sections and launched the resale of long products to substitute for lost capacity and to ensure it could continue to meet all of its clients' needs.

ADAPT AND OVERCOME

IN 2017, AS METINVEST ENTERED ITS SECOND DECADE, WE DELIVERED AN UPDATED AND AMBITIOUS STRATEGIC AGENDA TO GUIDE THE GROUP THROUGH THE LONG TERM, ACCELERATING TECHNOLOGICAL INVESTMENTS BY NEARLY 50% WHILE ALSO OVERCOMING EXTERNAL CHALLENGES TO ENSURE FINANCIAL GROWTH, ACHIEVE OPERATIONAL EXCELLENCE AND DELIVER QUALITY PRODUCTS TO OUR CUSTOMERS. MOST IMPORTANTLY, OUR UPDATED LONG-TERM STRATEGY IS ON TRACK AND BEING IMPLEMENTED, PROVIDING A CLEAR ROADMAP TO THE FUTURE AND PATHWAY TO SUSTAINABLE GROWTH.

We believe 2017 demonstrated a transformation of previous challenges into present opportunities in the global and Ukrainian markets. Moreover, Metinvest today possesses the necessary mix of people, structure and financing to take advantage of the emerging options before us. Naturally, we can never eliminate the downside risk of economic and commodity cycles, but we can always be prepared to find new possibilities at each point of the cycle and plan for multiple possible market scenarios.

A CLEAR STRATEGIC VISION

Last year, we conducted a comprehensive review and update of our Strategic Priorities to 2030 based on our established Corporate Strategy. These priorities are designed to maintain and maximise our existing key value drivers – from ensuring we maintain our established position as a low-cost producer, to evolving our product portfolio to increase the share of higher-value items, to streamlining operations – over the long term to achieve the top-level objectives of our Corporate Strategy.

Since the beginning, one of Metinvest's key competitive advantages has been its low-cost production and relentless focus on efficiency. To ensure we retain this advantage in the global marketplace, where steelmakers have emerged from low-wage economies, we are investing in more advanced production methods and improving logistics to maintain our overall cost advantage. We are also focused on organic growth by maximising capacity at our existing plants through new technology, as well as such improvements as maintenance planning to limit downtime.

By enhancing our product portfolio, we are putting emphasis on the highest value-added items in our portfolio. In steel, this means flat products, including such products as hot-rolled, cold-rolled, galvanised and pre-painted coils, as well as long products, such as structural sections and rails. This entails investing in our mills and downstream facilities to ensure we can deliver on behalf of the customer. In iron ore, our focus remains on producing premium products, with greater Fe content and enhanced mechanical and chemical characteristics.

In turn, we are also working to strengthen our presence in priority regions. For steel, these include countries in the Black Sea and Mediterranean basins, as well as the Middle East and North Africa (MENA). In particular, the European Union and Ukraine historically offer higher margins, while the MENA region is a fast-growing market. For iron ore, the improved

quality of our products allows us to shift and occupy a larger share in Eastern Europe, which is a premium market for iron ore, and to capitalise on the Atlantic basin premium for pellets.

Metinvest has spent over a decade developing a global sales network and managing key accounts. Our strategy is to continue to further enhance our value proposition to our customers. This entails a focus on product quality, lead-time, on-time-in-full delivery and further development of additional services. We are also continuously improving how we interact with our customers to be even more responsive and flexible to meet their needs.

Improving operational efficiency brings together all other strands of strategic focus as it affects everything we do. We are continuing to implement lean manufacturing methodology – the simple but powerful concept that every step should add value for the end customer – in all areas of our business. We have also been engaged in a major programme to digitalise our entire business, using SAP and other solutions, to ensure the process is led by the Group, rather than being left to each individual enterprise. The Group has also put IT security at the top of the agenda.

Finally, our strategy leaves open options for future, selective and opportunistic mergers and acquisitions, both in Ukraine and internationally, to fit into our existing, vertically integrated business. Any such deals should achieve further synergies from the integration of raw materials and semi-finished steel products. The Group's refinancing in early 2018 has significantly expanded our ability to pursue such deals as they arise. We continually monitor the marketplace for such opportunities.

In turn, last year, we approved the Technological Strategy 2030, which serves as a roadmap for how the Group will execute its long-term Strategic Priorities to 2030. It represents an ambitious but wholly sustainable agenda, based on the Corporate Strategy, for investments designed to maximise Metinvest's steel output capacity, refine our production processes, improve the quality of our products and customer orientation, increase labour safety at our facilities and reduce our environmental impact. We believe a long-term strategy signals our clarity of goals, sense of purpose and commitment to seeing beyond short-term market cycles.

A YEAR OF ACCOMPLISHMENT

By any measure, Metinvest delivered a solid set of financial and operational results in 2017, supported by a generally favourable pricing environment in the global steel and iron ore markets as well as economic growth in Ukraine. We were able to step-up investment in technology while delivering on our set strategic goals of increasing the share of higher-margin products and developing more profitable opportunities in certain markets. All of this translated into strong year-on-year top-line and EBITDA growth and margin.

Global benchmark prices for steel and iron ore grew steadily in 2017 amid strong global demand, with the benchmark HRC FOB Black Sea average price increasing by 31% year-on-year and the benchmark 62% Fe iron ore average price increasing by 23% year-on-year. This continues a stable growth trend, which began in early 2016, and follows an extended period of low prices in global markets. Robust demand in all regions was primarily driven by China's measures to stimulate economic growth. The market for coking coal was a partial exception as benchmark prices saw continuing volatility due to supply-side issues.

Protectionism in many of the world's largest steel markets remained a black cloud on the horizon for global steelmakers. The Group actively participates in major anti-dumping investigations and remains open to dialogue. We are also confident that we will find a way to mitigate any negative impact from tariffs and other measures. In October 2017, the European Commission set duties on hot-rolled coils from Ukraine and three other countries. The Ukrainian government is currently in a dialogue with key European stakeholders on this issue. Meanwhile, we have sought alternative markets for coils or further downstream in different high value-added products, which are not subject to tariffs. Regarding US steel tariffs imposed to date, Metinvest has experienced no significant impact, as we mostly sell pig iron to this market, which is not subject to duties.

The Ukrainian market's economic recovery continued amid structural reforms, a favourable export market environment and an ongoing increase in consumer spending. Meanwhile, a recovery in key steel-consuming sectors, including construction, machine building and hardware, drove a 7.1% year-on-year increase in steel consumption. Ukraine's well-received return to the Eurobond market in September 2017 was another positive indicator of economic stabilisation. Domestic and multilateral forecasters expect economic growth to continue in 2018 amid indicators of stronger macroeconomic fundamentals.

After a difficult start, we have benefitted from a relative stabilisation in the situation in Eastern Ukraine. In March 2017, we lost control over certain assets in temporarily non-government-controlled territories. However, the situation crystallised after March, and almost all action threatening our other facilities and logistics has stopped at present. Previously prolonged disruption to power supplies at Avdiivka Coke, which is in close proximity to these territories, was remedied following the installation of a new electricity transmission line on government-controlled territory.

In response to the loss in steelmaking capacity, we increased output at our Mariupol steelmakers by a combined 14% year-on-year. To compensate for some disruptions in coal deliveries, we diverted all coal from United Coal in the US to Ukraine, via seaborne deliveries, and increased third-party purchases from Canada, the US and Australia. At present, for the first time in three years, we no longer see the situation in Eastern Ukraine as an immediate risk factor for the Group. We continue to keep a close watch on the situation.

A variety of factors, including the one-off reduction in production capacity from the March events and overburden removal at our iron ore production sites, led to year-on-year output volume declines in steel and raw materials. Crude steel production stood at 7,630 thousand tonnes in 2017. Iron ore concentrate production was 27,464 thousand tonnes. Coking coal concentrate production amounted to 2,590 thousand tonnes.

Higher global prices for steel and iron ore products, along with an increased share of higher-value products in the sales mix, drove a 44% year-on-year increase in Group revenues to US$8,931 million. In steel, the share of sales to Ukraine increased to 25% as demand jumped from local customers, while the share of European sales remained at a decent 35%. In the mining segment, there was a significant increase in sales to Europe with long-term contracts signed and renewed with customers, which increased this region's share to 40%.

EBITDA increased by 77% year-on-year to US$2,044 million, due primarily to higher selling prices amid improved product quality and the reallocation of iron ore volumes to premium markets. Profitability shifted towards the mining segment, which accounted for 63% of EBITDA in 2017, compared with 43% in the previous year. The Group's EBITDA margin increased by 4 percentage points year-on-year to 23%. We delivered net profit of US$617 million, more than a five-fold year-on-year increase.

Operating cash flow rose by 22% year-on-year to US$595 million. However, there was a working capital outflow, attributable to the required changes in the operating model, rising inventories and a build-up of receivables, mainly amid sales growth. We are closely monitoring this issue.

INVESTING IN THE FUTURE

Last year, in line with our approved Technological Strategy 2030, we were able to increase CAPEX by 45% year-on-year to US$542 million. The CAPEX plan for 2018 is US$750 million, a level we believe is sustainable going forward and in line with the first phase of our strategy.

As part of this strategy, the steelmaking CAPEX projects were focused on ramping up projects to improve the efficiency and quality of production, as well as reducing our environmental footprint. We made major progress on constructing a new continuous casting machine, reconstructing the sinter plant gas cleaning system and resuming the revamp of the 1700 hot strip mill at Ilyich Steel, as well as starting a major overhaul of blast furnace no. 3 and constructing pulverised coal injection facilities at Azovstal.

At our iron ore producers, we also continued major projects designed to maintain output volumes and lower costs. They include constructing crusher and conveyor systems at Northern GOK's Pervomaisky quarry and Ingulets GOK.

We saw a net positive effect of US$100 million from process improvements over the year. This is a clear indicator of the impact of technological investments as well as streamlining efforts on the profitability and sustainability of our business. This is particularly important as we experienced a period of relative underinvestment due to external factors in the period 2014-2016.

CHANGES IN THE EXECUTIVE TEAM

On the personnel front, we have maintained a strong and consistent executive team at the Group level for many years, providing a firm hand on the wheel. Starting last year, we have made additional, strategic changes to ensure we have the right executive functions and people in place to take advantage of emerging opportunities.

To implement the Group's Technological Strategy 2030, oversee the enhancement of our operational efficiency and ensure further development of Metinvest's assets, we created the executive-board level position of Chief Technology Officer and welcome to our team Andriy Yemchenko, who now holds this position.

In addition, to implement the integrated business management system and ensure the Group's sustainable long-term development, we created an Economics and Business System Development Directorate in April 2018 headed by Olga Ovchinnikova, who previously was Procurement and Logistics Director. The new directorate's key responsibilities are to improve business processes contributing to the Group's future value, including strategic and integrated business planning, sales and operations planning, managing investment activity, managing SAP solutions development, as well as developing a lean manufacturing system. We have appointed Aleksey Gromakov to replace her as Procurement and Logistics Director.

We would also like to thank Nataliya Strelkova, our Director of Human Resources and Social Policy from June 2010 to April 2018, for her many years of faithful service and wish her well in future endeavours. We are currently selecting her replacement.

NEW FINANCIAL HORIZONS

In April 2018, after the reporting period, Metinvest completed the refinancing of US$2,271 million of its bond and pre-export finance (PXF) facility. As a result, Metinvest issued US$1,592 million in new bonds and secured US$765 million in the PXF facility. New proceeds from the transaction exceeded US$200 million. The refinancing now provides the Group with greater liquidity and flexibility, significantly lowering refinancing risks in the future.

The new bond issue is not only the largest ever by Metinvest Group, with its lowest ever coupon and longest maturity, it is also the most sizeable issuance by a Ukrainian corporate. The issue signalled Metinvest's continued strong support from the global investor community, especially financial institutions and funds in Europe and North America. It is also an important indicator of market interest in Ukraine.

OUTLOOK

Reaching and surpassing our New Horizons will require relentless focus and a steadfast commitment to achieving our strategic goals. A time horizon to 2030 requires us to work step-by-step to implement a coherent strategic vision. We expect, in 2018, to raise CAPEX to the highest level in several years. We anticipate completion of the construction of the continuous casting machine at Ilyich Steel, which is an important milestone in expanding the Group's steel capacity.

Our market outlook is one of cautious optimism, as the global steel market remains vulnerable to external shocks, which are difficult to assess in terms of scale and likelihood, particularly given the concerns regarding additional tariffs or international trade conflicts seen in 2017 and early 2018. At the same time, we do not currently see any new threats on this front.

Nonetheless, in early 2018, our product prices on the global and Ukrainian markets remained relatively stable. Overall steel and iron ore production levels in China are predicted to stay reasonably steady, reducing the chance of overall market volatility.

While we do not anticipate short-term turbulence, I would like to reiterate that the strength of our approach is that it does not depend on the volatile and cyclical nature of the market, but our ability to build flexibility and resilience to thrive at different points in the cycle.

During 2017 and early 2018, we strengthened our already unified executive team and we appreciate the contribution made by our employees at every level of the organisation. Today, Metinvest has the right team in place to achieve our clearly established long-term plans for sustainable, long-term growth. This growth will benefit not only the Group but also our communities in Ukraine and internationally. Finally, on behalf of the entire management team, I would like thank Metinvest's many stakeholders for their continued strong support in 2017. We look forward to working together for a successful 2018.

Yuriy Ryzhenkov
Chief Executive Officer

CORPORATE STRATEGY

THE GROUP'S CORPORATE STRATEGY SETS OUT METINVEST'S LONG-TERM STRATEGIC GOALS AND UNDERLYING OBJECTIVES AND FORMS THE BASIS FOR THE STRATEGIC PRIORITIES AND TECHNOLOGICAL STRATEGY 2030.

STRATEGIC GOALS	STRATEGIC OBJECTIVES
SUSTAIN COMPETITIVE ADVANTAGES IN STEELMAKING THROUGH VERTICAL INTEGRATION	Increase operational efficiency and achieve best practices in steelmaking through focused investments in advanced technologies
	Continue improving Metinvest's self-sufficiency in key raw materials
	Increase production capacity by growing organically and by pursuing selective acquisition opportunities
	Establish and sustain a continuous improvement culture
	Increase personnel productivity

STRATEGIC GOALS	STRATEGIC OBJECTIVES
STRENGTHEN POSITIONS IN STRATEGIC MARKETS	Increase focus on finished products
	Improve the product portfolio mix
	Increase sales of steel products in the Ukrainian and regional markets
	Build long-term customer relationships and deliver high-quality customer service worldwide

STRATEGIC GOALS	STRATEGIC OBJECTIVES
ACHIEVING BUSINESS EXCELLENCE THROUGH BEST PRACTICES	Develop the operating model
	Strengthen the unified corporate culture and maximise employees' commitment
	Enhance unified and efficient business processes
	Maintain transparency of operations and corporate responsibility

STRATEGIC PRIORITIES 2030

THE GROUP HAS CRYSTALLISED ITS STRATEGIC PRIORITIES FOR THE PERIOD UNTIL 2030. THESE AIM TO POSITION IT TO ACHIEVE SUSTAINABLE PRODUCTION GROWTH AND LONG-RUN COMPETITIVENESS. THE PRIORITIES ALSO FORM THE BASIS FOR METINVEST'S INVESTMENT AND CORPORATE PLANNING. THESE STEPS ARE ALSO DESIGNED TO ENSURE METINVEST WILL BE ABLE TO FULFIL ITS OBLIGATIONS TO ITS EMPLOYEES AND SOCIETY AS A CORPORATE CITIZEN. THIS MEANS REINFORCING LABOUR SAFETY, PROVIDING COMPETITIVE SALARIES AND BENEFITS, MITIGATING THE ENVIRONMENTAL IMPACT AND BUILDING VIBRANT LOCAL COMMUNITIES.

ENHANCE OPERATIONAL SAFETY AND REDUCE ENVIRONMENTAL FOOTPRINT

MAINTAIN LOW-COST STEEL PRODUCER POSITION

INCREASE PRODUCTION CAPACITY BY GROWING ORGANICALLY

ENHANCE PRODUCT PORTFOLIO TO STRENGTHEN POSITION IN KEY STRATEGIC MARKETS

FOCUS ON CLIENT NEEDS

INCREASE EFFICIENCY

PURSUE SELECTIVE ACQUISITION OPPORTUNITIES

Metinvest's top priority remains to ensure the safety of employees in all aspects of their work. The Group aims to reinforce its production risk management system to strengthen preventive measures designed to avoid accidents, increase the safety of operations and bring equipment, buildings and structures to the target levels of safe operation in line with best practices.

The environment is a key focus. By improving production efficiency and making targeted investments to mitigate emissions and increase energy efficiency, Metinvest strives to meet most European environmental standards over the life of the strategy.

Metinvest is determined to maintain its position in the first quartile on the global steel cost curve. To achieve it, the Group plans to continue its drive in improving efficiency of hot metal and steel production through the modernisation of blast furnaces, construction of continuous casting machines and other targeted projects.

Metinvest also seeks to ensure effective logistics to and from production sites as part of its pursuit of efficient supply strategies for its key raw materials, including high-quality coking coal, PCI coal, ferroalloys and scrap.

The Group intends to improve its total output capacity through organic growth to utilise the full potential of its existing assets. It plans to diversify the product mix to maintain and increase its market share in key product areas and to enhance its economies of scale in raw materials and energy inputs.

Metinvest plans to maximise the utilisation of its existing production capacity, expand the capacity of its steel and coking coal production facilities as per the plans set out in the Technological Strategy 2030 to obtain the greatest possible added value from its captive iron ore resources.

Metinvest aims to increase its production of high value-added, or premium, products to maximise sales in priority markets.

In steel, Metinvest will continue to pursue opportunities in the segment of flat products, mostly hot-rolled, cold-rolled, galvanised and pre-painted coils, as well as structural sections and railway products in the segment of long products. The Group's geographic sales strategy for steel includes growing its presence in Ukraine, Europe and the MENA region.

In iron ore, Metinvest's goal is to minimise its shipments of iron ore concentrate to China and increase sales of higher-margin pellets to European customers to capitalise on the Atlantic Basin Premium. The Group also aims to enter the new sub-segment of DRI-grade pellets.

The Group's target is to provide an integrated solution for customers, not just a product. The cross-functional team serves each account and the value proposition for customers includes a wide range of high-quality customised products, fast and efficient logistics, financial solutions and additional services.

Investing in technology and developing downstream capacity and logistics allows Metinvest to deliver the right product, in full, on time and anywhere in the world. This is made possible by the unique geographical position of Metinvest's assets in the centre of Europe and Metinvest's global sales network.

At the same time, Metinvest is working to improve its customer communications and feedback mechanisms. This is expected to ensure long-term, sustainable and mutually profitable relationships with the Group's customers, while also delivering extra margins, maintaining market share and making the business more predictable.

Further developing the operational model and combining investments and sustained implementation of lean manufacturing is key to delivering continued operational gains across the business. Metinvest is committed to continue scrutinising each stage of production, each unit and process to further improve efficiencies. The priority is to enhance repair and maintenance planning, productivity, cost reduction, quality improvement and optimisation of working capital.

Automating business processes is also of high importance. The digitalisation programme across the Group is expected to deliver efficiency gains while enhancing security at every level. Metinvest also continues to selectively cut costs by eliminating redundancy in areas such as back-office functions and maximising vertical integration for greater efficiency.

In the long term, Metinvest's strategy is to continue its structured approach to acquisitions to unlock synergies from the vertical integration of raw materials and semi-finished steel products, as well as to improve its steel product mix, including through reducing its share of semi-finished product offerings.

Metinvest also seeks to increase and diversify its captive base for high-quality coking coal, which is an important factor in strengthening its vertical integration.

TECHNOLOGICAL STRATEGY 2030

IN 2017, METINVEST UPDATED ITS STRATEGY FOR TECHNOLOGICAL INVESTMENT WITH A TIMELINE TO 2030, TAKING INTO ACCOUNT THE CURRENT OPERATING ENVIRONMENT OF THE GROUP. THIS INCLUDES PRICE CONSTRAINTS DRIVEN BY GLOBAL OVERSUPPLY, ANTI-DUMPING POLICIES IN MAJOR MARKETS WITH VARYING IMPACTS, TRANSPORTATION COST INCREASES IN UKRAINE AMID A CHANGE IN TRADITIONAL SUPPLY ROUTES AND CAPACITY CHALLENGES FOLLOWING THE SEIZURE OF CERTAIN ASSETS. THE GROUP FORESEES SUSTAINED INVESTMENT THROUGH THE NEXT DECADE AND BEYOND.

HEALTH, SAFETY AND THE ENVIRONMENT

STEEL

IRON ORE

Each project included in the Technological Strategy 2030 aims to deliver improvements in operational efficiency as well as bring substantial enhancements in safety and environmental protection.

In addition, the Group is implementing purely environmental projects in the cities where its facilities are located to reduce emissions to European standards. The majority of the environmental projects will be implemented within the next six to seven years.

One major project under way is the reconstruction of the sinter plant at Ilyich Steel, which is designed to reduce dust emissions by 90% and sulphur oxides by 43%. The first phase was completed in April 2018 and as of today it is the largest such project carried out in independent Ukraine. Other projects include the construction of dust-trapping facilities for basic oxygen furnace no. 2 at Ilyich Steel, the major overhaul of the gas-cleaning equipment of basic oxygen furnace no. 2 at Azovstal, and the replacement of the gas cleaning units for the Lurgi 552-B pelletising machine at Northern GOK.

The target under the strategy is to increase steel production capacity at the Mariupol plants by 30% to 11 million tonnes per year, improving cost efficiency while focusing on downstream. It is to be achieved via several projects, including major blast furnace overhauls, the construction of new continuous casting machines and rolling mill upgrades.

The large-scale modernisation of all blast furnaces by 2023 is expected to increase their hot metal production capacity, but also to reduce production cost by lowering coke consumption. Upgrading the blast furnaces at Azovstal over the next five years will increase hot metal capacity to roughly 6 million tonnes per year by harmonising it with existing casting capacity.

Another project to lower hot metal production costs is the installation of PCI technology. It is planned to equip each blast furnace with PCI facilities, which will minimise the need for natural gas in the production process by replacing it with cheaper PCI coal.

By the end of 2018, Metinvest plans to complete the construction of continuous casting machine no. 4 at Ilyich Steel. After the commissioning of the facility, the ingot casting area will be taken out of operation and the blooming mill will be shut down. The launch of this machine will also enable the plant to cut costs by reducing metal losses and energy consumption, while increasing output of crude steel and finished products. The new equipment is designed to have continuous casting production capacity of 2.5 million tonnes and will boost the steelmaker's total capacity by 1.5 million tonnes to around 4 million tonnes per year as another continuous casting machine will be shut down. As a result, casting production capacity will be balanced with existing hot metal capacity.

At Ilyich Steel's hot-rolling stream, the Group intends to upgrade its rolling facilities to expand the finished steel product portfolio. Last year, Ilyich Steel launched the reconstruction of the 1700 hot strip mill, which is expected to be commissioned in 2019. The project's goal is to increase the hot strip mill's capacity, enhance the product mix of hot-rolled coils, improve the quality of steel surfaces and reduce process waste during slab rolling.

At the cold-rolling stream, Metinvest plans to reconstruct Ilyich Steel's cold-rolling mill to improve the quality of galvanised coils to meet demand from European customers and enhance the product portfolio.

The Group also plans to build new air blocks at the Mariupol steelmakers to increase production of oxygen and nitrogen required for steel production.

Metinvest's iron ore strategy is predicated on quality-over-quantity with an aim to penetrate premium markets and maintain its low-cost position. Increased Fe content and enhanced key mechanical and chemical characteristics of iron ore products translate into higher quality. To achieve this, Northern GOK changed the scheme of beneficiation, which allowed an increase in Fe content for part of the concentrate. In addition, Northern GOK plans to modernise its OK 306, Lurgi 278-A, Lurgi 552-A and Lurgi 552-B pelletising machines. Central GOK plans to upgrade its iron ore beneficiation facilities, allowing it to produce DRI-grade pellets, which garner a higher premium in the current market.

Another positive effect of the greater production of premium pellets is that the Group also plans to use them for intragroup consumption to improve the efficiency of hot metal production.

The strategy also envisages completion of the ongoing construction of crusher and conveyor systems at Northern GOK and Ingulets GOK to reduce operational and capital expenditures in iron ore mining while maintaining production volumes. To ensure business continuity when existing dump sites and tailing dumps reach capacity, Metinvest plans to construct new ones at Ingulets GOK.

HIGH VALUE-ADDED PRODUCTS IN FOCUS

METINVEST AIMS TO INCREASE ITS PRODUCTION OF HIGH VALUE-ADDED PRODUCTS TO MAXIMISE SALES IN PREMIUM MARKETS. ITS PRODUCT STRATEGY DRIVES INVESTMENTS UNDER THE TECHNOLOGICAL STRATEGY 2030, WHICH INCLUDES BETTER UNDERSTANDING THE NEEDS OF ITS CUSTOMERS AND DELIVERING ENHANCED PRODUCT QUALITY. IN 2017, THE GROUP MANAGED TO ACHIEVE PROGRESS IN BOTH THE STEEL AND IRON ORE SEGMENTS.

PRIORITY PRODUCTS

GEOGRAPHIC SALES STRATEGY

In 2017, the Group finished updating its strategy. Metinvest will focus on expanding its product range, improving quality and reducing production costs.

Metinvest's steel product strategy prioritises flat products, mostly hot-rolled, cold-rolled, galvanised and pre-painted coils, the enhancement of which is being achieved through coil mill upgrades and downstream development. In addition, key strategic long products include structural sections and railway products.

Last year, the Group made further progress towards its goal of expanding its steel product mix. It continued its strategic investments in continuous casting machine no. 4 at Ilyich Steel, completed the installation of a new down-coiler at the 1700 hot strip mill to increase coil weight and initiated a major revamp of this mill.

In 2017, Metinvest's high value-added steel products, which include heavy plates, cold-rolled flat products, hot-dip galvanised sheets and coils, structural sections, railway products and pipes, accounted for 52% of its total external sales of own steel products (excluding resales), up 6 percentage points year-on-year.

To enhance its steel product portfolio, Metinvest also cooperates with several local strategic partners under tolling schemes. In 2017, it initiated long-term partnerships with producers of galvanised and colour-coated coils located in Ukraine. In January 2018, the Group entered into an agreement to acquire Unisteel, which operates a galvanising line with production capacity of up to 100 thousand tonnes per year, pending the fulfilment of several conditions precedent. In 2017, Metinvest also began cooperating with Dniprovskyi Steel Plant, which helps to partially mitigate the loss of one of the steelmakers in Eastern Ukraine, given the similarity of the two assets' product portfolio.

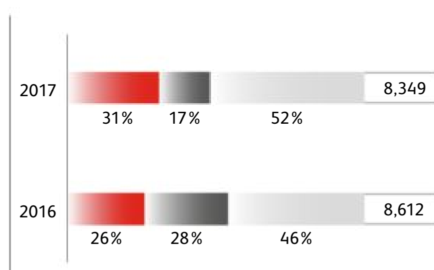
To capture higher margins on iron ore sales, Metinvest has focused its sales strategy primarily on high-quality pellets and achieved substantial progress in this area in 2017. Introducing high Fe content pellets from Northern GOK allowed the Group to meet its European customers' demand. As a result, the share of pellets with Fe content above 65% increased by 16 percentage points year-on-year to 54% of total external pellet sales. Meanwhile, merchant pellets accounted for 39% of the iron ore sales mix in 2017, compared with 34% in 2016.

Metinvest also approved an investment project to upgrade two pelletising machines at Northern GOK to achieve the Atlantic Basin Premium specification for pellets. In early 2018, the Group produced experimental DRI-grade pellets and sent them to potential clients for testing.

As for iron ore concentrate, the share of 68% Fe concentrate rose by 17 percentage points year-on-year to 26% of total external sales, mainly due to its greater production at Central GOK and Ingulets GOK.

Metal product sales[1]

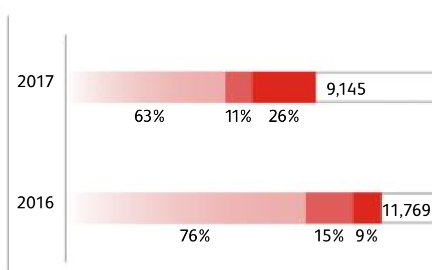
52% HVA



Semi-finished
Finished ex. HVA
Finished HVA

Iron ore concentrate external sales by Fe %

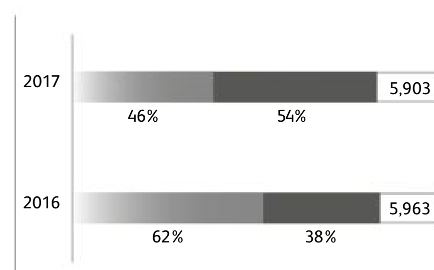
37% HIGH GRADE



Concentrate ≤65%
Concentrate 67%
Concentrate 68%

Pellet external sales by Fe %

54% HIGH GRADE



Pellets ≤65%
Pellets >65%

1 The sales mix includes pipes (92 kt in 2016 and 147 kt in 2017) and excludes resales (2,694 kt in 2016 and 3,826 kt in 2017).

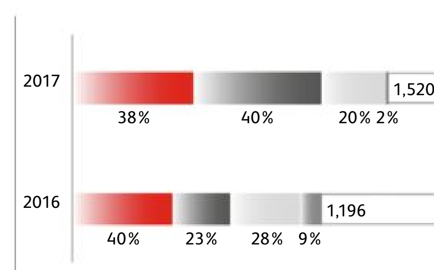
The Group's steel market diversification includes expansion in the core Ukrainian, European and MENA markets, which accounted for 25%, 35% and 20% of total metallurgical sales, respectively, in 2017. Metinvest targets these markets as it already has a well-established sales network and they are in close proximity to its production facilities and re-rolling plants. In 2017, Metinvest approved its new sales and distribution strategy for the European market with a focus on end-user customers. The Group aims to develop additional services through steel service centres.

In addition, Metinvest carried out a major restructuring of its iron ore sales geography. It implemented a strategy to increase iron ore sales to Europe, closer to its production sites, and where it has signed yearly or multi-yearly contracts with the majority of its customers, providing a stable source of demand. As a result, the share of Europe rose by 17 percentage points year-on-year to 40% of total mining sales.

Metinvest also launched the MI Client sales initiative, introducing a new customer relationship management tool for building relationships with and knowledge of its customers and their needs, which is due for completion in 2019. With this tool, the Group strives to better meet the needs of its clients to enhance its value proposition.

Mining sales by region

40% TO EUROPE



Ukraine
Europe
Southeast Asia
Other regions

OPERATIONAL REPORT

PRODUCT FOCUS

TUBULAR PRODUCTS

+60%

Tubular products include electrically resistant pipes, square tubing and other pipes. Metinvest produces pipes at Ilyich Steel (Ukraine). Sales of these products increased by 60% year-on-year to 147 thousand tonnes in 2017.

FOCUS ON INVESTMENTS AND VALUE-ADDED PRODUCTS

IN 2017, METINVEST ADJUSTED ITS OPERATING MODEL FOLLOWING EVENTS BEYOND ITS CONTROL. THIS INCLUDED MEASURES TO MAXIMISE CAPACITY UTILISATION AT THE GROUP'S MARIUPOL STEELMAKERS, WHERE PRODUCTION ROSE BY 14% YEAR-ON-YEAR. AS PART OF THIS PROCESS, THE FOCUS SHIFTED TO LONG-TERM INVESTMENT PLANS AIMED AT IMPROVING PRODUCT QUALITY, MAKING PLANTS AND MINES MORE EFFICIENT AND SAFER, AND MINIMISING ENVIRONMENTAL IMPACT.

ADAPTING TO A NEW REALITY

The beginning of the year was a difficult time for Metinvest's operations, as in March 2017, the Group lost control over certain production assets[1] located in the temporarily non-government-controlled territories in Eastern Ukraine. However, with the outstanding efforts of its entire team, Metinvest was able to rapidly adjust its operating model and make its business even more robust.

To offset the lost steelmaking capacity, the Group increased the combined output of its Mariupol steelmakers by 14% year-on-year. Metinvest has found new reliable third-party sources of steel billets for its Bulgarian re-roller to replace the lost capacity for square billets. Additionally, to ensure sufficient coal supplies, the Group diverted all volumes from its US mines to Ukraine and increased third-party purchases from the US, Canada and Australia.

Power supplies have been restored to the Group's coke producer located near the temporarily non-government-controlled territories, after a new electricity transmission line was installed on government-controlled territory, and the plant has resumed operations using all eight coke oven batteries since May 2017.

For the first time in three years, Metinvest currently does not view the situation in Eastern Ukraine as an immediate risk factor for the Group, although the management continues to monitor the situation closely.

TECHNOLOGICAL STRATEGY 2030

To adapt to the changes in the operating environment, Metinvest has made a comprehensive review of its Technological Strategy covering the period to 2030.

The Group's clearly defined investment plan aims to unlock bottlenecks in the operating model, improve product output in terms of both quality and quantity, increase the share of higher-margin products and allow Metinvest to more efficiently meet every customer's specific needs, in line with its long-term corporate strategy.

The current and future CAPEX projects are focused on enhancing operational safety and reducing the Group's environmental footprint, by investing in more efficient, safer and cleaner equipment, with an aim to reach European levels of environmental compliance wherever possible. The investment plans should reduce costs as more efficient equipment generally requires less maintenance and causes fewer production interruptions.

1 Yenakiieve Steel, Khartsyzk Pipe, Krasnodon Coal, Komsomolske Flux, Donetsk Coke and the Group's affiliate Yenakiieve Coke.

The position of Chief Technology Officer was introduced in March 2018 to supervise the implementation of the strategy.

MINING SEGMENT

IRON ORE

Based on 2017 production, Metinvest was one of the 15 largest iron ore producers in the world and the second in the CIS region, according to management estimates. Metinvest's iron ore facilities are: Ingulets GOK, which produces concentrate with an Fe content from 65.2% to 68.5%; Northern GOK, which makes concentrate with an average Fe content of 65.9% and pellets with an Fe content from 62.3% to 65.5%; and Central GOK, which produces concentrate with an Fe content from 67.9% to 68.4% and pellets with an Fe content from 62.0% to 67.1%. In addition, in July 2014, the Group acquired 45.9% of Southern GOK, which produces iron ore concentrate and sinter and is classified as a joint venture.

All the Group's iron ore facilities are located in the city of Kryvyi Rih, which is around 450 kilometres away from its steelmakers. This helps to ensure the long-term security of iron ore supplies for them.

As at 31 December 2017, Metinvest had long-life proven and probable iron ore reserves in Ukraine of 1,254 million tonnes[2].

The Mining segment maintains a quality management system at the iron ore enterprises. It is certified by Bureau Veritas and Ukrainian state enterprise Krivbasstandartmetrologiya as meeting the standards required for producers of merchant iron ore concentrate and pellets. The system is also certified in accordance with the ISO 9001 international standard.

In 2017, Metinvest mined 64,081 thousand tonnes of iron ore from its open-pit mines and one underground mine at Central GOK through a process of drilling and blasting and by removal of overburden to external dumps. The iron ore is then transported by rail to, and further processed at, onsite crushing, beneficiation and flotation facilities, as well as pelletisation plants. Total iron ore concentrate production was 27,464 thousand tonnes in 2017, down 7% year-on-year due to a drive to catch up with overburden removal work, which fell amid the liquidity constraints in previous years, and due to the expected retirement of iron-bearing sands for concentrate production. Increasing overburden removal laid the foundations for future growth in iron ore output.

Out of total iron ore concentrate, Metinvest produced 9,670 thousand tonnes of pellets[3] and kept 15,665 thousand tonnes of iron ore concentrate. As part of its strategy focused on output of superior products with greater Fe content and better mechanical and chemical characteristics, the share of high grade 68.0% Fe concentrate rose by 6 percentage points year-on-year to 19% of output, while that of >65.0% Fe pellets increased by 21 percentage points year-on-year to 42%.

As the Group is more than self-sufficient in iron ore (2017 self-sufficiency was 282%[4]), Metinvest used approximately 40% of iron ore products internally and allocated the remaining 60% for sales to external customers to capture margin on surplus volumes.

The Group consumed 3,928 thousand tonnes of pellets directly in its hot metal production. Meanwhile, Ilyich Steel consumed 6,340 thousand tonnes of iron ore concentrate together with purchased sinter ore to produce 10,204 thousand tonnes of sinter, which is then used in hot metal production at Ilyich Steel and Azovstal.

Last year, Metinvest's merchant concentrate output for external sales totalled 9,325 thousand tonnes, down 15% year-on-year mainly due to lower overall concentrate output. Output of merchant pellets for external sales fell by 7% year-on-year to 5,742 thousand tonnes. This was due to the cessation of shipments to certain customers in the temporarily non-government-controlled territory in Eastern Ukraine and a shift in pricing in favour of concentrate, which offered higher margins in February-April 2017.

In 2017, the Southern GOK joint venture produced 12,270 thousand tonnes of iron ore concentrate, up 9% year-on-year. Amid a shift in production in favour of merchant concentrate, output of concentrate increased by 12% year-on-year to 10,764 thousand tonnes, while sinter production decreased by 11% year-on-year to 1,859 thousand tonnes.

COKING COAL

Metinvest's remaining coking coal complex is United Coal, in the US. As at 31 December 2017, its unaudited total coal reserves amounted to 126 million tonnes.

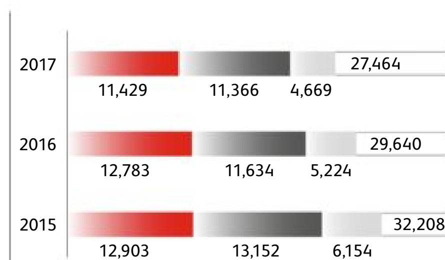
In 2017, Metinvest mined 6,164 thousand tonnes of raw coal using both underground and surface mining techniques. In 2017, the Group's total coal concentrate production was 2,590 thousand tonnes, down 15% year-on-year following the loss of control over Ukrainian coal producer in March 2017.

Meanwhile, production at US mines increased by 7% year-on-year to 2,461 thousand tonnes amid greater output at the Wellmore mines to cover approximately 30%[5] of internal needs. High-grade US coking coal is delivered to Metinvest's Ukrainian coke production facilities. Other coal volumes required for coke production are delivered by international and local suppliers. It is part of Metinvest's strategy to increase its self-sufficiency in this raw material, which is a key input for coke production.

Iron ore concentrate production

27,464 KT

-7%

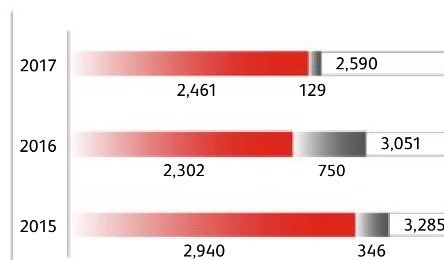


Ingulets GOK
Northern GOK
Central GOK

Coking coal production

2,590 KT

-15%



United Coal
Krasnodon Coal

2 According to JORC methodologies, as at 1 January 2010 and adjusted for production of 612 million tonnes of reserves between 1 January 2010 and 31 December 2017. Ore reserves refer to the economically mineable part of mineral resources.

3 Including production for intragroup consumption.

4 Iron ore self-sufficiency is calculated as actual iron ore concentrate production divided by actual consumption of iron ore products to produce hot metal in the Steel segment. It excludes iron ore consumption by seized assets.

5 Coal self-sufficiency is calculated as actual coal concentrate production divided by actual consumption of coal concentrate to produce coke required for production of hot metal in the Steel segment. Coal consumption for PCI is included in the calculation. It excludes coal production and coke consumption by seized assets.

METALLURGICAL SEGMENT

COKE AND CHEMICALS

Metinvest's coking assets consist of Avdiivka Coke, Zaporizhia Coke and the facilities at Azovstal, as well as Inkor Chemicals, which makes chemical products. All are located in Ukraine. Overall coke production capacity is around 7 million tonnes a year.

In 2017, the Group's total coke output rose by 10% year-on-year to 4,736 thousand tonnes. This was driven by a 12% increase in production at Avdiivka Coke's eight coke oven batteries, which have been in operation since May 2017. In addition, Azovstal grew coke output by 10% amid more stable coal deliveries.

Last year, the Group covered 120% of its coke needs for making hot metal with its own production[6].

STEEL

In 2017, the World Steel Association ranked Metinvest as the 42nd largest steel producer in the world and fifth in the CIS region. Metinvest's steelmaking assets comprise Azovstal and Ilyich Steel – two integrated steel producers located in Mariupol, Ukraine, near the Sea of Azov. Their current, combined annual steel production capacity is 8.4 million tonnes.

In addition, Metinvest has a 49.9% stake in Zaporizhstal, one of Ukraine's largest steelmakers with annual production capacity of around 4 million tonnes of crude steel, which is classified as a joint venture. Zaporizhstal and Metinvest have been creating considerable synergies: Zaporizhstal is also one of Metinvest's top third-party purchasers of iron ore, meaning that the Group captures additional margin through Metinvest's share of its steelmaking capacity, while Zaporizhstal's product mix complements Metinvest's. The enterprise is located in Zaporizhia, in south-eastern Ukraine, close to the Group's iron ore facilities in Kryvyi Rih, which is home to Metinvest's Zaporizhia Coke, and on the banks of the Dnipro River, a strategic transportation route.

Metinvest also has three rolling mills in continental Europe (Ferriera Valsider, Metinvest Trametal and Promet Steel) and one in the UK (Spartan). The Group's European flat producers use slabs produced by its Ukrainian steel mills to re-roll them into plates and coils closer to local customers, while its Bulgarian long producer re-rolls third-party square billets into rebar, wire rod and other long products. Metinvest's total re-rolling capacity in Europe is around 2 million tonnes a year.

In 2017, amid a drive to maximise capacity utilisation at the Mariupol steelmakers, hot metal output at Azovstal rose by 19% year-on-year after blast furnace no. 4 was re-launched in February 2016. In addition, downtime due to irregular supplies of raw materials and fuel fell in 2017, boosting steel output by 15% year-on-year. Hot metal production at Ilyich Steel also rose by 9% year-on-year after the re-launch of blast furnace no. 4 in May 2016, driving an increase in steel output of 13% year-on-year. The Group's total hot metal and crude steel output amounted to 8,188 thousand tonnes and 7,630 thousand tonnes, respectively, in 2017.

Out of total crude steel, Azovstal and Ilyich Steel casted 6,646 thousand tonnes of slabs, out of which 5,303 thousand tonnes were used by their own rolling mills and supplied to Metinvest's European re-rollers to produce flat products. In addition, Azovstal produced 715 thousand tonnes of steel ingots, which were used for further production of long products and rails.

The external steel product mix changed in 2017, the share of flat products reaching 55%, up 5 percentage points year-on-year, following a rise in output of 290 thousand tonnes amid strong demand. This was achieved due to increases in production of plates at Azovstal and Ilyich Steel, as well as steel sheets and coils at the European re-rollers. Shares of slabs and pig iron reached 16% each, up a respective 7 and 2 percentage points, amid a combined growth in output of 782 thousand tonnes due to favourable market trends. Meanwhile, the shares of square billets and long products fell to 0% and 11%, respectively, following the loss of capacity. The share of rails and pipes remained at 2%, although output of tubular products rose by 42 thousand tonnes year-on-year due to an increase in other pipe making at Ilyich Steel, which was driven by an increase in capacity. The Group's steelmakers and rolling mills continue to innovate for customers. In 2017, Metinvest launched 47 new steel products for construction, machine-building and pipe production industries.

At the Zaporizhstal joint venture, production of crude steel was 3,926 thousand tonnes in 2017, up 1% year-on-year. Finished steel goods – which include coils, plates, joist web, strip and tin – accounted for 88% of the product mix and merchant pig iron for the remaining 12% following the major overhaul of blast furnace no. 3.

CAPEX

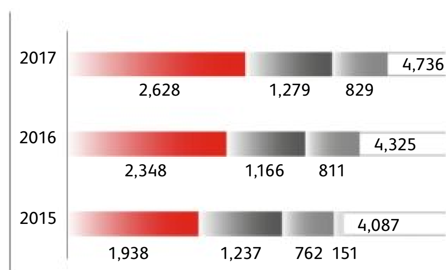
In 2017, the first CAPEX projects that fell under the new Technological Strategy 2030 were continuations of ongoing efforts.

This included continuing to implement several projects at Metinvest's iron ore producers, including the construction of the crushing and conveying systems at Northern GOK's Pervomaisky open-pit mine (the second facility for rock transportation) and Ingulets GOK (the Vostochny conveyor line). Such systems are designed to move bulk materials to the surface

Coke production

4,736 KT

+10%



- Avdiivka Coke
- Azovstal
- Zaporizhia Coke
- Donetsk Coke

Crude steel production

7,630 KT

-9%

- Ilyich Steel
- Azovstal
- Yenakiieve Steel

Steel product mix

8,566 KT

-2%

- Pig iron
- Slabs
- Square billets
- Flat products
- Long products excl. rails
- Rails and pipes

6 Coke self-sufficiency is calculated as actual coke production divided by actual consumption of coke to produce hot metal in the Metallurgical segment. It excludes coke consumption by seized assets.

METINVEST'S GLOBAL OPERATIONS

METINVEST'S UKRAINIAN OPERATIONS

Metallurgical
Mining
Affected

Coking coal
Iron ore
Integrated steel

Re-roller
Coke
Pipes

IRON ORE 64,081

IRON ORE CONCENTRATE 27,464

RAW COAL 6,164

COAL CONCENTRATE 2,590

COAL CONCENTRATE

PELLETS 9,670 3,928 5,742

IRON ORE CONCENTRATE 15,665 6,340 9,325

SINTER ORE

COKE 4,736

SINTER 10,204

MINING / ENRICHMENT / RAW MATERIAL PRODUCTION / STEEL PRODUCTION / CASTING

for further processing and enable capacity and production volumes to be maintained at current levels while reducing costs.

Several strategic projects are ongoing at the Group's steelmakers. One key initiative at Ilyich Steel is the ongoing construction of continuous casting machine no. 4, which has a total budget exceeding US$150 million, is due for completion by the end of 2018. The new equipment will make it possible to increase casting capacity at the plant to around 4 million tonnes a year.

Last year, Ilyich Steel launched a large-scale reconstruction of the 1700 hot strip mill in order to further develop its steel downstream range. It is expected to be commissioned in 2019 with total investments of around US$90 million.

In the third quarter of 2017, Azovstal started a major overhaul of blast furnace no. 3, the aim being to increase its hot metal production capacity by 0.5-0.8 million tonnes a year and reduce production costs. Its launch is expected in 2019 with a total budget of around US$85 million.

In addition, Azovstal continued to construct PCI facilities at its blast furnaces. As part of the project's second stage, PCI injection into blast furnace no. 2 started in September 2017, while construction at blast furnace no. 3 is ongoing in parallel with the major overhaul of this machine. The total cost of PCI facilities for both blast furnaces exceeds US$20 million.

In 2017, Metinvest Shipping decided to purchase 1,800 open rail wagons to deliver raw materials and dispatch finished products. The decision stemmed from the need to curtail the negative effect on the Group from the shortage of rolling stock in Ukraine. A total of 800 open wagons were purchased by the end of 2017, while the rest are to be supplied in the first half of 2018.

Several environmental projects are under way as well, including to reconstruct the sinter plant at Ilyich Steel and replace the gas cleaning units on the Lurgi 552-B pelletising machine at Northern GOK.

Legend

Excluding billets produced at assets not under the Group's control after March 2017. Production chain is presented in simplified form to reflect key processes.

OUTLOOK FOR 2018

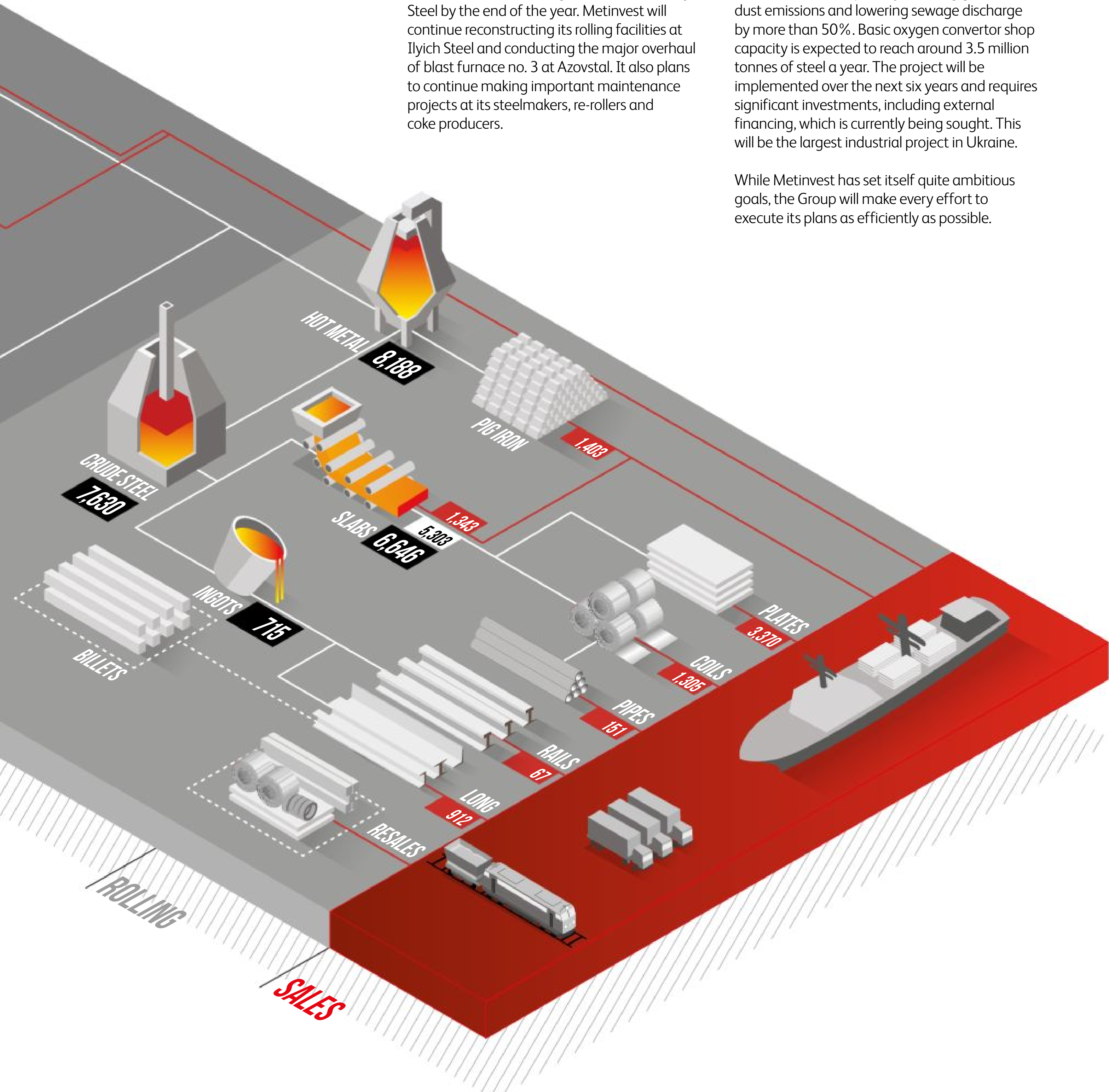
To reach and surpass its new horizons in production, Metinvest must be diligent and committed to achieving its strategic goals. In 2018, Metinvest plans to increase its CAPEX to a level not seen in several years, which is a historically normal run rate for the Group.

At the mining facilities, the Group will work on completing the upgrade of open-pit mine machinery. At Northern GOK and Ingulets GOK, the plan is to continue building the crusher and conveyor systems. The agenda also includes upgrading the roasting and pelletising machines.

The strategy envisages to complete construction of the continuous-casting machine no. 4 at Ilyich Steel by the end of the year. Metinvest will continue reconstructing its rolling facilities at Ilyich Steel and conducting the major overhaul of blast furnace no. 3 at Azovstal. It also plans to continue making important maintenance projects at its steelmakers, re-rollers and coke producers.

At the Zaporizhstal joint venture, the Group intends to work with its partners to launch the large-scale construction project of a state-of-the-art basic oxygen convertor shop to replace the last open-hearth furnace shop in Europe. It will also build new continuous casting machines to streamline the production process and improve product quality. This will materially reduce the environmental footprint by reducing gas and dust emissions and lowering sewage discharge by more than 50%. Basic oxygen convertor shop capacity is expected to reach around 3.5 million tonnes of steel a year. The project will be implemented over the next six years and requires significant investments, including external financing, which is currently being sought. This will be the largest industrial project in Ukraine.

While Metinvest has set itself quite ambitious goals, the Group will make every effort to execute its plans as efficiently as possible.



FINANCIAL REPORT

IN THIS SECTION:

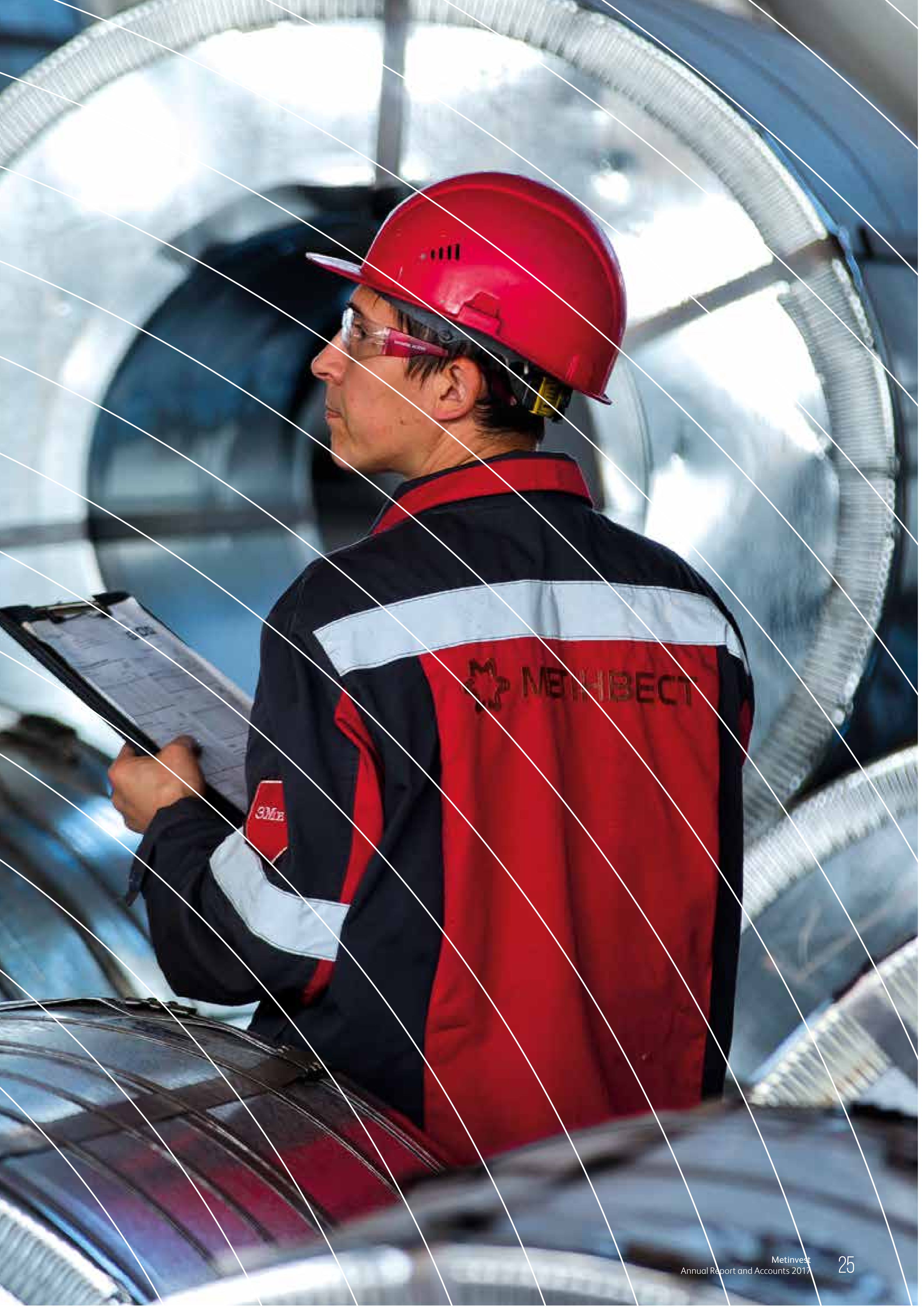
26 Global Metals and Mining Industry Overview
28 Ukraine Macro and Industry Overview
30 Financial Review

PRODUCT FOCUS

COILS

1,287 KT

Coils are hot, cold or coated flat-rolled products, supplied in regularly wound form. Metinvest produces coils at Ferriera Valsider (Italy) and Ilyich Steel (Ukraine), and resells coils produced by Zaporizhstal JV (Ukraine). Sales of coils manufactured at Metinvest's own facilities remained stable year-on-year at 1,287 thousand tonnes in 2017.



STRONG DEMAND IN ALL REGIONS

IN 2017, GLOBAL ECONOMIC GROWTH WAS MUCH STRONGER THAN EXPECTED, REACHING 3.0%. THIS WAS A PRIMARY DRIVER OF STRONG GLOBAL STEEL DEMAND. AT THE SAME TIME, THE STEEL MARKET SAW WORLDWIDE PROTECTIONISM STRENGTHEN, IN PARTICULAR AGAINST CHINESE EXPORTERS, FORCING THEM TO LOWER EXPORTS BY 30%, WHICH SPURRED GLOBAL STEEL PRICES HIGHER.

GLOBAL STEEL MARKET

According to the World Steel Association's global steel market data for 2017, crude steel production climbed by 3.9% to 1,690 million tonnes, apparent consumption of finished steel products rose by 4.7% to 1,587 million tonnes[1] and the average steel capacity utilisation rate grew further to 72%, compared with 69% in 2016.

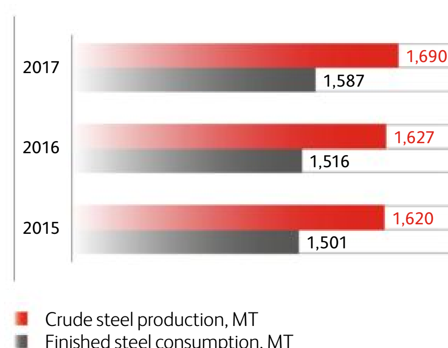
With China accounting for around 50% of global steel production and demand, it remains a key decisive factor for the industry. In 2017, its crude steel production climbed by 3.0% to 832 million tonnes, while rolled steel consumption rose by 8.3% to 737 million tonnes.

Strong steel demand from China was largely driven by higher domestic construction and manufacturing activity, caused by increased lending and robust infrastructure spending amid the government's ongoing monetary stimulus measures. Moreover, the country's steel sector is undergoing restructuring with an aim to improve its efficiency by cutting excess capacity and reduce pollution emissions. These factors combined to generate the highest profitability that Chinese steel producers have seen in the last nine years.

The global steel market saw worldwide protectionism strengthen, as local governments sought to protect domestic steelmakers from lower-cost producers. China and its steel exports have been the main subject of unfair trade cases in several countries. As a result of the anti-dumping tariffs and trade barriers that have been introduced, Chinese exports dropped

1 Global steel production and consumption do not include production at induction furnaces in China.

Global steel industry



Source: World Steel Association

by 30% year-on-year to 75 million tonnes in 2017, which spurred steel prices higher in all regions of the world.

According to Metal Expert, the benchmark price for hot-rolled coil from the CIS region (HRC, FOB Black Sea) trended in line with global steel benchmarks, climbing by 31% year-on-year to an average of US$508 per tonne in 2017.

GLOBAL IRON ORE MARKET

Last year was strong for the Chinese steel sector, which remains the main driver of global iron ore demand as it accounts for around 70% of the world's seaborne iron ore supplies. In 2017, the country's total imports peaked at 1,075 million tonnes, having increased by 51 million tonnes.

Robust demand in China was mainly caused by the economic stimulus measures adopted by the government and consequent steel production growth. In addition, demand skewed towards higher-grade products due to efforts to improve hot metal and steel production efficiency. Another factor was the closure of induction furnaces in China, which resulted in a greater utilisation of furnaces that use iron ore products as their key raw material.

On the supply side, exports from Australia and Brazil, together accounting for approximately 79% of global seaborne iron ore supply in 2017, reached a record of 1,213 million tonnes. That said, the year-on-year supply additions slowed to 30 million tonnes, which indicates that key new iron ore projects have been launched but are ramping up production at a slower pace.

In 2017, iron ore price showed an overall growth trend despite fluctuating somewhat throughout the year. Early gains in the first quarter of 2017 were pared back in the second quarter, only to recover in the latter half of the year. The benchmark iron ore price (62% Fe iron ore fines, CFR China) rose to US$72 per dry tonne in 2017 from US$58 per dry tonne in 2016.

Amid greater demand for high-quality products, premiums for Fe content and pelletising increased dramatically in 2017. The average discount of 58% Fe iron ore fines to 62% Fe content on a CFR China basis spiked by 111% year-on-year to US$29 per dry tonne, while the premium for 65% Fe content to 62% Fe content jumped by 148% year-on-year to an average of US$16 per dry tonne. At the same time, the Atlantic Basin premium for pellets in Europe increased by 43% year-on-year to an average of US$45 per tonne in 2017.

GLOBAL COKING COAL MARKET

Spot hard coking coal proved one of the most volatile commodities, mainly driven by the supply side. While the spot price averaged US$189 per tonne in 2017, up 33% year-on-year, it varied from US$141 per tonne to US$305 per tonne. Tropical cyclone Debbie, which hit Australia late in the first quarter of 2017, disrupted coal supply in Queensland, where the lion's share of the country's coking coal is produced. Due to the damage caused to railway lines connecting mines and ports, spot coking coal prices soared to above US$300 per tonne.

Prices rose again from mid-July 2017 due to supply constraints in Australian mines and stringent safety checks in China's Shanxi region after flooding at the coking coal mine of Fenxi Mining Group.

The sharp increase in spot prices made the process of contract price negotiations difficult and time consuming. This price volatility resulted in key major importers of coking coal switching to spot-linked contracts.

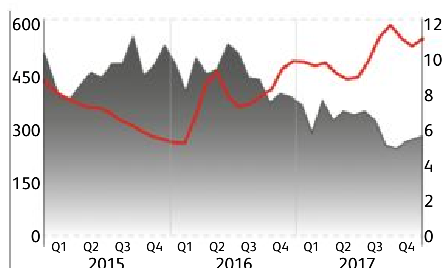
OUTLOOK

While relative market stability continued into the first quarter of 2018 and analysts expect it to persist throughout the year, the market for steel and raw materials remains, as always, exposed to potential external shocks.

In China, a key bellwether for the steel, iron ore and coking coal markets and a driver of the global economy, the IMF expects growth to moderate to 6.6% in 2018, compared with 6.9% in 2017. Another concern is a global move to tighten monetary policy and increase interest rates. Coupled with prevailing worldwide protectionism, these less certain growth prospects in China and elsewhere pose downside risks.

Despite such uncertainty about future global growth, the outlook for 2018 appears cautiously optimistic. Metinvest is strongly positioned as a leading global steelmaker with a vertically integrated model and, through its updated Technology Strategy 2030, aims to remain competitive on both the upswings and downswings of the commodity cycle.

Steel product prices vs exports from China



- HRC, FOB Black Sea, US$/tonne (LHS)
- Steel product exports from China, MT (RHS)

Source: Bloomberg, Metal Expert

Iron ore price and premiums

- Atlantic basin pellet premium, US$/tonne (RHS)
- 58% to 62% Fe iron ore fines discount, CFR China, US$/tonne (RHS)
- 65% vs 62% Fe iron ore fines premium, CFR China, US$/tonne (RHS)
- 62% Fe iron ore fines, CFR China, US$/tonne (LHS)

Source: Platts

Hard coking coal (HCC) price

- Daily spot index, HCC FOB Australia, US$/tonne
- Quarterly contract, HCC FOB Australia, US$/tonne

Source: Bloomberg

ON A GROWTH PATH

THE UKRAINIAN ECONOMY CONTINUED TO GROW IN 2017 AMID ONGOING STRUCTURAL REFORMS, A FAVOURABLE EXPORT ENVIRONMENT AND A FURTHER INCREASE IN CONSUMER SPENDING, WITH STEEL-CONSUMING SECTORS DRIVING STRONG DEMAND FOR METINVEST'S PRODUCTS. THE OUTLOOK FOR 2018 REMAINS GUARDEDLY POSITIVE, ALBEIT EXPOSED TO DOMESTIC POLITICAL AND ECONOMIC VOLATILITY, AS WELL AS EXTERNAL SHOCKS.

GROUNDS FOR CAUTIOUS OPTIMISM

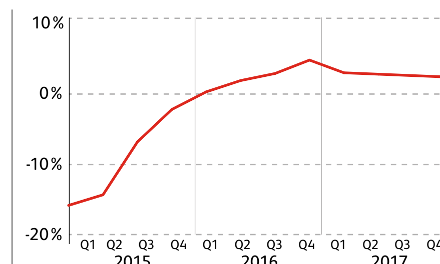
In 2017, Ukraine's economic growth continued amid structural reforms, higher domestic investment, an ongoing revival in consumer spending due to a significant growth in real wages, an increase in construction activity and favourable key export markets. The economy recovered for the second straight year, with real GDP growth accelerating to 2.5% year-on-year, compared with 2.4% in 2016, exceeding expectations from earlier in the year when several industrial assets were seized and all trade with the temporarily non-government-controlled territory stopped.

The National Bank of Ukraine (NBU) maintained its interest rate policy consistent with inflation targets and has kept the hryvnia floating. As the consumer price index (CPI) passed over the upper bound of expected levels, the NBU had to raise its discount rate several times during the year to constrain inflation. This speaks to the regulator's independent polices. As a result, the CPI reached 14.4% in 2017.

The NBU also further eased its capital and currency restrictions, which were enacted in 2014-2015. It decreased the required share of foreign currency proceeds subject to mandatory sale on the interbank market from 65% to 50% beginning 5 April 2017. It also increased the settlement period for foreign-currency export-import transactions from 120 days to 180 days beginning 26 May 2017. From 13 June 2016, the National Bank allowed Ukrainian companies to pay dividends to non-residents up to US$5 million a month.

In 2017, the hryvnia depreciated further against the US dollar and most other major international currencies, although it strengthened quarter-on-quarter in the second and third quarters of the year. The US$/UAH exchange rate averaged 26.60 in 2017, compared with 25.55 in 2016.

Real GDP growth[1]



1 Year-on-year change.

Source: State Statistics Service of Ukraine

On 1 September 2017, the Association Agreement between the European Union and Ukraine finally came fully into force. It is expected to further liberalise trade, improve quality standards and integrate Ukraine's economy with the European Union.

VAT refunds, which used to be a major issue for all Ukrainian exports, are no longer a problem, as they are now refunded automatically. Thus, there is no liquidity outflow from the private sector to support public finance.

International support is of high importance for Ukraine, including the IMF's four-year Extended Fund Facility Programme, which was approved in March 2015. The fourth tranche of approximately US$1 billion was provided in April 2017. Further IMF disbursements depend on the continued implementation of Ukrainian government reforms, as well as other economic, legal and political factors.

Ukraine's well-received return to the Eurobond market in September 2017 was another positive indicator of economic stabilisation and renewed investor appetite for exposure to the Ukrainian market. The Finance Ministry issued a US$3 billion, 15-year Eurobond at 7.375% per annum, which makes it the largest Ukrainian Sovereign issuance ever, to smooth the country's external debt maturity profile. Several Ukrainian corporates placed Eurobonds to refinance their debt, including Metinvest, which in April 2018 made the largest-ever Ukrainian corporate issuance.

Another sign of recent progress was Ukraine advancing from 137th place in 2013 to 76th place in 2018 in the World Bank's ease of doing business ranking, demonstrating the ability of sustained reform to reshape a challenging business environment to benefit Ukrainian companies and foreign investors.

RENEWED DEMAND FOR STEEL

While total steel production in Ukraine declined by 8.1% year-on-year to 22.3 million tonnes in 2017, mainly due to the loss of control over some steelmaking assets in Eastern Ukraine, a broad-based recovery in key steel-consuming sectors drove a 7.1% year-on-year increase in apparent steel consumption (excluding pipes) to 5.5 million tonnes.

Among the steel-consuming sectors, construction activity grew by 26.3% year-on-year, the machine-building industry rose by 7.9% year-on-year and hardware production increased by 3.2% year-on-year.

Ukraine's steel industry has traditionally been export-oriented. In 2017, overseas shipments of steel products, excluding pipes, amounted to 15.2 million tonnes and accounted for 78% of production, as most volumes were exported to the Middle East and North Africa, Europe and the CIS.

Amid lower domestic steel production, Ukraine's merchant iron ore product consumption fell by 7.4% year-on-year to 31.9 million tonnes in 2017, according to Ukrainian Industry Expertise. Merchant iron ore product output decreased by 2.6% year-on-year to 68.7 million tonnes, mainly due to local producers striving to catch up with overburden removal following the period of underinvestment during the unfavourable market environment of previous years. Metinvest reduced total iron ore production by 7.3% year-on-year to 27.5 million tonnes in the year.

Coking coal production in Ukraine is insufficient to cover the needs of local steelmakers. The conflict in the eastern region affected coking coal supply from domestic mines and spurred higher imports, which are costlier. Raw coking coal production decreased by 24.5% year-on-year to 7.1 million tonnes in 2017, according to Energobusiness. Meanwhile, the share of coking coal imports in total Ukrainian consumption increased from 46% in 2013 to a record of 78% in 2017, according to Ukrkoks. In early 2017, tensions in the conflict zone heightened, which led to the seizure of certain coking coal producers located on the temporarily non-government-controlled territory, including Metinvest's Krasnodon Coal.

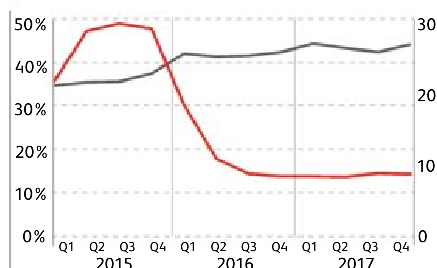
Metinvest's sales in Ukraine increased by 54% year-on-year in 2017, driving up the region's share in total consolidated revenues by 2 percentage points year-on-year to 28%. The Group sees major potential in the market.

OUTLOOK

Domestic and multilateral forecasters have predicted that Ukraine's economy will continue to grow in 2018 amid indicators of stronger macroeconomic fundamentals but remains exposed to certain levels of domestic political and economic volatility, as well as external shocks, which by their nature are difficult to predict or quantify. The run-up to Ukraine's 2019 presidential and parliamentary elections, significant upcoming sovereign and quasi-sovereign external debt repayments, and rising global energy prices could pose fresh challenges and volatility to the Ukrainian economy and local currency.

Despite these concerns, as of April 2018, the IMF has forecast 3.2% year-on-year GDP growth for Ukraine, accelerating to 3.3% in 2019. This scenario suggests the potential for four solid years of economic growth since the sharp recession of 2014 and 2015. The sovereign Eurobond placement in September 2017, as well as several corporate issuances, including Metinvest, indicate solid appetite from international investors for Ukrainian securities and belief in the continuing potential of Ukraine's economy.

US$/UAH average exchange rate and consumer price index[2]

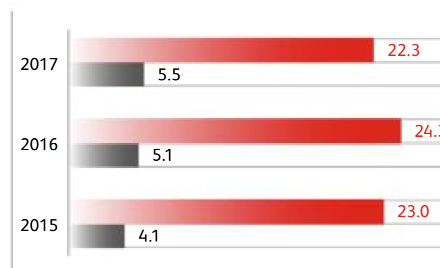


- Consumer price index (LHS)
- Average exchange rate, US$/UAH (RHS)

2 For quarters other than the firsts of each year, the year-on-year change is for the year to date.

Source: State Statistics Service of Ukraine, National Bank of Ukraine

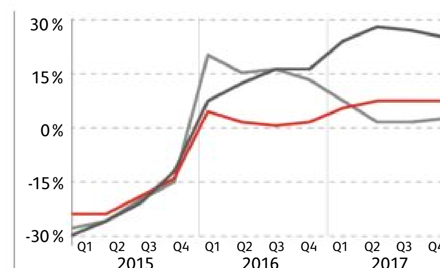
Steel industry in Ukraine



- Crude steel production, MT
- Rolled steel consumption, MT

Source: Metal Expert

Key steel consuming sectors in Ukraine[3]



- Machinery production index
- Hardware production index
- Construction index

3 All indexes represent the cumulative index from the beginning of the respective year, year-on-year change.

Source: State Statistics Service of Ukraine, Metal Expert

ACHIEVING STRONG RESULTS

METINVEST TOOK FULL ADVANTAGE OF A FAVOURABLE EXTERNAL ENVIRONMENT TO ACHIEVE ROBUST TOP-LINE AND EBITDA GROWTH WHILE DELIVERING A MAJOR STEP UP IN CAPITAL EXPENDITURE AS AN INVESTMENT IN THE GROUP'S FUTURE SUCCESS.

OVERVIEW

In 2017, Metinvest delivered a strong set of financial results, a tribute to its proven business model, prudent strategy and committed human capital. A supportive external environment aided top-line results and EBITDA, with rising global demand for steel and iron driving strong price growth throughout the year. On top of strong results, the Group carried out a successful debt refinancing after the reporting period, ensuring strong liquidity and future flexibility in international financial markets.

REVENUES

Metinvest's revenues are generated from sales of its steel, iron ore, coal and coke products and resales of products from third parties. Unless otherwise stated, revenues are reported net of value-added tax and discounts and after eliminating sales within the Group.

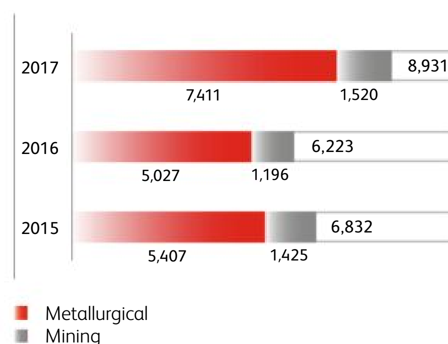
In 2017, consolidated revenues increased by 44% year-on-year to US$8,931 million, driven primarily by higher steel and iron ore selling prices, which followed global benchmarks. In addition, stronger demand spurred greater sales of pig iron, slabs, flat products and coke. Moreover, the Group started resales of square billets and long products to compensate lower sales volumes of these products manufactured at seized facilities.

In 2017, revenues in Ukraine amounted to US$2,467 million, up 54% year-on-year, primarily due to increased selling prices, as well as higher sales volumes of flat products (up 447 thousand tonnes) and coke (up 347 thousand tonnes) amid greater local demand, as the economic upturn continued. Meanwhile, iron ore sales in Ukraine decreased by 3,313 thousand tonnes amid weaker demand, as shipments to some customers in Eastern Ukraine stopped and some other customers temporarily halted operations. As a result, Ukraine's share in consolidated revenues rose by 2 percentage points year-on-year to 28%.

Revenues by segment

US$8,931M

+44%



International sales increased by 40% year-on-year to US$6,465 million in 2017, accounting for 72% of consolidated revenues. Sales to Europe rose by 42% year-on-year amid higher realised prices and greater sales volumes of pig iron (up 108 thousand tonnes), slabs (up 471 thousand tonnes) and iron ore products (up 2,601 thousand tonnes), which helped to keep the region's share in consolidated revenues flat year-on-year at 36%. Sales to the Middle East and North Africa (MENA) climbed by 55% year-on-year amid higher sales volumes of square billets and flat products, as well as a hike in selling prices, while that market's share in consolidated revenues increased by 1 percentage point year-on-year to 16%. Sales to the CIS (ex Ukraine) rose by 31% year-on-year, primarily due to selling price growth, which helped to keep the region's share in consolidated revenues flat year-on-year at 9%. Sales in Southeast Asia climbed by 22% year-on-year, as higher prices and volumes of flat products, square billets and pellets were partly offset by lower volumes of iron ore concentrate. As a result, that market's share in consolidated revenues decreased by 1 percentage point year-on-year to 6%. Sales to North America increased by 37% year-on-year due to higher prices and volumes of pig iron and flat products, while the region's share in consolidated revenues remained flat year-on-year at 5%. Sales to other regions declined by 22% year-on-year, while their share in consolidated revenues remained flat at 1%.

METALLURGICAL SEGMENT

The Metallurgical segment generates revenues from sales of pig iron, steel, coke and other products and services. In 2017, its revenues increased by 47% year-on-year to US$7,411 million, mainly amid a rise in resales of US$960 million. In addition, sales of products manufactured at Metinvest's facilities increased: by US$749 million for flat products, US$295 million for slabs, US$290 million for coke and US$179 million for pig iron. Meanwhile, sales of long products and square billets produced at Metinvest's plants dropped by US$211 million and US$71 million, respectively. At the same time, sales of other products and services rose by US$194 million. In 2017, the Metallurgical segment accounted for 83% of external sales (81% in 2016).

PIG IRON

In 2017, sales of pig iron increased by 73% year-on-year to US$606 million. Of that, 52 percentage points was attributable to a higher average selling price and 21 percentage points to greater sales volumes, which rose by 297 thousand tonnes year-on-year to 1,689 thousand tonnes, driven by strong market demand and greater resales of Zaporizhstal's pig iron. Sales in North America and Europe grew by 313 thousand tonnes and 108 thousand tonnes, respectively, given favourable margins and orders from both existing and new customers. This resulted in lower sales to MENA (135 thousand tonnes).

SLABS

In 2017, sales of slabs more than doubled year-on-year to US$521 million, driven by a hike in the average selling price and a 61% increase in sales volumes. Volumes rose by 435 thousand tonnes year-on-year to 1,146 thousand tonnes, spurred by demand and supported by greater production. Volumes to Europe climbed by 471 thousand tonnes due to greater orders from customers in Italy and sales to a new client in Hungary. Meanwhile, volumes to MENA decreased by 46 thousand tonnes due lower sales to Turkey. The increase in the average selling price followed the benchmark for slabs (FOB Black Sea), which rose by 34% year-on-year.

SQUARE BILLETS

In 2017, sales of square billets tripled year-on-year to US$321 million, due to a doubling in sales volumes and a jump in the average selling price. Volumes rose by 337 thousand tonnes year-on-year to 657 thousand tonnes as a result of higher resales (589 thousand tonnes), which compensated lower volumes of own products following the loss of certain production capacity (252 thousand tonnes). All available volumes were sold in MENA and Southeast Asia, and MENA accounted for 84% of total sales volumes. Average selling prices followed dynamics of the square billet FOB Black Sea benchmark, which climbed by 33% year-on-year.

FLAT PRODUCTS

In 2017, sales of flat products surged by 43% year-on-year to US$4,211 million, of which 35 percentage points was attributable to a higher average selling price and 7 percentage points to greater sales volumes. Volumes increased by 497 thousand tonnes year-on-year to 7,351 thousand tonnes, while resales of Zaporizhstal's goods rose by 244 thousand tonnes year-on-year to 2,781 thousand tonnes, keeping their share in total sales volumes at 38% in 2017. Sales to Ukraine climbed by 447 thousand tonnes, as a local competitor left the market in the first quarter of 2017. Greater sales in MENA (up 168 thousand tonnes) were driven by strong demand. Other sales volumes were redistributed between regions based on market conditions. Average selling prices were in line with the HRC FOB Black Sea benchmark, which rose by 31% year-on-year.

LONG PRODUCTS

In 2017, sales of long products subsided by 16% year-on-year to US$694 million, caused by a 39% drop in sales volumes due to lower production levels and the loss of certain production capacity, which was partly compensated by higher resales (147 thousand tonnes). At the same time, the positive year-on-year price trend on all markets for long products was due to stronger billet quotations.

COKE

In 2017, sales of coke almost tripled year-on-year to US$461 million, as the average selling price more than doubled and sales volumes increased by 32% (or 347 thousand tonnes) year-on-year to 1,427 thousand tonnes, driven by greater orders in Ukraine.

MINING SEGMENT

The Mining segment generates revenues from sales of iron ore, coal and other products and services. In 2017, its revenues were up 27% year-on-year to US$1,520 million, mainly due to higher iron ore and coal selling prices, which followed global benchmarks. This was partly offset by weaker sales volumes amid lower overall production of iron ore products and coking coal concentrate, as well as higher intragroup consumption of coal. As a result, external sales of pellets increased by US$196 million, iron ore concentrate by US$91 million and other products and services by US$78 million. Meanwhile, sales of coking coal concentrate dropped by US$40 million. In 2017, the Mining segment accounted for 17% of external sales (19% in 2016).

IRON ORE CONCENTRATE

In 2017, sales of merchant iron ore concentrate increased by 16% year-on-year to US$644 million, primarily due to an uptick in the average selling price. The latter followed the 62% Fe iron ore fines CFR China benchmark, which surged by 21% year-on-year to an average of US$72/tonne in 2017, up from US$59/tonne a year earlier. Meanwhile, sales volumes dropped by 22% (or 2,624 thousand tonnes) year-on-year to 9,145 thousand tonnes amid lower production and weaker demand in Ukraine during the reporting period, compared with destocking a year earlier. As such, sales in Ukraine dropped by 1,898 thousand tonnes, as shipments to some customers in the eastern region stopped and other key customers temporarily halted operations. At the same time, sales to Europe – one of Metinvest's priority markets for iron ore – rose by 1,307 thousand tonnes. The remaining available volumes went to Southeast Asia, although sales to that region fell by 2,033 thousand tonnes year-on-year.

PELLETS

In 2017, sales of pellets increased by 46% year-on-year to US$620 million, driven by a surge in the average selling price in line with the benchmark. At the same time, sales volumes decreased by 1% (or 60 thousand tonnes) year-on-year to 5,903 thousand tonnes. Sales to Europe advanced by 1,294 thousand tonnes amid stronger demand, which raised the region's share in total pellet sales volumes to 54% (up 22 percentage points year-on-year) in 2017. Meanwhile, sales to Ukraine dropped by 1,415 thousand tonnes year-on-year amid a cessation of shipments to some customers in the eastern region. This led to higher sales to Southeast Asia (up 76 thousand tonnes), an opportunistic market for this product.

METINVEST IS A GLOBAL COMPANY WITH 43 SALES OFFICES AND 40 WAREHOUSES COVERING ALMOST 100 COUNTRIES ON FOUR CONTINENTS. THIS HELPS TO DIVERSIFY THE REVENUE STREAM GEOGRAPHICALLY, ACROSS BOTH DEVELOPED AND EMERGING MARKETS.

NORTH AMERICA

Map legend

- Regions with sales in 2017
- Regions with no sales in 2017

Metinvest's sales offices

1. Belarus
2. Belgium
3. Bulgaria (3 offices)
4. Canada
5. China
6. Dominican Republic
7. Germany (2 offices)
8. Italy (3 offices)
9. Lebanon
10. Poland
11. Romania
12. Russia (13 offices)
13. Spain
14. Switzerland
15. Tunisia
16. Turkey
17. Ukraine (8 offices)
18. United Arab Emirates
19. United Kingdom

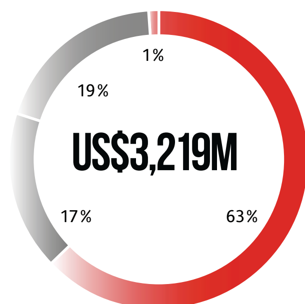
REVENUE BY REGION

Chart legend

- Finished products
- Semi-finished products
- Iron ore products
- Coke and coal products
- Other products and services

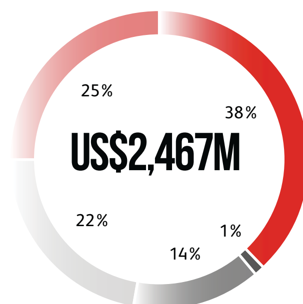
Europe revenues

36%
OF GROUP TOTAL



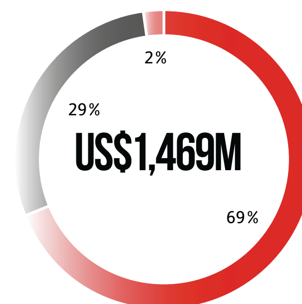
Ukraine revenues

28%
OF GROUP TOTAL



MENA revenues

16%
OF GROUP TOTAL



CIS

EUROPE

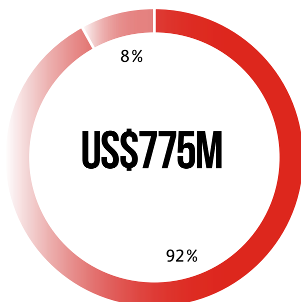
SOUTHEAST ASIA

MENA

CIS revenues

9%

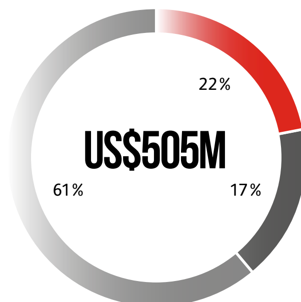
OF GROUP TOTAL



Southeast Asia revenues

6%

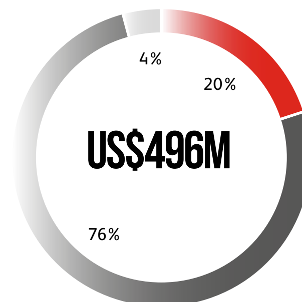
OF GROUP TOTAL



Other revenues

5%

OF GROUP TOTAL



COKING COAL CONCENTRATE

In 2017, sales of coking coal concentrate declined by 30% year-on-year to US$96 million amid a 60% drop in sales volumes, which was partly offset by higher average selling prices. Volumes fell by 1,032 thousand tonnes year-on-year to 684 thousand tonnes due to lower production and higher internal consumption, which resulted in lower sales in North America.

COST OF SALES

Cost of sales consists primarily of: the cost of raw materials; the cost of energy materials; payroll and related expenses for employees at its production facilities; depreciation and amortisation; impairment of property, plant and equipment; repair and maintenance expenses; outsourcing; taxes; and other costs.

In 2017, cost of sales rose by 40% year-on-year to US$6,756 million, primarily attributable to:

- higher cost of goods and services for resale (US$1,146 million), mainly pig iron, steel products and coal;
- higher purchase prices of raw materials (US$625 million), including coal (US$495 million), coke (US$48 million), scrap (US$68 million) and iron ore (US$14 million);
- greater expenses on raw materials transportation (US$162 million), mainly amid an increase in railway costs in the US and freight costs related to coal supplies, as well as upward tariff indexation by the Ukrainian state railway operator; and
- higher services and other costs (US$109 million) due to higher expenses on subsoil use tax, lease, insurance, blasting and drilling, as well as a net reversal of an inventory write-down in 2016 of US$45 million, which was created at the end of 2015 due to the sale of respective inventories, an increase in steel prices and the recovery of gross margins.

These factors were partly offset by favourable movements in the US$/UAH exchange rate, which accounted for US$86 million.

As a percentage of consolidated revenues, cost of sales decreased by 2 percentage points year-on-year to 76% in 2017.

DISTRIBUTION COSTS

Distribution costs consist largely of transportation costs, salaries paid to sales and distribution employees, and commissions paid by Metinvest's European subsidiaries to third-party sales agents and trade offices for their services and costs of materials.

In 2017, distribution costs increased by 9% year-on-year to US$721 million. Freight costs rose by US$76 million, as metal product sales volumes to Italy, the Middle East, the Red Sea region and the US increased; and higher crude oil prices inflated sea freight tariffs. This was partly offset by lower shipments of iron ore products to Southeast Asia (-1,957 thousand tonnes), which also contributed to lower other transportation costs of US$45 million due to lower expenses on loading, unloading and storage in port. Railway costs increased by US$33 million mainly due to greater iron ore and steel product distribution by rail, as well as a 15% upward tariff indexation by the Ukrainian state operator on 30 April 2016 and a further 15% increase on 1 November 2017. This was partly compensated by lower sales of United Coal's coal to third parties and the loss of control over one of the Group's steelmakers in Eastern Ukraine.

As a share of consolidated revenues, distribution costs fell by 3 percentage points year-on-year to 8% in 2017.

GENERAL AND ADMINISTRATIVE COSTS

General and administrative costs consist largely of: salaries paid to administrative employees; consultancy fees (except fees in relation to debt restructuring); audit, legal (except fees in relation to debt restructuring) and banking services expenses; insurance costs; and leasing expenses.

In 2017, general and administrative costs increased by 5% year-on-year to US$193 million, which resulted mainly from higher expenses on labour costs (US$11 million). In addition, service fees increased by US$7 million year-on-year amid additional spending on logistics, security and legal consulting services.

As a share of consolidated revenues, general and administrative costs declined by 1 percentage point year-on-year to 2% in 2017.

OTHER OPERATING INCOME/EXPENSES

Other operating income and expenses consist primarily of: sponsorship and other charity expenses; foreign-exchange gains or losses; maintenance of social infrastructure; impairment of goodwill and trade and other accounts receivable; and gains or losses on disposals of property, plant and equipment.

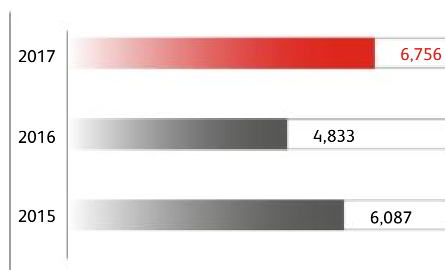
In 2017, other operating income amounted to US$39 million, compared with US$222 million of other operating expenses a year earlier, primarily due to lower impairment of trade and other accounts receivable (US$220 million). In addition, operating foreign exchange gains arising from the revaluation of trade receivables and trade payables increased by US$48 million.

As a share of consolidated revenues, other operating income decreased by 4 percentage points year-on-year to 0% in 2017.

Cost of sales

US$6,756M

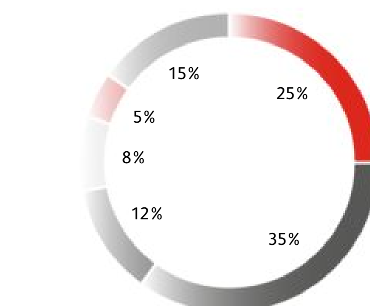
+40%



Cost of sales by nature

US$6,756M

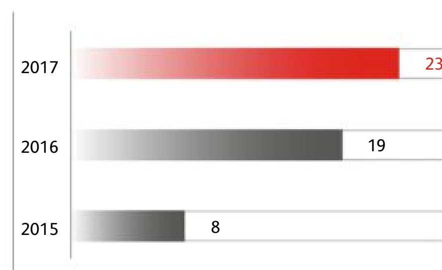
+40%



EBITDA margin

23%

+4PP



OPERATING PROFIT

In 2017, operating profit quadrupled year-on-year to US$1,300 million, primarily amid higher revenues (US$2,708 million) and lower impairment of trade and other accounts receivable (US$220 million). This was partly offset by an increase in cost of sales of US$1,923 million, as well as distribution, general and administrative costs of US$71 million.

The operating margin rose by 10 percentage points year-on-year to 15% in 2017.

EBITDA

EBITDA is calculated as earnings before income tax, finance income and costs, depreciation and amortisation, impairment and devaluation of property, plant and equipment, foreign-exchange gains and losses, the share of results of associates and other expenses that the management considers non-core, plus the share of EBITDA of joint ventures.

In 2017, EBITDA soared by 77% year-on-year to US$2,044 million, primarily driven by an increase in the contribution from the Mining segment of US$832 million. In addition, EBITDA of the Metallurgical segment rose by US$71 million, while corporate overheads and eliminations increased by US$12 million.

The year-on-year increase in consolidated EBITDA was driven by sales price growth, greater sales volumes, higher contributions from JVs, the foreign-exchange effect of hryvnia devaluation, and lower other costs.

These factors were partly offset by:

– higher cost of goods and services for resale due to higher both prices and volumes;
– higher cost of raw materials, primarily due to increased market prices of coal, coke and scrap, higher consumption of purchased coal and higher costs of ferroalloys and purchased semis;
– greater logistics costs, mainly amid an increase in railway costs in the US related to coal supplies, upward tariff indexation by the Ukrainian state railway operator, greater rail shipments, as well as a rise in freight costs; and
– impairment of seized inventories.

In 2017, the consolidated EBITDA margin increased by 4 percentage points year-on-year to 23%. The Mining segment's EBITDA margin grew by 16 percentage points year-on-year to 40%, while the Metallurgical segment's dropped by 3 percentage points year-on-year to 11%.

FINANCE INCOME

Finance income comprises finance foreign-exchange gains, interest income on bank deposits and loans issued, imputed interest on other financial instruments and other finance income.

In 2017, finance income amounted to US$29 million (US$26 million in 2016). As a percentage of consolidated revenues, finance income remained unchanged year-on-year at 0% in the reporting period.

FINANCE COSTS

Finance costs include interest expenses on bank borrowings and debt securities, finance foreign-exchange losses, interest cost on retirement benefit obligations and other finance costs.

In 2017, finance costs dropped by 12% year-on-year to US$350 million, mainly as a result of lower foreign exchange losses from financing activity incurred on intragroup loans and dividends during the reporting period. As a percentage of consolidated revenues, finance costs decreased by 2 percentage points year-on-year to 4% in 2017.

SHARE OF RESULT OF ASSOCIATES AND JOINT VENTURE

In 2017, the share of net income from associates and joint ventures decreased by 7% year-on-year at US$191 million. Improved iron ore prices contributed to better results for Southern GOK (US$40 million), but affected net income for Zaporizhstal (US$48 million). The share of net income from other companies decreased by US$6 million.

INCOME TAX EXPENSE

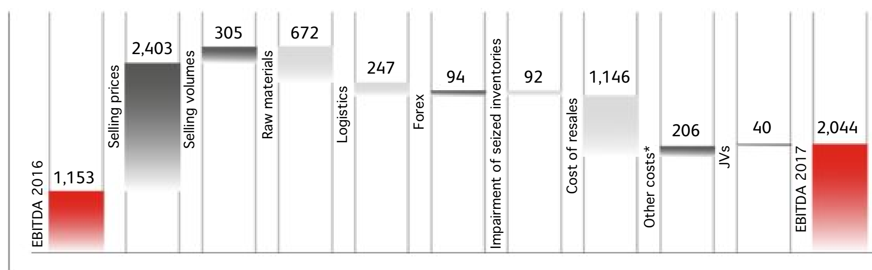
Metinvest is subject to taxation in several jurisdictions, depending on the residence of its subsidiaries. In 2017, corporate income tax rates were as follows: 18% in Ukraine (18% in 2016), 10% in Switzerland (10% in 2016), 10-28% in the EU (10-32% in 2016) and 35% in the US (35% in 2016).

In 2017, the income tax expense increased by US$183 million year-on-year to US$224 million due to the higher current tax expense, which rose by US$158 million year-on-year as a result of improved profitability. In addition, the deferred tax asset fell by US$24 million, as a significant amount of deferred tax assets arising on tax losses carried forward was recognised through an impairment of accounts receivable in 2016. The effective tax rate – calculated as total income tax divided by profit before tax, both adjusted for the effects of the loss of seized certain assets – was 18% in 2017 (26% in 2016).

EBITDA drivers

US$2,044M

+US$891M

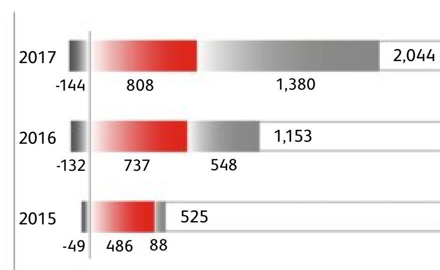


* Other include fixed costs, change in WIP and FG, impairment of trade and other accounts receivable, other expenses and spending on energy.

EBITDA by segment

US$2,044M

+77%



Metallurgical
Mining
HQ & Eliminations

NET PROFIT

In 2017, net profit increased by more than five times year-on-year to US$617 million, primarily due to higher revenues and lower impairment of trade and other accounts receivable. These factors were partly offset by a hike in cost of sales, the loss of control over certain assets in the temporarily non-controlled territory, and higher income tax expense. As a result, the net margin increased by 5 percentage points year-on-year to 7% in 2017.

LIQUIDITY AND CAPITAL RESOURCES

NET CASH FROM OPERATING ACTIVITIES

In 2017, Metinvest's net cash flow from operating activities increased by 22% year-on-year to US$595 million, driven by a rise in profit before income tax. It was affected by the outflow of working capital (US$850 million), income tax paid (US$154 million) and interest paid (US$135 million).

The negative change in working capital in 2017 was mainly attributable to:

- an increase in inventories of US$358 million, which primarily resulted from two factors. The first was greater costs of production since the beginning of the year amid higher market prices of key raw materials. The second was a rise in inventories of coal (up 301 thousand tonnes) to create contingency stock following a fall in self-sufficiency in coking coal, slabs (up 76 thousand tonnes) amid a temporary lack of vessels for intragroup deliveries and third-party sales in the third quarter of 2017, flat products (up 177 thousand tonnes) amid an increase in production in the fourth quarter of 2017 and pig iron (up 50 thousand tonnes) to form a stock to substitute scrap during the winter period. Meanwhile, iron ore inventories decreased year-to-date, as Metinvest managed to reallocate spare volumes following lower internal consumption in the first half of 2017 and lower sales in Ukraine to other markets;
- an increase in net receivable position from joint ventures of US$345 million, calculated as a change in accounts receivable minus a change in accounts payable, primarily amid a substantial growth in volumes and prices of iron ore products and coke sold to Zaporizhstal; and
- an increase in receivables from third parties of US$151 million, which resulted mainly from steel and iron ore selling price growth year-to-date.

Income tax paid amounted to US$154 million in 2017, compared with US$35 million of income tax reimbursed in 2016. This was mainly due to improved profitability of iron ore producers during the reporting period, while a year earlier they were reimbursed for corporate income tax prepaid during 2015.

Interest paid amounted to US$135 million, as Metinvest paid contingent interest via a cash sweep, in addition to obligatory interest on bonds and the PXF facility during 2017, amid improved liquidity.

NET CASH USED IN INVESTING ACTIVITIES

In 2017, net cash used in investing activities increased by 36% year-on-year to US$449 million. Total cash used to purchase property, plant and equipment and intangible assets amounted to US$465 million, up 30% year-on-year. No proceeds were received from the sale of subsidiaries and associates, compared with US$6 million received in January 2016, when Metinvest sold its investment in Black Iron. Proceeds received from the sale of property, plant and equipment and intangible assets amounted to US$1 million (US$3 million in 2016). Interest received totalled US$15 million (US$18 million in 2016).

NET CASH USED IN FINANCING ACTIVITIES

In 2017, net cash used in financing activities totalled US$110 million, up 5% year-on-year. Following the completion of global debt restructuring negotiations, US$85 million was used to repay seller notes and US$90 million to repay loans and borrowings, while expenditures incurred in relation to the restructuring amounted to US$57 million (US$27 million in 2016). At the same time, this was partly offset by: (i) US$117 million of net trade finance proceeds received in 2017, compared with net repayments of US$67 million a year earlier; and (ii) US$6 million of proceeds received from loans and borrowings during the year, as Metinvest Shipping secured a bank term loan from a Ukrainian bank to partly finance rail wagon purchases, compared with no such proceeds received in 2016.

At the end of December 2017, gross debt, calculated as the sum of bank loans, bonds, trade finance, finance lease, seller notes and subordinated shareholder loans, stood at US$3,017 million, up 2% year-to-date, primarily amid higher trade finance utilisation, finance lease and interest accrued but not paid under the subordinated shareholder loans. Meanwhile, Metinvest's cash balance stood at US$259 million, up 15% year-to-date. As a result, net debt, calculated as gross debt less cash and cash equivalents less subordinated shareholder loans, decreased by 1% year-to-date to US$2,298 million. At the same time, the ratio of net debt to EBITDA dropped to 1.1x as of the end of the year from 2.0x a year earlier, reflecting a strong performance and financial discipline in 2017.

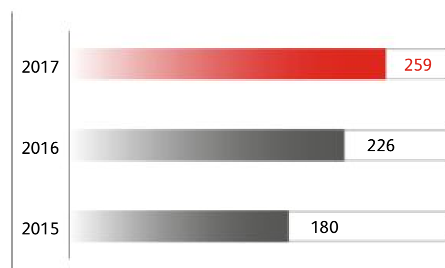
CAPITAL EXPENDITURE

In 2017, capital expenditure totalled US$542 million, up 45% year-on-year. The expenditure on maintenance projects amounted to 83% of total investments (75% in 2016) and that on expansion projects to 17% (25% in 2016). The Metallurgical segment accounted for 51% of capital expenditure (52% in 2016) and Mining for 48% (46% in 2016). Capital expenditure on corporate overheads amounted to US$9 million in 2017 (US$4 million in 2016).

Year-end cash balance

US$259M

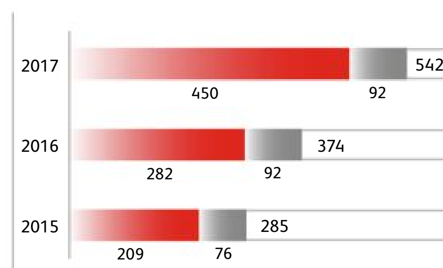
+15%



CAPEX by purpose

US$542M

+45%



Maintenance
Expansion

DEBT REFINANCING

LARGEST EVER REFINANCING BY UKRAINIAN CORPORATE

METINVEST HAS COMPLETED THE REFINANCING OF ITS US$2,271 MILLION OF DEBT, CONSISTING OF BONDS AND A PRE-EXPORT FINANCE FACILITY. WITH THIS LANDMARK TRANSACTION COMPLETED, THE GROUP CAN FOCUS ON GROWING ITS BUSINESS THROUGH THE IMPLEMENTATION OF THE TECHNOLOGICAL STRATEGY TO 2030, WHICH WILL MAKE IT EVEN MORE RESILIENT AND COMPETITIVE.

HISTORIC REFINANCING

In April 2018, Metinvest issued US$1,592 million in new bonds and secured US$765 million in a pre-export finance (PXF) facility. New proceeds from the transaction amounted to US$205 million. Notably, the bond issue is Metinvest Group's largest to date, with its lowest ever coupon and longest maturity. It is also the most sizeable issuance by a Ukrainian corporate. The deal received strong support from the global investor community and top European financial institutions.

The transaction was market-driven and had the aim of effectively managing and extending Metinvest Group's debt maturity profile. It also sought to take advantage of favourable conditions to refinance bonds to decrease total funding costs and provide for a longer-term capital structure. The refinancing also unties the bonds and PXF, lowering refinancing risks. Further, the contractual terms of the bond financing have been aligned with standard market terms for comparably rated issuers.

TRANSACTION DETAILS

On 19 March 2018, Metinvest announced its intention to issue new notes and launched a tender offer to buy out the existing 2021 bonds with concurrent solicitation to align the existing issue with the new notes. Around 90% of bondholders ultimately participated in the tender and 97% of bondholders approved the supporting extraordinary resolution.

On 4 April 2018, Metinvest successfully priced a US$1,350 million offering across two tranches: a US$825 million 5-year tranche at 7.75% per annum due in April 2023; and a US$525 million 8-year tranche at 8.50% per annum due in April 2026. The majority of bond investors come from the UK, the US and continental Europe.

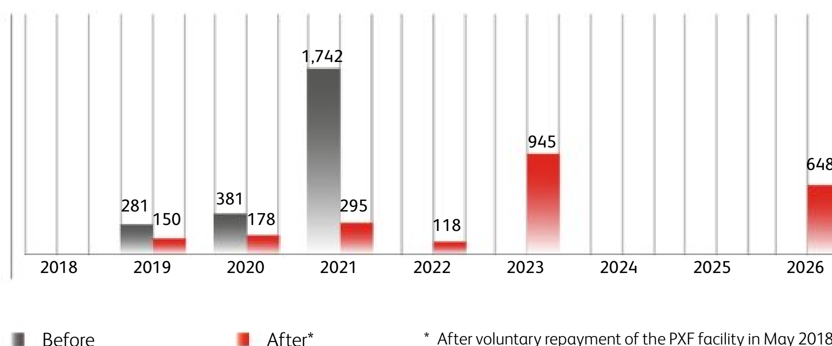
As certain PXF holders agreed to shift their exposure from the PXF facility to new bonds, the final new issuance amounted to US$1,592.2 million: a US$944.5 million 5-year tranche and a US$647.7 million 8-year tranche. Following the tender for the 2021 bonds, US$117 million remains outstanding.

The PXF facility was amended and restated to, inter alia, extend its maturity to October 2022. After a required repayment of the PXF facility and a shift of certain lenders to the new bond issue, the total amount of the PXF facility amounted to US$765 million.

Following the successful completion of the debt refinancing in April 2018, the Group demonstrated its commitment to deleveraging. Metinvest repaid ahead of schedule the amount due under the PXF facility in the first year after the transaction. Following this repayment, the total outstanding under the PXF facility is US$624 million.

As a result of the refinancing and abovementioned voluntary PXF repayment, the split between bonds and PXF shifted towards public debt: bonds now account for 73%, compared with 52% previously.

Bond and PXF maturity profile (US$M)



Before After*

* After voluntary repayment of the PXF facility in May 2018.

GOVERNANCE REPORT

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PRODUCT FOCUS

RAILWAY PRODUCTS

71 KT

Railway products include light and heavy rails and fasteners and are produced at Azovstal (Ukraine). The key customer in Ukraine is the national railway operator, Ukrzaliznytsia. In 2017, sales totalled 71 thousand tonnes.

LOOKING FORWARD

LAST YEAR, METINVEST DEMONSTRATED ITS ABILITY TO CAPITALISE ON A FAVOURABLE EXTERNAL MARKET ENVIRONMENT AND DELIVER STRONG FINANCIAL AND OPERATIONAL RESULTS, WHILE AT THE SAME TIME INVESTING IN THE SUSTAINABLE, LONG-TERM FUTURE OF ALL OF THE GROUP'S STAKEHOLDERS.

READY FOR THE FUTURE

In my previous role as Chief Executive and current position as Chairman, I have had the privilege of watching the Metinvest Group grow up during its first decade, from being a local steel and mining company to becoming a truly international, vertically integrated business with a global sales network and operating in accordance with best practices. Our marketplace has also changed tremendously during this time.

The global steel and raw materials markets have evolved markedly. Recent years presented us with periods of low and volatile global prices for iron ore and steel, as well as economic and geopolitical instability in Ukraine, affecting the security of some of our facilities and logistics networks. While last year saw price growth in steel and iron ore, we know that we live in a cyclical market with inevitable downside trends.

Therefore, in 2017, aware of the evolving market environment, which offers its own set of opportunities and challenges, the Supervisory Board approved the Group's updated long-term Strategic Priorities and Technological Strategy 2030, developed on the basis of the Group's established Corporate Strategy. These plans are designed to ensure Metinvest is ready to maximise profitability in a global marketplace characterised by global steel and iron ore oversupply. It also takes into account regulatory risks such as global protectionism and disruption of our supply chain. Following the loss of control over certain assets in Eastern Ukraine, the Group has changed its operating model to overcome capacity constraints.

Judging by last year's results, we have made good on the first steps of our journey to 2030 and beyond. Importantly, Metinvest delivered strong sales growth amid a background of increasing prices for our products and maintained production volumes. Even more critically, we also saw important gains on our strategic goals as we continue on this journey.

Capital expenditure jumped nearly half to US$542 million in 2017 as we stepped-up investments in technology and the environment, some of which had been frozen or delayed amid funding constraints in previous years. These technology investments are intended to improve the efficiency of production, expand our capacity to make high value-added products and reduce our environmental footprint. In short, we have resumed investing in our future at full capacity, with a thoroughly developed strategic plan, working toward a clear vision of Metinvest as a leading European steelmaker.

The refinancing of our debt, completed in early 2018, has made it possible once again to commit to long-term investment plans after the challenges of the 2014 to 2016 period. It has meant the return of Metinvest to global financial

markets, where we enjoy strong support from a truly global investor base. Our return to the markets made an impact, as our new bond issue was the largest ever by a Ukrainian corporate.

NEW CHALLENGES, NEW OPPORTUNITIES

Of course, the pathway ahead requires us to overcome obstacles, too. A strong set of operational and financial results came despite real external challenges last year. In March 2017, we lost control over certain steel production and mining assets in the temporarily non-government-controlled territories of Eastern Ukraine. This deprived us of nearly 20% of our steel production output, as well as the loss of own coal supplies in Ukraine.

It is my belief that how we respond to adversity as an individual or an organisation reflects our true inner strength and endurance. During the period 2014 to 2016, our directors, management team and employees demonstrated resilience to external difficulties, for which no business school could have prepared us. For us, the loss of our facilities required a robust response, and our experience, planning and training made us ready to react quickly.

First, with the belief that the welfare of our employees and their families is tantamount, we made sure that our affected employees, around 20% of our total workforce, knew that they had jobs waiting at other Group facilities if they chose to move. Second, we made rapid changes to our operating model, including sourcing of raw materials and semis, to reduce the loss in crude steel and finished product volumes to single digits in 2017. Third, we committed to investments to increase steel production capacity at our Mariupol steelmakers, Azovstal and Ilyich Steel, while ensuring we have capacity to make the right products for our target markets. Finally, we worked with Ukraine's state railway company to put logistics in place to maximise deliveries of raw materials to our Mariupol steelmakers and to ship finished goods, ensuring guaranteed sales to customers.

It is also important to note that, since the events of March 2017, all of Metinvest's other assets have been operating without disruption. The Group no longer has any current operations in the non-government-controlled territory.

I am pleased to observe that, despite continued geopolitical issues, our home market of Ukraine enjoyed a second-straight year of economic growth in 2017, with most local and multilateral forecasters projecting continued GDP growth in 2018. This has meant a boom in steel-consuming industries as well as the growth of domestic infrastructure programmes, such as investment in railways, driving demand for rails.

At the same time, growth also presents fresh challenges, in particular to a key element of our business model as a relatively low-cost producer, as salaries of manufacturing labour have risen by around 20% nationally, while the supply of skilled workers has tightened as more Ukrainians seek work opportunities abroad.

As a response to this challenge, Metinvest's HR function has strengthened its campaign to position the Group as an employer of choice in its communities. While ensuring our salaries keep pace with other large employers in the cities where we operate, the Group has always sought to retain talent by providing additional, non-salary benefits. In particular, we offer the opportunity for employees at every level to realise their full potential within Metinvest through training and continuing education opportunities. More than 36,000 employees underwent further education or training last year.

For our most promising young leaders, candidates for the most senior posts in the future, we are investing in mentoring by our senior directors and managers as well as world-class training at our Corporate University. At the top level, we are investing in tomorrow's senior executives to provide them with the benefit of our experience to ensure effective succession planning and the Group's prudent leadership to 2030 and beyond.

A vital part of investing in our people is delivering continuous improvement in health and safety at all of our facilities. It is a central element of our Technological Strategy, as technology projects are designed with safety improvement as the core criterion. Equally, we have fostered a corporate culture of placing safety first, where every employee looks after their own and each other's safety as an absolute priority. Last year, we spent around US$80 million on health and safety technology and training as part of our five-year plan in this area.

INVESTING IN OUR NEIGHBOURHOODS

Another element of investing in people and securing our future is our commitment to the communities where Metinvest has facilities, which we also believe is important to attracting and retaining human talent.

Part of this investment comes through our Technological Strategy, which envisages reducing the Group's environmental footprint via both cleaner production technology, as well as direct investment in environmental initiatives. In April 2018, after the reporting period, we completed the first stage of the sinter plant reconstruction at Ilyich Steel in Mariupol. We have long prioritised this project and plan to complete it on schedule in 2020.

Metinvest continues to work with local communities to improve the quality of life in cities where it operates. The Group helps refurbish healthcare institutions, schools, universities, sports facilities and cultural institutions. Last year, Metinvest invested around US$8 million in nearly 400 projects in Donetsk, Dnipropetrovsk and Kirovohrad regions. Some 23 healthcare and 206 educational institutions received assistance in the cities of Mariupol, Kryvyi Rih and Adviivka, while residents were able to enjoy 56 new sporting facilities.

Additional support comes through targeted, direct investments in urban infrastructure in Mariupol and Kryvyi Rih, as well as continued aid to mitigate damage to urban infrastructure caused by the conflict in Avdiivka. In addition, the Group has worked with the city authorities of Novhorodske to increase energy efficiency with the installation of individual heating units.

In Mariupol, we have continued to cooperate with the Mariupol Development Fund as a common project with other partners, including the US Agency for International Development (USAID) and the United Nations Children Fund (UNICEF), to deliver bigger and more complex projects for the city.

BRIGHT PRESENT

I believe last year was a breakthrough one in many ways for the Group. Metinvest demonstrated its long-term commitment to all of its stakeholders by setting out an ambitious but realistic strategic agenda and establishing a timetable for investments to carry us into 2020, 2030 and beyond. The Group also showed its resilience, overcoming the loss of control over some of its assets to deliver a strong operational and financial performance despite these headwinds.

As I have described above, Metinvest is today readying for the future. Through our actions, I think we have shown our commitment to reducing our environmental footprint, fostering human talent and building better products for our customers. We seek to deliver on our responsibilities as a leading taxpayer and one of Ukraine's largest employers. Our vision is one of a leading European company fostering prosperity in Ukraine and every other country where we do business.

On behalf of the Supervisory Board, I would like to thank everyone who was a part of the Metinvest story in 2017. I also thank our investors, customers, shareholders, employees, partners and other stakeholders for their continued belief and support.

Igor Syry
Chairman of the Supervisory Board

COMMITTED TO RESPONSIBLE GOVERNANCE

METINVEST IS A GLOBAL BUSINESS COMMITTED TO PRACTISING RESPONSIBLE CORPORATE STEWARDSHIP AND ADHERING TO INTERNATIONAL BEST PRACTICE IN THE AREA. THE GROUP'S EFFICIENT GOVERNANCE STRUCTURE AND FIRST-CLASS MANAGEMENT TEAM ENSURE THAT IT REMAINS TRANSPARENT AND ACCOUNTABLE BEFORE SHAREHOLDERS, CREDITORS AND OTHER STAKEHOLDERS.

SYSTEM

The Group's overriding priority in developing its corporate governance system is to be among the most transparent international companies and serve the interests of all stakeholders as thoroughly as possible. Metinvest strives to strengthen its investment case by building on its track record of proactive engagement with the investor community, information disclosure and sound financial oversight.

As of 31 December 2017, Metinvest B.V. is owned 71.24% by SCM and 23.76% by SMART. The remaining 5% interest in the form of Class C shares has been acquired from the previous owners of Ilyich Group for the benefit of SCM and SMART. It is the intention of SCM and SMART to dispose of the said 5% interest in due course (after the receipt of respective governmental approvals, if such will be necessary), and in such a manner that the ultimate interest of SCM in Metinvest B.V. shall be 75% minus 1 share, and the ultimate interest of SMART in Metinvest B.V. shall be 25% plus 1 share, thus SCM remaining as the controlling shareholder.

PRINCIPLES

Metinvest's vertically integrated structure lends itself to clear lines of governance. The Group is managed according to a defined set of core principles that are closely linked to its strategic approach. They are:

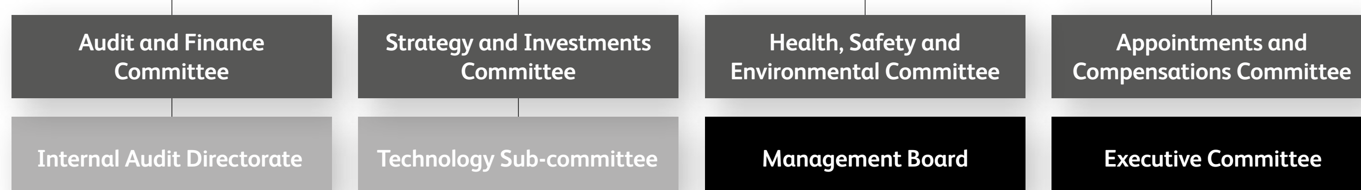
Specialisation. The Group focuses on the strategic management of the mining and steel businesses and strives to do so better than peers. This increases efficiency and enhances shareholder value and investment attractiveness.

Vertical integration. Metinvest controls all elements of the metals and mining production cycle, from extracting coal and iron ore to selling steel products worldwide. This reduces its exposure to market volatility and thus provides greater stability.

Unified strategic management. The Group carries out unified and consistent strategic planning and management across all enterprises. This helps to maximise synergies among its businesses and enhances shareholder value.

Centralisation. Metinvest continues to streamline its centralised organisational structure and reduce layers of management. This helps to optimise management costs, unifies business processes and technology and enhances overall efficiency.

Growth and investments. The Group believes that making ongoing, targeted investments in its business enables it to prosper in international markets.



Global best practices. Metinvest studies international best business practices, carefully selecting the most effective management, production and IT approaches for its operations. This helps to maximise returns on investment and compete in the global marketplace.

Tradition and innovation. The Group maintains the best traditions in steelmaking and mining, enriching them with modern knowledge and technologies. This ensures that its customers receive high-quality products.

Commitment to leadership. Metinvest aims for excellence and fosters leadership among its people. This stimulates long-term growth and maintains a pool of talented leaders.

Personal commitment. The Group promotes a corporate culture based on personal commitment to work. This means that employees take responsibility for their actions and care for others.

CORPORATE GOVERNANCE STRUCTURE

Metinvest B.V. has an effective corporate governance structure that comprises the General Meeting of Shareholders, Supervisory Board and Management Board. On the Group level, the Executive Committee monitors operations.

GENERAL MEETING OF SHAREHOLDERS

Under Dutch law and the Articles of Association of Metinvest B.V., the General Meeting of Shareholders is authorised to resolve, among others, the following matters in relation to Metinvest B.V.: to issue shares, to exclude or limit pre-emptive rights, to acquire shares and to transfer shares in the capital of the Company held by the Company, to reduce the share capital, to determine the remuneration of the Management Board, to adopt the annual accounts, to allocate profits, to amend the Articles of Association, to dissolve, merge and demerge the Company.

SUPERVISORY BOARD

The Supervisory Board consists of 10 members, seven representing SCM (Class A members) and three representing SMART (Class B members). Its duty is to supervise the activity of the Management Board and the general course of affairs in Metinvest B.V. and the Group and the business connected therewith. The Supervisory Board assists the Management Board by giving advice.

Decisions relating to the following matters, among others, must be approved or ratified by a resolution of the Supervisory Board: the Group's strategic goals; the Group's investment programme for each calendar year; the Group's annual business plan; appointments at the level of top management, approval of their compensation system and key performance indicators (KPIs), and decisions on annual bonuses; recommendations to the shareholders relating to the appointment or re-appointment of external auditors, approval of the Group's annual reports and financial statements, and all mergers and acquisitions to be undertaken by the Group; approval of investment projects with budgets over US$20 million (up to US$500 million), material transactions of over US$100 million (up to US$500 million), external financing of over US$30 million, if included in the annual financing programme approved by the Supervisory Board, and any financing transaction regardless of the amount if they are not included; and approval of the annual plan for the Supervisory Board and committees.

BOARD COMMITTEES

Four committees assist the Supervisory Board in its work.

STRATEGY AND INVESTMENTS COMMITTEE

The Committee's main responsibility is to conduct reviews and provide recommendations to the Supervisory Board regarding the Group's strategic objectives, including existing and new businesses, investments, mergers and acquisitions. It consists of eight members and is assisted by the Technology Sub-committee, which advises and assists the executive management in developing and implementing its technology strategy.

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

The Committee's remit is to support the management team in implementing and maintaining the highest standards of health, labour and environmental safety culture throughout the Group. It consists of four members.

AUDIT AND FINANCE COMMITTEE

The Committee is tasked to ensure the ongoing supervision of all aspects of the Group's financial and audit activities in the interests of the shareholders and on behalf of the Supervisory Board. Its main responsibilities include overseeing the budget, financial reporting, risk management, internal controls, the internal audit function and assessment of the external auditor. It consists of four members and is assisted by the Internal Audit Directorate.

APPOINTMENTS AND COMPENSATIONS COMMITTEE

The Committee is responsible for: making recommendations to the Supervisory Board on dismissals and new appointments for senior positions within the Group; and making recommendations to the Supervisory Board on KPIs and annual bonuses for senior management, as well as on the Group's motivation, assessment and reward systems. It consists of four members.

MANAGEMENT BOARD

The Management Board consists of two Directors: Director A and the Chief Executive Officer (CEO), who is appointed by SCM, and Director B, who is appointed by SMART. Under Dutch law, the Management Board is responsible for the management of Metinvest B.V. Under the Articles of Association of Metinvest B.V., Metinvest B.V. may only be represented by the entire Management Board.

Director A and the CEO is Yuriy Ryzhenkov, while Director B is ITPS, which is registered in the Netherlands.

SUPERVISORY BOARD

METINVEST'S SUPERVISORY BOARD BRINGS TOGETHER A WEALTH OF INDUSTRY, BUSINESS AND MANAGEMENT EXPERTISE AND APPLIES THE MOST RIGOROUS STANDARDS OF INTERNATIONAL BEST PRACTICE IN ITS OVERSIGHT OF THE GROUP'S ACTIVITIES.

Igor Syry

Chairman and Class A Member of the Supervisory Board

Igor Syry was appointed as a Class A Member of the Supervisory Board on 14 July 2014 and is responsible for its general supervision. He is also Chairman of the Appointments and Compensations Committee. From 2013 to 2016, he was Chief Operating Officer of System Capital Management. From 2006 to 2013, he was CEO of Metinvest Holding. Before that, he was a Senior Manager at System Capital Management from 2002 to 2006 and a senior consultant at PricewaterhouseCoopers from 1999 to 2002.

Igor Syry graduated from the Economics faculty at Kharkiv State Agrarian University in 1995 and obtained an MBA at Cornell University (US) in 1999. He is a member of the Association of Chartered Certified Accountants (ACCA) and a Certified Financial Analyst (CFA).

Alexey Pertin

Deputy Chairman and Class B Member of the Supervisory Board

Alexey Pertin was appointed as a Class B Member of the Supervisory Board on 14 July 2014. He is responsible for the following areas: strategic development, production efficiency, sales and investment projects. He is also Chairman of the Strategy and Investments Committee. Since October 2015, he has been Chief Operating Officer of Smart Holding. Before that, he was the Chairman of the Supervisory Board of Smart Holding from 2014 to 2015 and served as its CEO from 2008 to 2014. His career started in 1995 at Cherepovets Iron and Steel Works. He later continued working at Severstal Group in different positions, including General Director of Izhora Pipe Plant and Deputy General Director of the Group.

Alexey Pertin graduated from Cherepovets State University in 1994 and from St Petersburg State Technical University with a qualification in financial management in 2001. He has an MBA from Northumbria University (UK) and is a member of the Association of Chartered Certified Accountants (ACCA).

Yaroslav Simonov

Class A Member of the Supervisory Board

Yaroslav Simonov was appointed as a Class A Member of the Supervisory Board on 14 July 2014. He oversees legal matters, compliance and corporate governance. He previously worked at The Silecky Firm (affiliated with Squire Sanders and Dempsey) and Renaissance Capital Ukraine. From 2008 to 2017, he was Deputy Director of Voropaev and Partners Law Firm. In August 2017, he was appointed Director, Legal Affairs at System Capital Management (SCM).

Yaroslav Simonov graduated from the Law department of Kyiv National Taras Shevchenko University (Ukraine) and holds an LLM in International Business Law from the Central European University in Budapest (Hungary).

Oleg Popov

Class A Member of the Supervisory Board

Oleg Popov was appointed as a Class A Member of the Supervisory Board on 14 July 2014. He has been the CEO of System Capital Management since 2006 and Chairman of the Supervisory Board of DTEK since 2009. He served as Chief Operating Officer of System Capital Management from 2001 to 2006. Before that, he worked at various state establishments and enterprises for eight years.

Oleg Popov graduated from Donetsk Polytechnic Institute in 1990 and from Donetsk State University (Ukraine) in 1996.

Damir Akhmetov

Class A Member of the Supervisory Board

Damir Akhmetov was appointed as a Class A Member of the Supervisory Board on 14 July 2014. He oversees the following areas: strategy, corporate development, governance and production efficiency. He is also Chairman at SCM Advisors (UK) Limited and has been a member of the supervisory boards of several companies in DTEK Group since 2011.

Damir Akhmetov graduated from Cass Business School (City, University of London, UK) with an MSc in Finance.

Amir Aisautov

Class A Member of the Supervisory Board

Amir Aisautov was appointed as a Class A Member of the Supervisory Board on 14 July 2014. He was Director of the Metals and Mining Business at System Capital Management from 2009 to 2015. He has extensive experience in the finance, telecommunications and industrial sectors in Eastern Europe and the Middle East. He started his career in 2003 at the Moscow office of McKinsey and Company, working on assignments in Eastern Europe and the Middle East. Five years later, he joined Clever Management in Kyiv as Director of Strategy and Investments.

Amir Aisautov graduated with a BS degree from the Kazakh National Technical University in 2001 and received an MBA from Georgetown University (US) in 2003.

Christiaan Norval

Class A Member of the Supervisory Board

Christiaan Norval was appointed as a Class A Member of the Supervisory Board on 14 July 2014. He oversees issues connected with his industrial expertise and the implementation of best practices in management and production. He is also Chairman of the Audit and Finance Committee. He spent a significant part of his career building what is today known as BHP Billiton as head of corporate finance. He oversaw most of the transactions to create BHP Billiton, including the IPO of Billiton Plc in 1997. He also served as CEO and President of Sual International Group, a Russian producer of aluminium and alumina.

Christiaan Norval holds a BCom (Hons) from the Rand Afrikaans University, Johannesburg (South Africa), and is a Chartered Accountant. He is a member of the South African Institute of Chartered Accountants.

Stewart Pettifor

Class A Member of the Supervisory Board

Stewart Pettifor was appointed as a Class A Member of the Supervisory Board on 14 July 2014. He is also Chairman of the Health, Safety and Environmental Committee and Co-chairman of the Technology Sub-committee. He began his career in the UK steel industry in 1963 and progressed through a variety of operational management positions. In 1997, he was appointed as CEO and President of Avesta Sheffield. In 2000, following its merger with Outokumpu, he became Deputy CEO of Avesta Polarit. In 2001, he returned to the UK to run the flat products business of Corus and also joined the board. He became the Chief Operating Officer in 2003 until his retirement in 2005.

Stewart Pettifor has a first-class BSc honours degree in Metallurgy from Nottingham University (UK). He is a Fellow of the Institute of Mining, Metallurgy and Minerals and a Companion of the Institute of Management.

Gregory Mason

Class B Member of the Supervisory Board

Gregory Mason was appointed as a Class B Member of the Supervisory Board on 14 July 2014. He is responsible for technological innovation and the implementation of continuous improvement practices. He is also Co-chairman of the Technology Sub-committee. He was a member of the Supervisory Board of Smart Holding from 2014 to 2015. He previously served as a Board member at Severstal and CEO of Severstal International, managing North American and European operations. Prior to Severstal, he held various positions in steel companies and consulting firms, from engineering and operations management to senior executive roles.

Gregory Mason is a registered professional engineer in the US. He received his master's degree in Electrical Engineering from the Naval University of St Petersburg (Russia) in 1975.

Mikhail Novinskii

Class B Member of the Supervisory Board

Mikhail Novinskii was appointed as a Class B Member of the Supervisory Board on 29 September 2017. He has been Adviser to the CEO of Smart Holding since October 2015. He joined the organisation as Head of Production Projects and Programmes in the Business Control and Information Department at Smart Holding in 2013. He then progressed to other positions, including Head of Project Management and Member of the Supervisory Board.

Mikhail Novinskii graduated from St Petersburg State University (Russia) with a degree in Business Management in 2008. He also holds an MSc in Finance and Management from the University of St Andrews (UK).

EXECUTIVE COMMITTEE

METINVEST'S EXECUTIVE COMMITTEE CONSISTS OF INDUSTRY-LEADING PROFESSIONALS WITH A COMPREHENSIVE RANGE OF MANAGERIAL SKILLS AND EXPERIENCE, WHO POSSESS THE REQUISITE EXPERIENCE TO STEER THE GROUP'S DAY-TO-DAY ACTIVITIES PRUDENTLY.

Yuriy Ryzhenkov

Chairman of the Executive Committee, Director A of the Management Board, Chief Executive Officer

Yuriy Ryzhenkov was appointed Chief Executive Officer in December 2013. Before that, he held senior positions at DTEK (also part of SCM): namely, Chief Operating Officer and Director from 2010 and Chief Financial Officer from 2007. Prior to DTEK, he worked as Chief Financial Officer of International Steel and Tube Industries Limited (ISTIL, Donetsk and London), in the finance business units of Mini Steel Mill ISTIL (Ukraine) and at Donetsk Iron and Steel Works.

Yuriy has a degree in Economics from Donetsk State Technical University and in Business Management from King's College (UK). He also holds an MBA from London Business School (UK).

Alexander Pogozhev

Chief Operations Officer

Alexander Pogozhev has been Chief Operations Officer since September 2016, when a new, single directorate was established to streamline the Group's production activities. Prior to that, he had been Director of the Metallurgical division since October 2011 and interim Director of the Mining division since March 2016. Previously, he was the Director of the Steel and Rolled Products division from October 2010. He has extensive professional experience at large enterprises in the metals industry. He served as Chief Operations Director of Severstal International (US) from 2008 to 2010 and worked at Severstal from 1991 to 2008, where he held several executive positions, including Chief Operating Officer.

Alexander holds a degree in Financial Management from the Moscow State Academy of Management (Russia) and an MBA from the Business School of Northumbria University (UK).

Dmitry Nikolayenko

Sales Director

Dmitry Nikolayenko became Sales Director in October 2011, having previously headed the same function in the Steel and Rolled Products division since 2010. Before that, he was: a Director at Metinvest-SMC, a sales unit, from 2007 to 2010; SM Leman, its predecessor, from 2003 to 2007; and Energostal from 1996 to 2003.

Dmitry holds a degree in Economics from the Kyiv-Mohyla Academy and obtained an MBA from the International Management Institute (Kyiv, Ukraine) in 2002.

Andriy Yemchenko

Chief Technology Officer

Andriy Yemchenko has been Chief Technology Officer since March 2018. Before joining the Group, he worked at Donetsksteel, including as Deputy CEO for Strategic Development from 2007 to 2018 and as Director for Corporate Planning from 2004 to 2007. He worked at Consortium Energo in the role of Deputy CEO from 1993 to 2004.

Andriy holds both a diploma and PhD in metal treatment under pressure from Donetsk Polytechnic University (Ukraine).

Olga Ovchinnikova

Economics and Business System Director

Olga Ovchinnikova has been Economics and Business System Director since April 2018. Prior to that, she served as Logistics Director of Metinvest from February 2013 and as Logistics Director of Metinvest's Supply Chain Management Directorate from 2012 to 2013. Before joining the Group, from 2006 to 2012, she headed the logistics department of Severstal Resource, the raw materials division of the Russian steelmaker. From 2002 to 2006, she headed the operations department at Alyanstransoil, part of Alliance Oil.

Olga has master's degrees in Economics and Transportation Management from Moscow State University of Railway Engineering and in Logistics (Russia) and Supply Chain Management from the Higher School of Economics in Moscow (Russia).

Alexey Gromakov

Procurement and Logistics Director

Alexey Gromakov has been Procurement and Logistics Director since April 2018. Prior to that, he served as Director for Corporate Strategy and Regional Development at Beeline from 2015 to 2018. From 2009 to 2015, he held the position of Director of Purchasing and Logistics at Aeroflot.

Alexey is a graduate of the State University of Management (Russia) and holds a degree in Project Management from George Washington University (US). He also has an MBA from Kingston University (UK) and a diploma in Strategy and Innovation from Oxford University's Saïd Business School (UK).

Yuliya Dankova

Chief Financial Officer

Yuliya Dankova became Chief Financial Officer in July 2016, having been the interim Chief Financial Officer since March of the year. Before that, she was the Director of the Controlling department in the Finance directorate from 2015, and the Financial Control Director of the Mining division from 2010. From 2006 to 2010, Yuliya headed the Finance department at the Group's iron ore mining and enrichment assets in Kryvyi Rih. From 2001 to 2003, she worked in the Bank Card department in the Kyiv branch of UkrSibbank; and from 2000 to 2001, she was an Economist in the Sales and External Economic Relations department at Southern GOK.

Yuliya holds an MBA from the LINK International Institute of Management (Russia) and a diploma with honours in Foreign Trade Management from Kryvyi Rih Technical University (Ukraine).

Svetlana Romanova

Chief Legal Officer

Svetlana Romanova joined Metinvest in 2012. Before that, she was a Partner in the Kyiv office of Baker and McKenzie CIS Limited, the global law firm's regional business, from 2008 to 2012, having previously served as a lawyer there from 2000. Svetlana also covered CIS issues at Cargill in the US from 1998 to 2000. From 1997 to 1998, she was a research assistant to a professor at the University of Iowa College of Law.

Svetlana has a master's degree in International Law and Translation (English) from the Kyiv Taras Shevchenko National University (Ukraine), as well as an LLM in International and Comparative Law from the University of Iowa's College of Law (US). She has also completed coursework in International Management at the University of St Thomas Graduate School of Business (St Paul, Minnesota, US).

Aleksey Komlyk

PR and Regional Development Director

Aleksey Komlyk has been PR and Regional Development Director of Metinvest since November 2013. Before that, from 2011 to 2013, he served as Managing PR Director at AFK Sistema (Russia). From 2008 to 2011, he was Managing Partner at Mosso Communication Agency (Austria). He previously worked at Uralkali (Russia), serving as Vice President of PR from 2006 to 2008 and as Head of the Media Relations Office from 2003 to 2006.

Aleksey graduated from Irkutsk State Pedagogical University (Russia) in 1998 with a degree in English and German. He is a member of the Russian PR Association.

Sergiy Detyuk

Chief Information Officer

Sergiy Detyuk was appointed as Chief Information Officer in March 2016. Before that, he worked at DTEK as Chief Information Officer from 2009 to 2016 and Deputy Finance Director for IT from 2007 to 2009. Prior to DTEK, he headed the Information Technology department at Dniprospetsstal from 2006 to 2007 and at ISTIL from 2004 to 2006. From 2000 to 2004, he was Deputy Manager of a project to create a corporate information system at Ukrpidshypnyk.

Sergiy has completed a corporate MBA programme at the London School of Business (UK, Ukraine) and has an MBA from Kyiv-Mohyla Business School (Ukraine). He also holds a master's in Computer Programming and a diploma in Financial Economics, both from Donetsk State Technical University (Ukraine).

SUSTAINABILITY REPORT

IN THIS SECTION:

50	Human Resources
52	Health and Safety
54	Environment and Communities

PRODUCT FOCUS

IRON ORE CONCENTRATE

26%

Iron ore concentrate is a product containing the valuable minerals of an ore from which most of the waste material has been removed. The higher the iron (Fe) content of the concentrate, the better the quality of steel products. Last year, Metinvest increased the share of 68% Fe concentrate to 26% of total sales.

OUR PEOPLE ARE OUR KEY ASSETS

METINVEST HAD A BUSY HR AGENDA IN 2017, FIRST DRIVEN BY THE NEED TO RETAIN EMPLOYEES AFFECTED BY THE LOSS OF SOME ASSETS IN EASTERN UKRAINE BY PROVIDING JOB OPPORTUNITIES AT OTHER GROUP ASSETS, AS WELL AS MANAGE CHALLENGING LABOUR MARKET CONDITIONS. ONE OF THE CHALLENGES FOR THE GROUP TO ACHIEVE ITS LONG-TERM STRATEGIC PRIORITIES IS TO HAVE THE RIGHT PEOPLE IN PLACE.

Metinvest remains one of Ukraine's largest employers with more than 66,000 people at the end of 2017. The HR function has the critical role of recruiting and retaining the right people at every organisational level. Following the approval of the Group's updated Strategic Priorities and Technological Strategy to 2030, HR's task is to ensure Metinvest has people with the appropriate technological, digital, sales and other priority skills to oversee major modernisation projects, deliver low production costs, achieve organic growth, enhance the product portfolio and service its global customer base.

LABOUR MARKET TRENDS

In 2017, Metinvest faced a relatively high employee outflow rate, a challenge that continues to affect almost all large employers in Ukraine. One reason was the increased number of working-age Ukrainians going abroad, likely because visa requirements were removed for Ukrainians working in European Union countries.

Metinvest acted to remain a competitive employer in both Ukraine and the wider Eastern Europe, increasing total compensation by 20% during the year after annual staff appraisals. An initial 15% increase for workers, team leaders and foremen in June was followed by a 5% increase in October.

Nevertheless, some targeted reductions under the optimisation programme took place in the interests of the Group's business function and efficiency, using zero-base budgeting (ZBB) methodology to identify the headcount required by production needs for each job category and function.

In the changing Ukrainian labour market and competitive global industry, the Group's central task is to recruit talented people. Last year, Metinvest continued to focus on recruitment using its deep relationships with leading technical institutes and universities, as well as in the communities where its assets are present.

UPDATE ON EASTERN UKRAINE

Another HR priority for Metinvest in 2017 was to provide job opportunities to its employees impacted by the asset seizure last March, which totalled around 20% of the workforce. This was done to manage employee outflow and retain skilled employees imbued with Metinvest's corporate culture. While the Group had and has no ability to assist them while they are in uncontrolled territories, it immediately pledged to find a job in its other facilities for any affected employees.

While only a relatively small number of staff has accepted new jobs with Metinvest to date, it is prepared to provide such opportunities in the future. The Group understands the difficulty facing many employees in relocating their families from these regions.

CONTINUOUS LEARNING

A commitment to training staff and management is a critical component to retaining skilled people, as well as providing a skilled base for the Group's development. Last year, over 36,000 employees passed one or more professional training courses. In addition, almost 9,000 managers underwent over 19,000 training sessions, including such traditional programmes as 'Management DNA'.

While Metinvest has a well-developed corporate education and training system, it is also constantly innovating. Last year, the Group revised its managerial training programme based on the Requisite Organisation approach. This seeks to tailor the training curriculum to fit both the level of seniority and the personal requirements of each individual manager.

Metinvest also launched a new skills development programme for managers called 'Out-of-the-Box Thinking', which aims to develop problem-solving skills. This programme approaches the type of challenges its managers have faced in recent years. It promotes deviation from standard thinking and solutions, teaches root-cause analysis of situations and encourages effective problem-solving in unusual situations. Almost 200 middle managers participated in this programme in 2017.

The Group selects employees with high performance and potential to occupy higher level positions for its Talent Pool, a standing group of up-and-coming leaders, which is also designed to ensure retention of top managers. The Talent Pool is created for each management level. Each level is trained to take over senior roles on the enterprise and Group level.

Metinvest starts with the Young Leaders Programme for production facilities to retain and foster emerging talent. The programme identifies young people at Group plants who have demonstrated their potential and provides them with accelerated career paths. It provides them with mentors who help select and supervise a project, while also receiving key professional training to hone their skills. Last year, 388 people took part in the programme from 11 enterprises.

The middle level (the second-tier of the pool) development is mainly delivered through face-to-face training under internal programmes of the Corporate University and on-the-job training such as projects, internships and mentoring.

Members of the pool's top-tier study in Metinvest's Leadership Academy and can participate in international development programmes. In addition, they attend internal and external courses arranged through the Corporate University. A total of 52 managers studied in the Leadership Academy in 2017.

In 2017, a new Talent Pool for the Operational Directorate was created, providing a clearly defined group of future leaders from Metinvest's Metallurgical, Mining and support enterprises. The Talent Pool provides each young manager with a personal development approach to prepare them for future leadership within the directorate.

In 2017, the Group introduced such important corporate policies as the Career Policy, which aims to improve Metinvest's succession planning for long-term business sustainability and ensure the stability of acquired knowledge, capabilities and values. It also covers career paths, which help employees to pursue career opportunities within a function or asset or across functions and the entire Group, building their profile within Metinvest.

The Group updated its Internal Communications Strategy to drive dialogue and raise awareness using preferred communication channels. This strategy includes developing digital communication channels to deliver maximum useful content to employees and receive immediate feedback from them. This is complemented by organising regular face-to-face meetings with the top management to provide consistent messaging to employees of all levels.

SOCIAL FACILITIES

Most of the Group's steelmakers, mining enterprises and other facilities in Ukraine have inherited various social facilities, including residential buildings, recreation, healthcare, sports and cultural facilities. Some are dilapidated, ineffective or otherwise inefficient. In 2012, the HR function launched a project to rationalise these facilities, by either selling or transferring them to local authorities or other entities, or consolidating them into larger companies that are able to manage them better.

In 2012, the Group had 970 such facilities costing around US$70 million annually. By 2017, this had been reduced to 155 facilities with a cost of around US$5 million. This rationalisation has taken place without triggering social tensions with an absolute focus on ensuring the remaining facilities are of high quality and have targeted funds allocated to develop them. The initiative has improved social benefits for employees and created a sustainable system that will continue to be refined in the future.

OUTLOOK FOR 2018

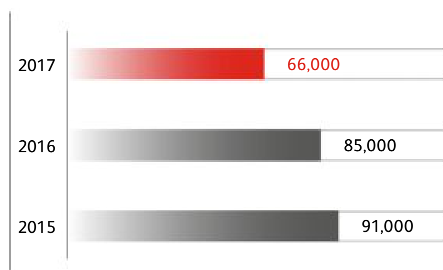
The central focus for 2018 is to continue to attract and retain talent at all levels. Metinvest has launched a programme to improve its remuneration policy to make it more responsive to both the market and the Group's needs. Metinvest is introducing an investment programme to improve working conditions and create a more appealing workplace. The Group is auditing its bonus payment system and reviewing social benefits, both important aspects of retention. And it is continuing its outreach to target audiences to position Metinvest as an employer of choice in Ukraine, internationally and in local communities. Metinvest will reinforce its efforts to strengthen its HR brand.

In terms of professional development, the priority is to train managers to work with the next generation and further develop educational programmes. In terms of HR processes, the Group is focused on automation and digitalisation in line with its strategy in this area, as well as on developing mentoring systems.

Employee headcount

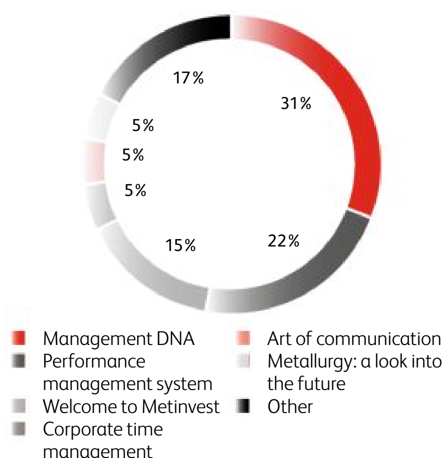
66,000 EMPLOYEES

-22%



Management training in 2017

19,218 EMPLOYEES



CONTINUOUS IMPROVEMENT IS OUR HALLMARK

METINVEST'S HEALTH AND SAFETY TEAM CONTINUED TO IMPLEMENT VITAL INVESTMENTS IN LONG-TERM PROJECTS AS WELL AS PROMOTING A SAFETY-FIRST CULTURE AS A CORE PART OF THE GROUP'S CORPORATE ETHOS.

SAFETY CULTURE

Metinvest's number one priority is to look after the health and safety of its employees and prevent injuries and fatalities. The Group operates major steel and mining enterprises, most built many decades ago. To meet its commitment to reducing injuries to the lowest possible level, Metinvest is investing in modern safety equipment and implementing global best practices in management and training.

HSE policies, their implementation and performance are overseen at the highest level of the Group's corporate governance. The Supervisory Board has a dedicated Health, Safety and Environmental Committee that oversees safety systems and ensures compliance with local regulations and, where possible, global standards. The CEO is informed within two hours of any fatal incident and within 24 hours of any lost-time incident. If an unsafe working condition is identified or an injury occurs, it is Metinvest's policy to conduct a root-cause analysis to establish the reason and prevent any repeat in the future.

Metinvest has introduced standards to cover every type of activity to reinforce a safety-first culture at each facility. At the year-end, 12 of its key plants were certified as being compliant with the OHSAS 18001 international occupational health and safety standards and the Group is working to bring all facilities into compliance. In addition, it continues to implement the major, five-year HSE programme approved in 2014.

Based on leading international guidelines, Metinvest has instituted best practices with 15 corporate health and safety standards and constantly seeks to develop the health and safety competencies of its employees. It maintains a Group-wide training system for corporate standards, including instruction by people who used to work at the facility who have since retired and become internal trainers.

Metinvest has also set up a mandatory risk-assessment system covering all aspects of the business, from production processes to investment projects. The system utilises globally recognised standards, including hazard identification (HAZID), environmental impact identifier (ENVID) and hazard and operability studies (HAZOP), job safety and work safety analysis procedures, and lock-out, tag-out (LOTO) and permit-to-work methods across the Group[1].

1 HAZID (Hazard Identification), ENVID (Environmental Hazard Identification) and HAZOP (Hazard and Operability Study) are procedures for assessing the safety and environmental effect of both new projects and existing processes. LOTO (lock out, tag out) is a safety procedure to ensure that potentially dangerous equipment has been shut down correctly to prevent hazardous releases during maintenance, repair or cleaning activities.
2 The lost time injury frequency rate is the number of lost time incidents per 1 million man-hours.
3 The fatality frequency rate is the number of job-related fatalities per 1 million man-hours.

The Group also maintains a robust internal audit system in place. This includes regular inspections to evaluate the effectiveness of the safety management systems at each facility, making initial assessments and recommendations for improvement.

Each company within Metinvest has a fully staffed health and safety department. It provides the line organisation with advice on safety issues and ensures compliance with corporate standards and all applicable laws and regulations.

RESULTS IN 2017

During the year, Metinvest continued to invest in facilities and training in line with its five-year HSE strategy, spending over US$80 million on health and safety measures. The Group's priorities remained unchanged during the year, with occupational health accounting for 81% of the total and workplace safety for 7%. Other areas included: safety of buildings, facilities and transportation (5%); emergencies and fire safety (4%); medical expenses (3%); and corporate standards.

In line with international best practices, Metinvest measures its progress in improving health and safety conditions in terms of the lost-time injury frequency rate (LTIFR)[2] and fatal incident frequency rate (FIFR)[3], which are measured in terms of incidents per million man-hours worked. The management is committed to prioritising safety technology and training. In 2017, the LTIFR and FIFR stood at 0.857 and 0.027, respectively. Metinvest strives to drive down both indicators to zero, while increasing transparency in safety reporting, both internally and for all external stakeholders.

In 2017, over 7,000 employees received health and safety training according to corporate standards, while over 150,000 safety audits were conducted at the Group's enterprises to identify areas bearing the greatest risk to its people.

In 2017, Metinvest conducted more than 70 HAZID-based risk assessments, as a result of which over 1,000 recommendations were developed to reduce risks to an acceptable level. The internal audit system also conducted more than 100 audits, detecting over 1,300 non-conformities and developing more than 1,500 risk-mitigation actions. HAZOP training was conducted by a guest consultant for the existing production processes (in particular, for the PCI facilities of Azovstal's blast furnace shop). Twenty employees of the Group's enterprises attended HAZOP training sessions.

HEALTHCARE DEVELOPMENT

Metinvest continues to implement a healthcare development strategy, which is designed to improve employee health, provide effective first-aid care and prevent the occurrence of on-the-job incidents related to personal medical issues. The Group's healthcare strategy covers three main areas: providing emergency medical care; reducing temporary illnesses causing disability; and preventing cardiovascular disease.

In 2017, Metinvest continued its initiatives aimed at preventing deteriorating health and sudden death at work, as well as reducing the illness rate among people who get sick frequently or for a long period of time. New healthcare programmes were also introduced to target preventing non-job-related safety incidents, with an aim to reduce the overall injury frequency rate.

OUTLOOK FOR 2018

The Group's overall priorities for Health and Safety remain the same in 2018, in line with its strategy to 2030. Safeguarding the health and safety of all employees and contractors is the overriding focus and objective of all actions. Metinvest remains committed to achieving continued reductions in lost-time and fatality indicators.

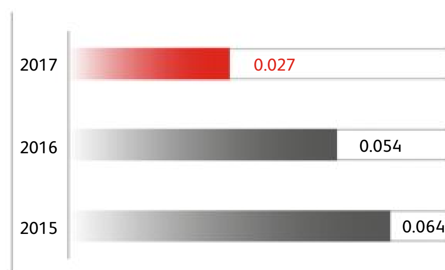
Metinvest will place an additional emphasis on ensuring the safety of contractors who perform work for and on the territory of the Group's enterprises, along with executing the action plan that was developed following its recent HAZID-based risk assessments.

Lost time injury frequency rate[2]

0.857

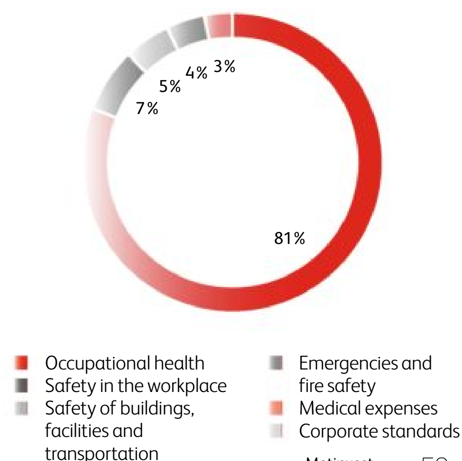
Fatality frequency rate[3]

0.027



Spending on health and safety in 2017

US$81M



COMMITTED TO SUSTAINABILITY

UNDER THE UPDATED TECHNOLOGICAL STRATEGY 2030, AS WELL AS ITS EXISTING DIRECT INVESTMENTS IN ENVIRONMENTAL TECHNOLOGY, METINVEST IS WORKING TOWARD THE GOAL OF EUROPEAN ECOLOGICAL STANDARDS IN THE CITIES WHERE IT OPERATES. THE GROUP ALSO CONTINUES TO WORK IN FRUITFUL COOPERATION WITH PARTNERS TO BUILD SUSTAINABLE PROJECTS THAT BENEFIT LOCAL COMMUNITIES.

BUILDING A SUSTAINABLE FUTURE

A significant number of Metinvest's operating facilities were commissioned before any environmental standards, as they are understood today, came into force. To reduce the environmental impact of its operations, the Group is currently undertaking an engineering programme, based on its Technological Strategy 2030, to improve environmental standards throughout its operations.

This programme is aimed at renewing all gas-cleaning, dust-trapping and wastewater processing equipment at major production units, including beneficiation and pelletising facilities, sinter plants, blast furnaces, basic oxygen furnaces and re-rolling mills. Most environmental projects will be implemented within the next six to seven years with an aim of achieving the level of European best available techniques. The Group has committed to the long-term amelioration of its environmental impact in its communities in Ukraine, Europe and the US.

In 2017, the Group invested a total of US$225 million into environmental operating and capital expenditure and implemented a range of projects in this domain. This includes finishing the construction of the dust-trapping facilities at Ilyich Steel's basic oxygen furnace no. 2, continuing the filter replacement on the Lurgi 552-B pelletising machine at Northern GOK and performing maintenance on the coke oven batteries at Zaporizhia Coke.

Significant progress was also achieved in the sinter plant reconstruction at Ilyich Steel during the reporting period. The Group made a major overhaul of the sintering zones at machines no. 6, 7 and 8 and cooling zones at sinter machines no. 8 and 9, including the installation of first-stage cleaning using new cyclones. In addition, new bag filters were installed after the sintering and cooling zones at machines no. 7, 8 and 9 as a second stage of waste gas cleaning. In April 2018, after the reporting period, Metinvest completed the first stage of the sinter plant reconstruction. The complete refurbishment will eliminate 90% of dust and more than 40% of sulphur emissions, a source of immediate local pollution in Mariupol.

At the Zaporizhstal joint venture, Metinvest worked with its partners to reconstruct gas scrubbers for sinter machine no. 1 and launched dust-trapping facilities in December 2017. The major overhaul of blast furnace no. 3 was completed in full compliance with Ukrainian environmental protection requirements.

Currently, Metinvest has already certified 10 plants as being compliant with the ISO:14001 environmental standards, while the other plants are taking steps to obtain certifications. The Group expects all facilities to be certified as compliant with this standard in the next several years.

INVESTING IN LOCAL COMMUNITIES

Metinvest embraces the responsibility entailed in its role as a corporate citizen of Ukraine and all countries where it operates. For more than a decade, the Group has helped to support and develop local communities, including improving urban infrastructure, healthcare and educational facilities. Metinvest has also cooperated with international donors and introduced modern formats of partnership with communities, small and medium-sized businesses and city authorities. The Group's social investments are of a strategic nature and are aimed at sustainable, long-term development of the cities where it operates, as in many cases its plants are the key employer and economic anchor for their communities. Metinvest has reacted to economic and political uncertainty promptly and effectively, particularly in areas where communities have urgent needs due to emergency situations.

As recognition of the Group's commitment to society and its wellbeing, Metinvest won the prestigious Corporate Social Responsibility award at Platts Global Metals Awards in 2017.

Last year, the Group spent around US$8 million on initiatives in its local communities. Metinvest worked with stakeholders to target initiatives that will have the maximum impact on local communities.

In response to the pressing needs in Avdiivka in early 2017, Metinvest took decisive action to support local citizens at a difficult time and to continue repairing the damage to the city. This included continuing operations under trying circumstances to ensure that the community had heat, shelter and other necessities. After addressing the immediate emergency, the Group helped refurbish houses that had been destroyed in the old part of town and constructed a high-pressure gas pipeline from the Ocheretyno settlement to Avdiivka.

In addition to its crisis response efforts, Metinvest's traditional social partnership programmes continued in 2017. In Avdiivka, it established a development centre for children and youth. The Group also repaired the educational, sanitary, gym and recreational facilities in six local schools and pre-schools and helped to improve the city's medical institutions.

In Mariupol, Metinvest continued its social partnership with the Mariupol Development Fund, a non-government urban development agency. This approach to working with the local community represents an important breakthrough, as it allows for several strategic partners to engage jointly in funding larger, longer-term projects in the city. In 2017, key projects included helping with the relocation of higher educational institutions from Donetsk to Mariupol, renovating Mariupol's city transport infrastructure, continuing the 'Cosy Side Yard' programme to support newly established condominiums and renovating the Administrative Services Centre.

Metinvest also implemented numerous other community programmes in Mariupol, including replacing the heating, sewage and water supply systems, renovating healthcare facilities and purchasing equipment and furniture for development centres and 46 city schools and kindergartens.

In Kryvyi Rih, Metinvest allocated funds to repair and upgrade local hospitals, including family outpatient clinic and paramedic and obstetric stations, and provided emergency aid for city residents after a windstorm. It also built sports facilities, improved urban landscaping and repaired local buildings and roads.

In Novhorodske, the Group implemented a project to optimise and develop the municipal heating system.

Metinvest also held the 'We Improve the City' contest in Mariupol, Kryvyi Rih and Zaporizhia, in which residents submit ideas for social initiatives. Overall, out of 630 submitted proposals, 111 projects received grants and were implemented.

The Group also continued to implement its 'Green Centre' campaign to landscape urban spaces and remove waste to improve the urban environment in Mariupol and Kryvyi Rih. In addition, the Group helped to make three sources of spring water available for inhabitants of Mariupol. To support residential landscaping initiatives in Kryvyi Rih, Metinvest launched the '100 Households' programme and determined 53 projects to be implemented.

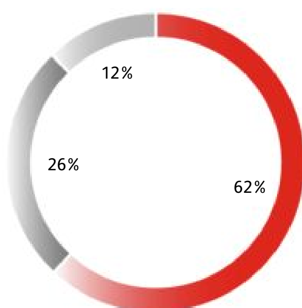
OUTLOOK IN 2018

Metinvest's Technological Strategy 2030 includes significant spending on key environmental projects, which ensures the Group's ability to continue reducing both its carbon footprint and pollution in local communities. With an ambitious agenda that takes it beyond the next decade, Metinvest will continue to prioritise environmental initiatives in 2018.

The Group's social partnership programmes will also continue in the cities where it operates. Metinvest's cooperation with the Mariupol Development Fund is making a tangible impact in its communities and the Group stands ready to address any additional needs going forward.

Spending on the environment in 2017

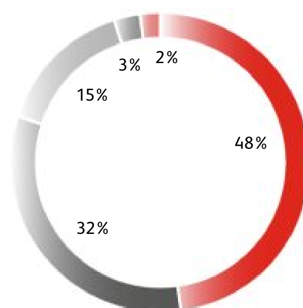
US$225M



- Operating expenses
- CAPEX
- Environmental measures

Spending on communities in 2017

US$8M



- Social partnership Mariupol Development Fund
- Green centre
- Development of children and youth football
- Benevolence

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PRODUCT FOCUS

PLATES

3,282 KT

Plates are thick, flat finished products with a thickness of at least 4 millimetres used in construction, machinery, shipbuilding or large-diameter pipe fabrication. Metinvest produces plates in Ukraine, Italy and the UK and resells plates produced by its Ukrainian JV. Sales of plates made at Group facilities increased by 9% year-on-year to 3,282 thousand tonnes in 2017.

METINVEST B.V.
IFRS CONSOLIDATED SUMMARY FINANCIAL STATEMENTS
31 DECEMBER 2017

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INDEPENDENT AUDITOR'S REPORT

To: the board of directors of Metinvest B.V.

REPORT ON THE CONSOLIDATED SUMMARY FINANCIAL STATEMENTS 2017

OUR OPINION

In our opinion the accompanying consolidated summary financial statements 2017 of Metinvest B.V. ('The Company'), are consistent, in all material respects, with the audited statutory financial statements, in accordance with the basis described in note 1.

THE CONSOLIDATED SUMMARY FINANCIAL STATEMENTS

The Company's consolidated summary financial statements, derived from the audited statutory financial statements for the year ended 31 December 2017, comprise:

- the consolidated summary statement of financial position as at 31 December 2017;
- the consolidated summary statement of comprehensive income for the year then ended;
- the consolidated summary statement of changes in equity for the year then ended;
- the consolidated summary statement of cash flows for the year then ended; and
- the related notes to the consolidated summary financial statements.

The consolidated summary financial statements do not contain all of the disclosures required by International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code. Reading the summary financial statements and the auditor's report there on, therefore, is not a substitute for reading the audited statutory financial statements of Metinvest B.V. and the auditor's report thereon.

The audited statutory financial statements and the summary financial statements do not reflect the events that occurred subsequent to the date of our report on the audited statutory financial statements.

THE AUDITED STATUTORY FINANCIAL STATEMENTS AND OUR AUDITOR'S REPORT THEREON

We expressed an unmodified audit opinion on the audited statutory financial statements in our report dated 23 February 2018. The report also includes:

- The communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the statutory financial statements of the current period.

RESPONSIBILITIES OF MANAGEMENT FOR THE CONSOLIDATED SUMMARY FINANCIAL STATEMENTS

Management is responsible for the preparation of the consolidated summary financial statements in accordance with the basis described in note 1.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the consolidated summary financial statements are consistent, in all material respects, with the audited statutory financial statements based on our procedures, which we conducted in accordance with Dutch Law, including the Dutch Standard 810 'Engagements to report on summary financial statements'.

Amsterdam, 23 February 2018
PricewaterhouseCoopers Accountants N.V.

Original has been signed by A.G.J. Gerritsen RA

Metinvest B.V. – Ref.: e0402898

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CONSOLIDATED SUMMARY BALANCE SHEET
ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Goodwill	8	603	543
Other intangible assets	9	120	125
Property, plant and equipment	10	4,132	4,724
Investments in associates and joint ventures	11	1,085	908
Deferred tax asset	28	109	96
Income tax prepaid	12	8	25
Trade and other receivables	14	181	137
Total non-current assets		**6,238**	**6,558**
Current assets			
Inventories	13	1,235	949
Income tax prepaid	12	9	18
Trade and other receivables	14	2,342	1,580
Cash and cash equivalents	15	259	226
Total current assets		**3,845**	**2,773**
TOTAL ASSETS		**10,083**	**9,331**
EQUITY			
Share capital	16	0	0
Share premium	16	6,225	6,225
Other reserves	17	(8,934)	(8,442)
Retained earnings		6,894	6,107
Equity attributable to the owners of the Company		4,185	3,890
Non-controlling interest	18	123	138
TOTAL EQUITY		**4,308**	**4,028**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	19	2,739	–
Retirement benefit obligations	21	369	326
Deferred tax liability	28	300	368
Other non-current liabilities	22	80	92
Total non-current liabilities		**3,488**	**786**
Current liabilities			
Loans and borrowings	19	271	2,879
Seller's notes	20	7	90
Income tax payable		78	18
Trade and other payables	23	1,931	1,530
Total current liabilities		**2,287**	**4,517**
TOTAL LIABILITIES		**5,775**	**5,303**
TOTAL LIABILITIES AND EQUITY		**10,083**	**9,331**

Signed and authorised for release on behalf of Metinvest B.V. on 23 February 2018:

Originally signed by Managing Director A, Yuriy Ryzhenkov.

Originally signed by Managing Director B, ITPS (Netherlands) B.V.

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

CONSOLIDATED SUMMARY INCOME STATEMENT
ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Revenue		8,931	6,223
Cost of sales	24	(6,756)	(4,833)
Gross profit		**2,175**	**1,390**
Distribution costs	24	(721)	(660)
General and administrative expenses	24	(193)	(183)
Other operating income/(expenses), net	25	39	(222)
Operating profit		**1,300**	**325**
Results of the loss of control over the assets located on temporarily non-controlled territory	7	(329)	–
Finance income	26	29	26
Finance costs	27	(350)	(397)
Share of result of associates and joint ventures	11	191	205
Profit/(loss) before income tax		**841**	**159**
Income tax (expense)/benefit	28	(224)	(41)
Profit for the year		**617**	**118**
Profit is attributable to:			
Owners of the Company		603	106
Non-controlling interests		14	12
Profit for the year		**617**	**118**

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

CONSOLIDATED SUMMARY STATEMENT OF COMPREHENSIVE INCOME
ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Profit for the year		**617**	**118**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss:			
Remeasurement of retirement benefit obligation	21	(102)	(6)
Revaluation decreases that offset previous increases in the carrying amount of property, plant and equipment	7,10	(228)	–
Revaluation and impairment of property, plant and equipment	10	–	629
Share in other comprehensive income of joint ventures		39	35
Income tax relating to items that will not be reclassified subsequently to profit or loss	28	56	(105)
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		(82)	(666)
Total other comprehensive income/(loss)		**(317)**	**(113)**
Total comprehensive income/(loss) for the period		**300**	**5**
Total comprehensive income/(loss) attributable to:			
Owners of the Company		295	(3)
Non-controlling interest		5	8
Total comprehensive income/(loss) for the period		**300**	**5**

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

CONSOLIDATED SUMMARY STATEMENT OF CASH FLOWS
ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities			
Profit before income tax		**841**	**159**
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	24	525	529
Impairment of property, plant and equipment and intangible assets	7, 24	284	34
Impairment of associates and joint ventures		7	–
Gain on disposal of property, plant and equipment	25	(7)	(3)
Finance income	26	(29)	(26)
Finance costs	27	350	397
Unrealised operating foreign exchange differences		(66)	(18)
Net change in retirement benefit obligations, except for interest costs and remeasurements		(90)	(21)
Impairment of trade and other accounts receivable	25	7	227
Share of result of associates and joint ventures	11	(191)	(205)
Inventory write down/(reversal of write-down), net	13	96	(45)
Other non-cash operating gains		7	(2)
Operating cash flows before working capital changes		**1,734**	**1,026**
Increase in inventories		(358)	(195)
Increase in trade and other accounts receivable		(830)	(442)
Increase in trade and other accounts payable		338	199
Cash generated from operations		**884**	**588**
Income taxes received/(paid)		(154)	35
Interest paid		(135)	(133)
Net cash from operating activities		**595**	**490**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(465)	(358)
Proceeds from sale of property, plant and equipment		1	3
Proceeds from sale of Black Iron (Cyprus) Limited		–	6
Interest received		15	18
Net cash used in investing activities		**(449)**	**(331)**
Cash flows from financing activities			
Repayment of seller's notes	19	(85)	–
Payments for loans commission		(36)	–
Proceeds from loans and borrowings	19	6	–
Repayment of loans and borrowings	19	(90)	(10)
Net trade financing proceeds/(repayment)	19	117	(67)
Purchase of non-controlling interest		(1)	(1)
Other finance costs		(21)	(27)
Net cash used in financing activities		**(110)**	**(105)**
Effect of exchange rate changes on cash and cash equivalents		(3)	(8)
Net increase in cash and cash equivalents		**33**	**46**
Cash and cash equivalents at the beginning of the year		**226**	**180**
Cash and cash equivalents at the end of the year	15	**259**	**226**

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

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY
ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Attributable to owners of the Company					Non-controlling interest (NCI)	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2016	**0**	**6,225**	**(8,013)**	**5,674**	**3,886**	**138**	**4,024**
Revaluation and impairment of property, plant and equipment (Note 10, 24)	–	–	618	–	**618**	11	**629**
Share in other comprehensive income of joint venture (Note 11)	–	–	36	(1)	**35**	–	**35**
Remeasurement of retirement benefit obligation	–	–	–	(7)	**(7)**	1	**(6)**
Income tax relating to components of other comprehensive income (Note 28)	–	–	(104)	1	**(103)**	(2)	**(105)**
Currency translation differences	–	–	(652)	–	**(652)**	(14)	**(666)**
Other comprehensive loss for the period	**–**	**–**	**(102)**	**(7)**	**(109)**	**(4)**	**(113)**
Profit for the period	–	–	–	106	**106**	12	**118**
Total comprehensive loss for the period	**–**	**–**	**(102)**	**99**	**(3)**	**8**	**5**
Realised revaluation reserve, net of tax	–	–	(327)	327	**–**	–	**–**
Acquisition of non-controlling interest in subsidiaries	–	–	–	7	**7**	(8)	**(1)**
Balance at 31 December 2016	**0**	**6,225**	**(8,442)**	**6,107**	**3,890**	**138**	**4,028**
Revaluation decreases that offset previous increases in the carrying amount of property, plant and equipment	–	–	(217)	–	**(217)**	(11)	**(228)**
Share in other comprehensive income of joint venture (Note 11)	–	–	56	(17)	**39**	–	**39**
Remeasurement of retirement benefit obligation (Note 21)	–	–	–	(99)	**(99)**	(3)	**(102)**
Income tax relating to components of other comprehensive income (Note 28)	–	–	36	17	**53**	3	**56**
Currency translation differences	–	–	(84)	–	**(84)**	2	**(82)**
Other comprehensive loss for the period	**–**	**–**	**(209)**	**(99)**	**(308)**	**(9)**	**(317)**
Profit for the period	–	–	–	603	**603**	14	**617**
Total comprehensive income/(loss) for the period	–	–	**(209)**	**504**	**295**	**5**	**300**
Realised revaluation reserve, net of tax	–	–	(283)	283	**–**	–	**–**
Dividends declared by non-wholly-owned subsidiaries	–	–	–	–	**–**	(20)	**(20)**
Balance at 31 December 2017	**0**	**6,225**	**(8,934)**	**6,894**	**4,185**	**123**	**4,308**

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

NOTES TO THE CONSOLIDATED SUMMARY FINANCIAL STATEMENTS – 31 DECEMBER 2017

1 METINVEST B.V. AND ITS OPERATIONS

Metinvest B.V. (the 'Company' or 'Metinvest'), is a private limited liability company registered in the Netherlands, The Company is beneficially owned by Mr Rinat Akhmetov, through various entities commonly referred to as System Capital Management ('SCM'), and Mr Vadim Novinsky, through various entities commonly referred to as 'SMART' or 'Smart Group'.

The Company and its subsidiaries (together referred to as the 'Group' or 'Metinvest Group') are an integrated steel producer, owning assets in each link of the production chain – from iron ore mining, coking coal mining and coke production, through to semi-finished and finished steel production. The steel products, iron ore and coke and coal are sold on both the Ukrainian and export markets.

As of 31 December 2017 and throughout the periods presented in these consolidated financial statements, Metinvest B.V. is owned 71.24% by SCM Cyprus and 23.76% by companies of the Smart Group. The remaining 5% interest in the Company in the form of Class C shares has been acquired from the previous owners of Ilyich Group for the benefit of SCM and SMART. It is the intention of SCM and SMART to dispose of the said 5% interest in due course (after receipt of respective governmental approvals, if such will be necessary), and in such manner that the ultimate interest of SCM in the Company shall be 75% minus 1 share, and the ultimate interest of SMART in the Company shall be 25% plus 1 share, thus SCM remaining as the controlling shareholder.

The principal subsidiaries of Metinvest B.V. are presented below:

Name	Effective % interest as at 31 December		Segment	Country of incorporation
	2017	2016		
Metinvest Holding LLC	100.0%	100.0%	Corporate	Ukraine
Metinvest Management B.V.	100.0%	100.0%	Corporate	Netherlands
PrJSC Azovstal Iron and Steel Works	96.7%	96.7%	Metallurgical	Ukraine
PrJSC Yenakiieve Iron and Steel Works	92.2%	92.2%	Metallurgical	Ukraine
JV Metalen LLC	100.0%	100.0%	Metallurgical	Ukraine
PrJSC Khartsyzsk Pipe Plant	98.5%	98.5%	Metallurgical	Ukraine
Ferriera Valsider S.p.A.	70.0%	70.0%	Metallurgical	Italy
Metinvest Trametal S.p.A.	100.0%	100.0%	Metallurgical	Italy
Spartan UK Limited	100.0%	100.0%	Metallurgical	UK
Metinvest International SA	100.0%	100.0%	Metallurgical	Switzerland
Metinvest Eurasia LLC	100.0%	100.0%	Metallurgical	Russia
Metinvest Service Metal Centres LLC	100.0%	100.0%	Metallurgical	Ukraine
JSC Promet Steel	100.0%	100.0%	Metallurgical	Bulgaria
PrJSC Makiivka Iron and Steel Works	90.2%	90.2%	Metallurgical	Ukraine
PrJSC Ilyich Iron and Steel Works	99.3%	99.3%	Metallurgical	Ukraine
PrJSC Avdiivka Coke Plant	94.7%	94.6%	Metallurgical	Ukraine
PrJSC Zaporozhkoks	52.4%	52.2%	Metallurgical	Ukraine
PrJSC Donetskcoke	93.8%	93.7%	Metallurgical	Ukraine
PrJSC Northern Iron Ore Enrichment Works	96.4%	96.4%	Mining	Ukraine
PrJSC Central Iron Ore Enrichment Works	99.8%	99.8%	Mining	Ukraine
PrJSC Ingulets Iron Ore Enrichment Works	99.8%	99.8%	Mining	Ukraine
PrJSC Komsomolske Flux Plant	99.7%	99.7%	Mining	Ukraine
United Coal Company LLC ('UCC')	100.0%	100.0%	Mining	US
PrJSC Krasnodon Coal Company	94.7%	92.9%	Mining	Ukraine

As at 31 December 2017, the Group employed approximately 66 thousand people (31 December 2016: 85 thousand). The decrease is primarily driven by the loss of control over operations of entities located on the temporarily non-controlled territory (Note 7).

The Company's registered address is Nassaulaan 2A, 2514 JS, The Hague. The Company is registered with the commercial trade register under the number 24321697. The principal places of production facilities of the Group are in Ukraine, Italy, the UK and the US.

The consolidated financial statements of Metinvest B.V. for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 23 February 2018.

For better understanding of Metinvest's financial position and the results of operations, these summary financial statements should be read in conjunction with the Metinvest's audited financial statements as of and for the year ended 31 December 2017, which include all disclosures required by International Financial Reporting Standards as adopted by European Union and the statutory provisions of Part 9, Book 2, of the Dutch Civil Code.

2 OPERATING ENVIRONMENT OF THE GROUP

The Ukrainian economy suffered a deep slump in 2014-2016 due to the political instability, the escalation of the conflict in the Donetsk and Luhansk regions and unfavourable global markets for key export-oriented sectors. Since 2017 the Ukrainian economy has demonstrated slight recovery amid overall macroeconomics stabilisation supported by a rise in domestic investment, revival in household consumption, increase in agricultural and industrial production, construction activity and improved environment on external markets. Ukraine returned to international debt capital markets, having issued a record US$3 billion 15-year Eurobond at 7.375% in September 2017, which has smoothed external debt maturity profile of Ukraine.

2 OPERATING ENVIRONMENT OF THE GROUP CONTINUED

In addition there was further progress in monetary policy. The National Bank of Ukraine ('NBU') conducts interest rate policy consistent with inflation targets and keeps the hryvnia floating. As of the date of this report the official NBU exchange rate of Hryvnia against US dollar was UAH 27.07 per US$1, compared to UAH 28.07 per US$1 as at 31 December 2017 and UAH 27.19 per US$1 as at 31 December 2016.

In 2016 and 2017, the National Bank of Ukraine ('NBU') has made certain steps to ease the currency control restrictions introduced in 2014–2015. In particular, the required share of foreign currency proceeds subject to mandatory sale on the interbank market was decreased from 75% to 65% starting from 9 June 2016 and further to 50% starting from 5 April 2017. The current restriction is effective until 13 June 2018. Additionally, the settlement period for export-import transactions in foreign currency was increased from 90 to 120 days starting from 28 July 2016 and further to 180 days starting from 26 May 2017. Also starting from 13 June 2016, the NBU allowed Ukrainian companies to pay dividends to non-residents with a limit of US$5 million per month. As of 31 December 2017, the amount of undistributed retained earnings of the Group's Ukrainian subsidiaries was approximately US$1,918 million.

The IMF continued to support the Ukrainian government under the four-year Extended Fund Facility ('EFF') Programme, which was approved in March 2015, providing the third and the fourth tranches of approximately US$1 billion in September 2016 and April 2017, respectively. Further disbursements of IMF tranches depend on the continued implementation of Ukrainian government reforms, and other economic, legal and political factors. The banking system remains fragile due to its: weak level of capital; its weakening asset quality caused by the economic situation; currency depreciation; and other factors.

On 1 January 2016, the agreement on the free trade area between Ukraine and the EU came into force. Just after that the Russian government implemented a trading embargo on many key Ukrainian export products. In response, the Ukrainian government implemented similar measures against Russian products. This had some but not a significant impact on Group's trading. On 1 September 2017, the Association Agreement between the European Union and Ukraine finally came fully into force that will enhance liberalisation of trade, improvement of quality standards and integration of Ukrainian economy with the European Union.

The conflict in Eastern Ukraine had impacted the Group's steel, coke and coal operations since 2014. Two of the Group's largest steel plants, PrJSC Ilyich Iron and Steel Works and PrJSC Azovstal Iron and Steel Works, are located near the conflict area in the Donetsk region. Iron ore production assets are located in the central part of Ukraine and have not been affected by the conflict. The conflict started in spring of 2014 and has not been resolved to date.

In February-March 2017, there was an escalation of the military confrontation near Avdiivka (where PrJSC Avdiivka Coke Plant is located), which led to temporary suspension of the production amid power supplied cuts. Since May 2017, Avdiivka Coke Plant has resumed operations using all coke batteries following the installation of a new electricity transmission line on the controlled territory. Production on PrJSC Yenakiieve Iron and Steel Works (which includes two facilities located in Yenakiieve and Makiivka) and PrJSC Krasnodon Coal Company was disrupted in February 2017 by a blockade of railway transportation between Ukraine and the temporarily non-controlled territory.

In March of 2017, the Group determined that it had lost control over the operations of entities located on the temporarily non-controlled territory. The effect of loss of control on the Group financial statements is disclosed in Note 7.

Since March 2017, all of the Metinvest Group's assets are operating without physical disruption. The Metinvest Group does not operate any assets on the temporarily non-controlled territory.

During 2017, crude steel production at the Group's Mariupol steelmakers increased. As compared to 2016 PrJSC Azovstal Iron and Steel Works output increased by 15%, and output at PrJSC Ilyich Iron and Steel Works increased by 13%. Although, in total for the Group total crude steel output declined by 9% as compared to 2016 due to loss of control described in Note 7.

During 2017 (as compared to 2016), iron ore concentrate production decreased by 7%, while coking coal concentrate output declined by 15%.

The prices of steel, coking coal and iron ore experienced both volatility and an overall decline during 2014–2015 and reached the decade-lowest levels in the fourth quarter of 2015 and January–February 2016. Since March 2016, there was a notable increase in price levels. During 2017, the prices for steel continued to grow amid strong demand in all regions, supply reforms in China and other factors. Despite persisting oversupply, growth in steel production kept iron ore price at relatively high levels. The benchmark price for hot-rolled coil (Metal Expert HRC CIS export FOB Black Sea) increased to US$508 in 2017 which is 31% higher compared to 2016 when the average price was US$387. Benchmark iron ore price (Bloomberg 62% Fe CFR China) increased from US$58 per dry tonne in 2016 to US$71 per dry tonne in 2017. Average contract coking coal prices (HCC LV, FOB Australia) increased from US$114 per tonne in 2016 to US$210 per tonne in 2017. These price dynamics had a positive impact on the Group's gross margins and overall financial results in 2017 as compared to 2016.

As of 31 December 2017, the Group had significant balances receivable from and prepayments made to the State of Ukraine mainly including VAT recoverable. Significant progress was made towards recovering the corporate tax prepayments of Ukrainian subsidiaries with the prospects of their full utilisation except for subsidiaries operations of which are located on the temporarily non-controlled territory. During 2017 and January 2018, the Group's Ukrainian subsidiaries have timely received regular VAT refunds due from the State amounting to US$601 million. VAT assets of US$46 million for subsidiaries whose operations are located on the temporarily non-controlled territory experience certain delays with the refund – the Group is enforcing its legal right to refund through the courts.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation and statement of compliance. These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by European Union and the statutory provisions of Part 9, Book 2, of the Dutch Civil Code. The consolidated financial statements have been prepared under the historical cost convention unless stated otherwise. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. New and revised standards and interpretations adopted by the Group are disclosed in Note 5.

Management has assessed the validity of the going concern assumption. The Company has restructured the Bonds and the PXF loans in 2017, which are now reported as non-current liabilities. This supports the ability of Metinvest to continue as a going concern. There are no material uncertainties.

These consolidated financial statements are presented in millions of US dollars and all values are rounded off to the nearest million except where otherwise indicated.

Critical accounting estimates and judgements in applying accounting policies. The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the IFRS consolidated financial statements are disclosed in Note 4.

Principles of consolidation. Subsidiaries are all entities over which the Group has control. The group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. Where a business combination is achieved in stages, the previously held interest in an acquired business is included into the cost of business combination at fair value as of the acquisition date with resulting gains recognised in consolidated income statement.

Costs directly related to acquisition of subsidiaries are recognised in the consolidated income statement in the period in which they incurred and the services are received.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ('negative goodwill') is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.

Non-controlling interest ('NCI') is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of equity.

Purchases of subsidiaries from parties under common control and merger reserve in equity. Purchases of subsidiaries from parties under common control are accounted under the predecessor values method. Under this method the financial statements of the entity are presented as if the businesses had been consolidated from the beginning of the earliest period presented (or the date that the entities were first under common control, if later). The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's book values. The difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity is recorded as an adjustment to equity. This is recorded as a merger reserve. No additional goodwill is created by such purchases.

Transactions with non-controlling interests. The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. Non-controlling interest is measured on proportionate basis of net assets.

Investments in associates and joint ventures. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20-50% of the voting rights.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint ventures.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates and joint ventures includes goodwill identified on acquisition, and is reduced for accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates and joint ventures is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate, including any other unsecured accounts receivable, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and their associates and joint ventures are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the General Director of the Group that makes strategic decisions.

Company reports separately information about an operating segment that meets any of the following quantitative thresholds unless aggregation criteria are met:

(a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments.
(b) The absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of: (i) the combined reported profit of all operating segments that did not report a loss; and (ii) the combined reported loss of all operating segments that reported a loss.
(c) Its assets are 10% or more of the combined assets of all operating segments.

Foreign currency translation. The functional currency of each of consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency for the majority of the consolidated entities is either Ukrainian hryvnia ('UAH') or US dollar ('US$').

Transactions denominated in currencies other than the relevant functional currency are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in the consolidated income statement.

The principal rate of exchange used for translating foreign currency balances is as follows:

	31 December 2017	31 December 2016
US$/UAH	28.07	27.19
EUR/UAH	33.50	28.42

Monetary assets and liabilities are translated into functional currency at the official exchange rate at the respective balance sheet dates. Translation at year end does not apply to non-monetary items.

Translation from functional to presentation currency. The Group has selected the US dollar ('US$') as the presentation currency. The US$ has been selected as the presentation currency for the Group as: (a) management of the Group manages business risks and exposures, and measures the performance of its businesses in the US$; (b) the US$ is widely used as a presentation currency of companies engaged primarily in metallurgy; and (c) the US$ is the most convenient presentation currency for non-Ukrainian users of these IFRS consolidated financial statements.

The results and financial position of each consolidated entity are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognised through comprehensive income and they accumulate as a separate component of equity. All the components of consolidated equity at each balance sheet date are translated at the historical rate. The balancing figure goes to cumulative currency translation reserve in other reserves in equity. All the elements within equity are presented at the rates prevailing at the dates of such movements (or an average rate for the period when this approximates the transaction date exchange rate).

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

As follows from policy on transaction from functional to presentation currency revaluation results and reclassification from revaluation reserve to retained earnings are translated into US$ using the exchange rates prevailing at the dates of transaction. Because of lower strength of UAH as compared to US$ (and consequent depreciation against US$ since the last revaluations dates), the revaluation reserve in presentation currency is carried at rates lower than the closing UAH/US$ rate, thus, differs from the revaluation balances recognised in the Group's property, plant and equipment. Upon disposal, sale or liquidation of assets or liabilities related to these equity components these differences are reclassified to retained earnings.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and at each balance sheet date are translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the currency translation differences deferred in equity are reclassified to the consolidated income statement.

Current exchange restrictions in Ukraine are explained in Note 2. At present, the UAH is not a freely convertible currency outside of Ukraine.

Property, plant and equipment. Property, plant and equipment are stated using the revaluation model. Fair values are based on valuations by external independent valuers. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Initial acquisitions and subsequent additions to property, plant and equipment are recognised at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and accumulate in the other reserves in equity. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Decreases that offset previous increases in the carrying amount of the same asset decrease the previously recognised revaluation reserve through other comprehensive income; all other decreases are charged to the income statement. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised either on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that have different useful lives.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the replaced component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the consolidated income statement as an expense when incurred.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from the continued use of the asset. Gains and losses on disposals determined by comparing proceeds with carrying amount of property, plant and equipment are recognised in the consolidated income statement.

Depreciation is charged to the consolidated income statement on a straight-line basis to allocate costs or revalued amounts of individual assets to their residual value over the estimated remaining useful lives. Depreciation commences at the moment when assets are ready for use. The estimated useful lives are as follows:

	Useful lives in years
Buildings and structures	from 2 to 60
Plant and machinery	from 2 to 35
Furniture, fittings and equipment	from 2 to 10

Estimates of remaining useful lives are made on a regular basis for all buildings, plant and machinery, with annual reassessments. Changes in estimates are accounted for prospectively.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents prepayments for property, plant and equipment, and the cost of property, plant and equipment, construction of which has not yet been completed. No depreciation is charged on such assets until they are ready for use.

The Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Asset retirement obligations. According to the Code on Mineral Resources, Land Code of Ukraine, Mining Law, Law on Protection of Land and other legislative documents of Ukraine and the US, the Group is responsible for site restoration and soil rehabilitation upon abandoning its mines. Estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of an item of property, plant and equipment when the item is acquired. Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate are recognised as an adjustment to the cost of the respective asset through the income statement or other reserves in equity to the extent of any revaluation balance existence in respect of the related asset. Provisions in respect of abandonment and site restoration are evaluated and re-estimated annually, and are included in these consolidated financial statements at each balance sheet date at their expected net present value, using discount rates which reflect the economic environment in which the Group operates and are specific to a liability.

Goodwill. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. It is carried at cost less accumulated impairment losses, if any. Gains and losses on the disposal of an entity or business unit include the carrying amount of goodwill relating to the entity or business unit disposed of.

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination.

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software and licences, mining licences, mining permits and coal reserves. Acquired computer software and other licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Other intangible assets are carried at cost less accumulated amortisation and impairment losses, if any. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal. Cost of SAP ERP system is amortised on a straight-line basis over estimated useful life of 10 years. Licences and coal reserves are amortised using the units-of-production method over all estimated proven and probable reserve assigned to the mines. Proven and probable reserves exclude non-recoverable coal and ore reserves and estimated processing losses. Amortisation rates are updated when revisions to coal reserve estimates are made.

Impairment of non-financial assets. Goodwill is tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. For purposes of assessing impairment, assets are grouped to the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Classification of financial assets. All the Group's financial assets are loans and receivables.

Loans and receivables are financial receivables created by the Group by providing money, goods or services directly to a debtor, other than those receivables which are created with the intention to be sold immediately or in the short term or which are quoted in an active market. Loans and receivables comprise primarily loans, trade and other accounts receivable including purchased loans and promissory notes. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Initial recognition of financial instruments. The Group's principal financial instruments comprise loans and borrowings, cash and cash equivalents and short-term deposits. The Group has various other financial instruments, such as trade debtors and trade creditors, which arise directly from its operations.

The Group's financial assets and liabilities are initially recognised at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost.

Subsequent measurement of financial instruments. Subsequent to initial recognition, the Group's financial liabilities and loans and receivables are measured at amortised cost. Amortised cost is calculated using the effective interest rate method and, for financial assets, it is determined net of any impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Derecognition of financial assets. The Group derecognises financial assets when: (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired; or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets; or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

The Group enters into transactions in the normal course of business by which it transfers financial assets to third parties. Depending on the circumstances, these transfers may either result in these financial assets being derecognised or continuing to be recognised.

Full derecognition occurs when the Group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, foreign currency, prepayment and other price risks.

Derecognition does not occur when the Group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, but either:

- retains substantially all of the risks and rewards of ownership of the transferred asset; or
- neither retains nor transfers substantially all of the risks and rewards of ownership but has retained control of the financial asset. In this situation, the financial assets are recognised on the balance sheet to the extent of Group's continuing involvement.

Income taxes. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The income tax charge is recognised in the consolidated income statement except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings and other post-acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average principle. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads based on normal operating capacity but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other financial receivables. Trade and other financial receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered to be indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement against other operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement against other operating expenses.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are charged to the income statement when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the income statement.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least 12 months after the balance sheet date are included in other non-current assets. Cash and cash equivalents are carried at amortised cost using effective interest rate method.

Share capital. Ordinary shares issued are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue. If settlement of a dividend liability exceeds 12 months from the balance sheet date it is included within long-term liabilities and measured at the present value of the future cash flows required to settle the liability using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Loans and borrowings. Loans and borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently carried at amortised cost using the effective interest method.

Cash flows related to receipt and repayment of trade finance borrowings are presented within the statement of cash flows on a net basis.

Transaction fees paid related to debt restructuring (such as legal and consulting expenses) are presented within the financing activities of the consolidated statement of cash flows.

Trade and other financial payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

Derecognition of financial liabilities. A substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, are recognised in profit or loss. If the exchange or modification of financial liability is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Prepayments received. Prepayments are carried at amounts originally received, net of VAT.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Contingent assets and liabilities. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable. When the realisation of income is virtually certain, then the related asset is not a contingent asset and the Group recognises such assets.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Employee benefits. Defined benefit plan. Certain Ukrainian entities within the Group participate in a mandatory State-defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. Certain Ukrainian entities also provide lump sum benefits upon retirement subject to certain conditions, as well as some other long-term employee benefits. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by professional actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds (if there is no deep market for high-quality corporate bonds) that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. Past service costs are recognised immediately in profit or loss.

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods, by-products and merchandise

The Group manufactures and sells a range of steel products to large, medium and small size customers. By-products and merchandise are sold to the same range of customers. Revenues from sales of goods, by-products and merchandise are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. The Group normally uses standardised Incoterms such as cost-and-freight (CFR), free-carrier (FCA), cost-insurance-freight (CIF), free-on-board (FOB) and ex-works (EXW) which define the point of risks and rewards transfer. Revenue is recorded on an accrual basis as earned.

Sales are recorded based on the price indicated in the specifications to the sales contracts. The sales price is established separately for each specification.

The Group also engages in sale and purchase transactions the objective of which is to manage cash flows and/or to sell the products of its joint ventures through the Group's sales channels and where the Group acts as an agent. Such transactions are not revenue generating to the Group and accordingly such sales and purchases are presented on a net basis with any gain or loss presented in other operating income/(expenses). Accounts receivable and payable from such transactions are presented gross.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(c) Sale of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

(e) Commission income

The Group acts as an agent for sales transactions on behalf of the third parties. The commission income received by the Group as a fee for facilitating such transactions is recognised at the point of transfer of risks and rewards of ownership of the goods to the customers of the third parties. Such income is reported as part of other operating income.

Value added tax (VAT). VAT in Ukraine where the majority of the Group operations are concentrated is levied at two rates: 20% on domestic sales and imports of goods, works and services and 0% on export of goods. Export of services is exempt from VAT. A taxpayer's VAT liability equals the total amount of VAT collected within a reporting period, and for domestic operations arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer; for export operations arises on the date of customs clearance of exported goods. A VAT credit is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. For domestic and export operations rights to VAT credit arise when a VAT invoice is received, which is issued on the earlier of the date of payment to the supplier or the date goods are received. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT. VAT assets recoverable in cash from the State are included into Group's assets. All other VAT assets and liabilities are netted only within the individual companies of the Group.

Recognition of expenses. Expenses are accounted for on an accrual basis. Cost of goods sold comprises the purchase price, transportation costs, commissions relating to supply agreements and other related expenses.

Finance income and costs. Finance income and costs comprise interest expense on borrowings, pension obligations, losses on early repayment of loans, interest income on funds invested, income on origination of financial instruments and foreign exchange gains and losses.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to changes in the presentation in the current year.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the IFRS consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of property, plant and equipment, goodwill and other intangible assets. The Group assesses whether goodwill is impaired based on the *IAS 36 Impairment of assets* requirements. The most recent detailed calculations for Metallurgical and Mining segments were performed as of 30 November 2016, as disclosed in Note 8. Management has carried forward these calculations in 2017, having considered that since then:

(a) the assets and liabilities making up these segments have not changed significantly. As disclosed in Note 7, the assets of Metallurgical segment located on the temporarily non-controlled territory were fully impaired in 2017; however, as concluded by management, this had no significant impact on the segment's recoverable amount as of 31 December 2017;
(b) the recoverable amount calculations performed last year resulted in the amounts that exceeded the carrying amounts of both segments by substantial margins; and
(c) the likelihood that a current recoverable amount determination as of 31 December 2017 would be less than the current carrying amount of the unit is remote, based on the management's analysis of events that have occurred and circumstances that have changed, including:
- the decrease in discount rates in 2017 compared to 2016 due to decrease in country risk which offsets certain increases in Group's cost of debt; or
- increased gross margins in 2017 as compared to the estimates made in 2016 impairment test, mainly due to increase in steel and iron ore prices, as disclosed in Note 2, based on which the expected gross margins for 2018 and further periods have improved from the estimates made in impairment test for 2016.

Revaluation of property, plant and equipment. On an annual basis management of the Group carries out an analysis to assess whether carrying amounts of items of property, plant and equipment differ materially from that which would be determined using fair value at the end of the reporting period. The analysis is based on price indices, developments in technology, movements in exchange rates since the date of latest revaluation, profitability of underlying businesses and other relevant factors. Where the analysis indicates that the fair values of items of property plan and equipment differ materially from the carrying amounts, further revaluation is performed involving independent valuers.

As most of the Group's property, plant and equipment is of specialised nature, its fair value is determined using depreciated replacement cost (Level 3) or, where it is available, the market value (Level 2). For some assets the fair values as of reporting date were obtained using indexation of their carrying amounts for relevant cumulative price indices since the last revaluation date impacting the replacement cost used in measurement of depreciated replacement cost (Level 3).

The majority of the structures, plant and machinery are specialised in nature and are rarely sold in the open market in Ukraine other than as part of a continuing business. The market for similar property, plant and equipment is not active in Ukraine and does not provide a sufficient number of sales of comparable assets to allow for using a market-based approach for determining fair value. Consequently, the fair value of structures, plant and machinery was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economic depreciation and obsolescence. The depreciated replacement cost was estimated based on internal sources and analysis of Ukrainian and international markets for similar property, plant and equipment. Various market data was collected from published information, catalogues, statistical data etc, and industry experts and suppliers.

When performing valuation using these methods, the key estimates and judgements applied by the independent valuers, in discussion with the Group's internal valuation team and technicians, are as follows:

– choice of information sources for construction costs analysis (actual costs recently incurred by the Group, specialised reference materials and handbooks, estimates for cost of construction of various equipment etc);
– determination of similar items for replacement cost of certain equipment, as well as corresponding adjustments required to take into account differences in technical characteristics and condition of new and existing equipment;
– selection of market data when determining market value where it is available as well as corresponding adjustments required to take into account differences in technical characteristics and the condition of new and existing equipment;
– determination of applicable cumulative price indices which would most reliably reflect the change in fair value of assets revalued using indexation of carrying amounts;
– use of directories of per-unit replacement cost for buildings and constructions, assuming that all buildings and constructions of similar type and nature within industry have similar replacement costs; and
– liquidation value for items, which are expected to be realised, less cost to sell.

The fair values obtained using depreciated replacement cost and indexation of carrying amounts are validated using discounted cash flow models (income approach, Level 3), and are adjusted if the values obtained using income approach are lower than those obtained using depreciated replacement cost or indexation of carrying amounts (i.e. there is economic obsolescence). Key inputs into discounted cash flow models are consistent with the assumptions used for goodwill impairment testing (Note 8), except for discount rates which are specific to each of the Group's subsidiaries and are pre-tax.

Changes in the above estimates and judgments could have a material effect on the fair value of property, plant and equipment, which, however, is impracticable to quantify due to wide variety of assumptions and assets being valued.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

Remaining useful lives of property, plant and equipment. The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the technical characteristics, physical conditions, management's expectations on use of the respective assets and other factors. This affects depreciation charge and revaluation results.

Remaining useful lives for iron ore mining licences and coal reserves (Note 9) are estimated by management based on reserves' studies performed by independent experts. Results of such studies depend, inter alia, on expert's assessment of geological conditions and feasibility of extraction of mineral resources which is dependent on future levels of prices for iron ore and coking coal and costs of such extraction.

Impairment of trade and other accounts receivable. Management estimates the likelihood of the collection of trade and other accounts receivable based on an analysis of individual accounts. IAS 39 requires to estimate the impairment loss which is computed as the difference between the carrying value of a receivable and the present value of the future cash flows discounted at the receivables effective interest rate.

During 2015 and 2016, the Group recognised full impairment of trade receivables from some of its key customers in the total amount of US$534 million. Factors taken into consideration by management when estimating the future cash flow included an ageing analysis of trade and other accounts receivable, and the financial position and performance of and collection history with the customer. In the current environment there is significant judgement in estimating whether the impaired trade and other receivables and any related penalty interest will be collected. During 2017 the Group commenced sales of iron ore, coke and coal products for the use by one of these customers. All the metal produce of this customer is purchased by the Group and resold externally. All the transactions are performed at an arms-lengths basis. These are not linked to the existing old impaired debt due to the Group thus impairment was not reversed.

Additionally, the estimates used to assess the impairment of trade and other accounts receivable from certain Ukrainian customers are impacted by the uncertainty caused by events in Eastern Ukraine (see discussion of operating environment in Note 2).

Related party transactions. In the normal course of business the Group enters into transactions with related parties. Judgement is applied in determining if transactions are priced at market or non-market terms, where there is no active market for such transactions, and also in estimating the timing of settlement of the balances due from related parties, where there is a history of prolongations. Financial instruments are recorded at origination at fair value using the effective interest method. The Group's accounting policy is to record gains and losses on related party transactions, other than business combination or equity investments, in the income statement. The basis for judgement is pricing for similar types of transactions with unrelated parties and an effective interest rate analysis.

Further, estimation of timing of settlement and recoverability of balances due from related parties requires judgement. Ability of shareholders and parties under their control to repay the amounts due to the Group is dependent to large extent on cash flows from the Group. Such cash flows in the current circumstances may be limited (Note 19). Herewith, the Group is in net payable position with major groups of its related parties (Note 29). No impairment was recognised in respect of balances due from related parties in these consolidated financial statements.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the long-term strategy and plans prepared by management. The strategy is based on management's expectations that are believed to be reasonable under the circumstances and are disclosed in Note 8. In addition, a number of feasible tax planning opportunities are available to the Group to recover the deferred tax asset recognised.

Further, management exercised significant judgement in their assessment whether deferred tax asset related to impaired trade receivables from certain key customers (Note 14) can be recognised as at 31 December 2017 and 31 December 2016. Management estimated that it is not probable that the Group's subsidiaries will be able to realise the tax benefit of the respective deductible temporary differences to the full extent. As a result, as of 31 December 2017 and 2016 deferred tax asset of US$26 million was recognised while deferred tax asset of US$17 million was not recoverable. Recognition of deferred tax asset is supported by proper tax planning performed by management which conforms to the Ukrainian tax legislation. Changes in the estimates and judgements made could have a material effect on these consolidated financial statements.

Post-employment and other long-term employee benefits obligations. Management assesses post-employment and other long-term employee benefit obligations using the Projected Unit Credit Method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. Since the plan is administered by the State of Ukraine, the Group may not have full access to information and therefore assumptions regarding when, or if, an employee takes early retirement, whether the Group would need to fund pensions for ex-employees depending on whether that ex-employee continues working in hazardous conditions, the likelihood of employees transferring from State-funded pension employment to Group funded pension employment could all have a significant impact on the pension obligation.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in determining the net cost (income) for pensions include the discount rate and future salary and benefits increase rate. Any changes in these assumptions will impact the carrying amount of pension obligations as disclosed in sensitivity analysis in Note 21.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on the current market conditions. Additional information is disclosed in Note 21.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

Tax legislation. Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. Management believes its interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities (Note 28).

Functional currency. Judgement was applied in determining the functional currency of Metinvest B.V., which is a holding company for operations of the Group in Ukraine, Italy, the United States of America and other countries. The functional currency of Metinvest B.V. was determined on the basis that: (i) in management's opinion Metinvest B.V. is not an extension of and is not integral to the Ukrainian operations; (ii) the primary economic exposures are to a number of countries; and (iii) Metinvest B.V. retains cash and obtains financing in US dollars. Management therefore determined the US dollar as the functional currency of Metinvest B.V. Amount of net payables of Metinvest B.V. totalled US$628 million as at 31 December 2017 (31 December 2016: US$2,111 million) where potential foreign exchange gains/losses could arise should a different functional currency (UAH) be determined.

Loss of control over the assets located on the temporarily non-controlled territory

As explained in Note 7, the Group lost control over the assets located on the temporarily non-controlled territory. The Group accounted for this event as impairment of related property, plant and equipment and inventories, and, accordingly, recognised the impairment through Other Comprehensive Income to the extent of existing revaluation reserve and recognised further impairment loss through the profit and loss. Also, the Group has determined that the operations located on the temporarily non-controlled territories over which control was lost do not represent a disposal of foreign operations as defined in IAS 21.

Operations of the entities located on the temporarily non-controlled territory are not a major line of business and not a separate geographical segment therefore the management believes that these activities do not represent discontinued operations.

(i) Control over the legal entities whose operations on the temporarily non-controlled territory were lost. The Group retains a legal ownership over the entities whose physical assets and production activities are located on the temporarily non-controlled territories. Management determined that it retains control over these entities as these entities are registered on the controlled territory of Ukraine and the Group continues to perform transactions in accordance with Ukrainian legislation. Thus, the Group continues to consolidate the remaining assets (largely trade and other receivables) and liabilities of those entities and accounted for the loss of control of tangible assets as their impairment.

Would the position be adopted that control over the legal entities is lost as at 15 March 2017, the net assets of the entities in the amount of US$13 million (before the impairment disclosed in Note 7) would be deconsolidated and the fair value of accounts payable due to the entities and accounts receivable due from the entities would be recognised. Additionally, a reclassification of US$601 million of accumulated net negative Currency Translation Reserve ('CTR') from Other Comprehensive Income to profit and loss in the Income Statement would have been required. If the legal entities are disposed of or abandoned in the future, the full amount of CTR as of that date would need to be reclassified from Other Comprehensive Income to the profit and loss.

(ii) Currency translation reserve related to entities located on the temporarily non-controlled territory. The lost operations have not been consolidated directly but only together with the remaining operations of each of the legal entity, which continue to exist and be controlled by the Group. Operations and management were structured in such a way that each legal entity in its entirety was considered to be one entity and, therefore, the lost part of an entity does not represent a branch or a business. Thus the management determined that these operations do not represent a disposal of foreign operations as defined in IAS 21 The Effects of Changes in Foreign Exchange Rates and therefore no accumulated CTR on those entities is reclassified to profit and loss. Would it be determined that operations lost represent a disposal of foreign operations, the accumulated CTR relating to those operations would need to be reclassified from Other Comprehensive Income to the profit and loss, resulting in negative charge to Income Statement and no impact on total Comprehensive Income for the period.

If all the net assets of the entities located on the temporarily non-controlled territory were derecognised, the negative charge of CTR in income statement would have been US$601 million, as stated above; the exact amount of the charge would depend on whether only part or all the assets and liabilities of these entities were derecognised. Thus this charge would be significantly larger if only assets and (or) some liabilities of these entities were derecognised.

(iii) Impairment of property, plant and equipment located on the temporarily non-controlled territory. Management has determined that the loss of control over the physical assets does not require the derecognition of these assets as the Group still holds the legal title over these assets as their seizure is illegal and might be temporary. Moreover, the Group may still be able to claim some compensation for the assets through international courts.

As such, management of the Group has performed a revaluation of respective property, plant and equipment and determined that the value of these assets is zero, thus recognising US$205 million as decrease of previously recognised revaluation in Other Comprehensive Income and US$228 million as impairment charge in profit and loss. Would the judgement is made that the assets are derecognised, the whole amount of US$433 million of decrease of carrying value of property, plant and equipment would need to be charged as impairment in profit and loss (Note 7). Additionally, the remaining revaluation reserve related to these assets in the amount of US$330 million (remained upon translation to presentation currency and raised on difference in exchange rates prevailing at revaluation date and average rates at which its annual utilisation was translated in subsequent years) would need to be transferred to retained earnings.

5 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2017:

- ***Amendments to IAS 7: Disclosure Initiative*** The amended IAS 7 requires disclosure of a reconciliation of movements in liabilities arising from financing activities (see Note 19).
- ***Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses*** The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The above amendment did not have any significant impact on the Group's financial statements.

The following new standards, which are relevant to the Group's financial statements, have been issued, but have not been endorsed by the European Union:

- ***Annual Improvements to IFRS Standards 2015-2017 Cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*** (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);
- ***Annual Improvements to IFRS Standards 2014-2016 Cycle*** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018);
- ***IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018); and
- ***IFRIC 23 Uncertainty over Income Tax Treatments*** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).

The following new standards which are relevant to the Group's consolidated financial statements, have been issued and endorsed by the European Union, but have not been effective for financial periods beginning on or after 1 January 2017:

- ***IFRS 16 Leases*** *(issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)*. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently.

  IFRS 16 will require the Group to recognise in the balance sheet assets taken in an operating lease and the related lease liabilities. Management has initiated an exercise to calculate the impact of this new standard. Based on preliminary calculation the Group will recognise Right-of-use assets and respective Lease liability approximating to US$20 million as at 1 January 2019. Management intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to the adoption.

- ***IFRS 9, Financial Instruments*** *(effective for annual periods beginning on or after 1 January 2018)*. Key features of the new standard are: Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

  Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

  Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

  When the standard is effective, the Group will debit the amortised amount of the US$56 million of previously capitalised effect of modification of borrowings in March 2017 to retained earnings as of 1 January 2018.

  Management is implementing a new impairment model that requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. Based on the assessments undertaken to date, the Group expects some increase in the loss allowance for its financial assets, though this is not expected to be significant to the Group.

5 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard, and account the impact within retained earnings as of 1 January 2018. Comparatives for 2017 will not be restated.

- ***IFRS 15, Revenue from Contracts with Customers*** *(effective for the periods beginning on or after 1 January 2018).* The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

  The Group has analysed the requirements of the standard and has assessed the change in timing of satisfaction of performance obligations. The Group provides freight services to the customers as part of standard products sales contract. Management considers that according to IFRS 15 freight services should be treated as separate performance obligations and should be recognised over the transportation period. Based on preliminary calculation, the effect of this change would lead to recognition of the contract asset and liability as at 1 January 2018, with revenue and related distribution costs in amount not exceeding US$7 million being deferred to 2018. Thus, this change will not have a significant impact on net assets, profit and loss or adjusted EBITDA. Also management is considering the agent versus principal relationships indicators on provision of transportation services provided by the Group to external customers. Although the analysis is not finalised yet, it is not expected that the change will have a major impact on the amount of the Group revenues.

  Management intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

- ***Clarifications to IFRS 15 Revenue from Contracts with Customers*** (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).

  Other new or revised standards or interpretations that will become effective for annual periods starting on or after 1 January 2018 will likely have no material impact to the Group.

6 SEGMENT INFORMATION

The Group's business is organised on the basis of the following main reportable segments:

- Metallurgical – comprising the production and sale of coke, semi-finished and finished steel products; and
- Mining – comprising the production, enrichment and sale of iron ore and coal by the Group's Ukrainian operations and UCC, the Group's US coal operations. Output of the Group's mining business covers iron ore and coking coal needs of the Group's steelmaking business with surplus sold to third parties. While management reviews financial information of UCC separately from other mining operations, UCC operating segment has been aggregated with the Group's Ukrainian mining operations into the Mining reportable segment. The two operating segments were aggregated into one reportable segment as they have similar nature of products (mineral commodities used in metallurgy) and production processes (underground and open-pit mining with further enrichment) and sell products to customers in metallurgical industry and commodity traders. Prices for their products depend on global benchmark prices for hard coking coal and iron ore; as such their margins and growth rates show comparable dynamics over the longer term.

As the Group entities are present in various jurisdictions, there are some differences in regulatory environment; however, they have no significant impact on segments' operating and financing activities. Segmentation presented in these consolidated financial statements is consistent with the structure of financial information regularly reviewed by the Group's management, including Chief Operating Decision-Maker (CODM).

Operating segments' performance is assessed based on a measure of adjusted EBITDA. This measurement basis excludes dividend income, impairment of goodwill, other intangible assets and property, plant and equipment, the effects of non-recurring expenditures from the operating segments and foreign exchange gains/losses. Revenues and expenses for internal reporting purposes have been accounted for using IFRS principles. Certain adjustments are applied by management to contractual prices for intersegment sales.

6 SEGMENT INFORMATION CONTINUED

Segment information for the year ended 31 December 2017 was as follows:

	Metallurgical	Mining	Corporate	Eliminations	Total
2017					
Sales – external	7,411	1,520	–	–	**8,931**
Sales to other segments	53	1,940	–	(1,993)	**–**
Total of the reportable segments' revenue	**7,464**	**3,460**	**–**	**(1,993)**	**8,931**
Adjusted EBITDA	**673**	**1,190**	**(79)**	**(65)**	**1,719**
Share in EBITDA of joint ventures	135	190	–	–	**325**
Adjusted EBITDA including share in EBITDA of joint ventures	**808**	**1,380**	**(79)**	**(65)**	**2,044**
Reconciling items:					
Depreciation and amortisation	(285)	(226)	(14)	–	**(525)**
Impairment of PPE and other intangible assets	(226)	(58)	–	–	**(284)**
Share of result of associates and depreciation, amortisation, tax and finance income and costs in joint ventures					**(134)**
Finance income					**29**
Finance costs					**(350)**
Foreign exchange gains less losses, net					**66**
Impairment of associate					**(7)**
Other					**2**
Profit before income tax					**841**

	Metallurgical	Mining	Corporate	Total
Capital expenditure	275	258	9	**542**
Significant non-cash items included into adjusted EBITDA:				
– Impairment of inventories recognised as a result of loss of control over the assets located on the temporarily non-controlled territory	81	11	–	**92**

Segment information for the year ended 31 December 2016 was as follows:

	Metallurgical	Mining	Corporate	Eliminations	Total
2016					
Sales – external	5,027	1,196	–	–	**6,223**
Sales to other segments	77	1,071	–	(1,148)	**–**
Total of the reportable segments' revenue	**5,104**	**2,267**	**–**	**(1,148)**	**6,223**
Adjusted EBITDA	**572**	**428**	**(76)**	**(56)**	**868**
Share in EBITDA of joint ventures	165	120	–	–	**285**
Adjusted EBITDA including share in EBITDA of joint ventures	**737**	**548**	**(76)**	**(56)**	**1,153**
Reconciling items:					
Depreciation and amortisation	(294)	(222)	(13)	–	**(529)**
Impairment and revaluation of PPE and other intangible assets	(25)	(9)	–	–	**(34)**
Share of result of associates and depreciation, amortisation, tax and finance income and costs in joint ventures					**(80)**
Finance income					**26**
Finance costs					**(397)**
Foreign exchange gains less losses, net					**18**
Other					**2**
Profit before income tax					**159**

	Metallurgical	Mining	Corporate	Total
Capital expenditure	196	174	4	**374**
Significant non-cash items included into adjusted EBITDA:				
– impairment of trade and other receivables	(70)	(157)	–	**(227)**

6 SEGMENT INFORMATION CONTINUED

Analysis of revenue by category:

	Metallurgical	Mining	Total
2017			
Sales of own products	**5,028**	**1,367**	**6,395**
– Steel products	4,433	–	**4,433**
– Iron ore products	–	1,264	**1,264**
– Coal and coke	445	96	**541**
– Other	150	7	**157**
Resale of purchased goods	**2,383**	**153**	**2,536**
– Steel products	2,076	–	**2,076**
– Coal and coke	125	119	**244**
– Other	182	34	**216**
Total	**7,411**	**1,520**	**8,931**

Analysis of revenue by category:

	Metallurgical	Mining	Total
2016			
Sales of own products	**3,816**	**1,118**	**4,934**
– Steel products	3,480	–	**3,480**
– Iron ore products	–	978	**978**
– Coal and coke	218	136	**354**
– Other	118	4	**122**
Resale of purchased goods	**1,211**	**78**	**1,289**
– Steel products	1,066	–	**1,066**
– Coal and coke	41	38	**79**
– Other	104	40	**144**
Total	**5,027**	**1,196**	**6,223**

The Group's two business segments operate in six main geographical areas. Revenue by location of customers is presented below:

	Metallurgical	Mining	Total
2017			
Ukraine	1,889	578	**2,467**
Rest of Europe	2,605	614	**3,219**
Middle East and Northern Africa	1,469	–	**1,469**
South Eastern Asia	197	308	**505**
Commonwealth of Independent States ('CIS')	775	–	**775**
North America	416	20	**436**
Other countries	60	–	**60**
Total	**7,411**	**1,520**	**8,931**

	Metallurgical	Mining	Total
2016			
Ukraine	1,129	477	**1,606**
Rest of Europe	1,989	278	**2,267**
Middle East and Northern Africa	948	1	**949**
South Eastern Asia	76	337	**413**
Commonwealth of Independent States ('CIS')	591	–	**591**
North America	217	103	**320**
Other countries	77	–	**77**
Total	**5,027**	**1,196**	**6,223**

As at 31 December 2017 and 31 December 2016, 92% of the Group's non-current assets, other than financial instruments and deferred tax assets, were located in Ukraine.

7 LOSS OF CONTROL OVER THE ASSETS LOCATED ON THE TEMPORARILY NON-CONTROLLED TERRITORY

In February 2017, the self-proclaimed authorities on the temporarily non-controlled territory announced their intention to seize businesses located on the temporarily non-controlled territory and to require them to comply with local fiscal, regulatory and other requirements, which contradict Ukrainian legislation. On 15 March 2017, the Group determined that it had lost control over the operations of entities located on the temporarily non-controlled territory, including: PrJSC Yenakiieve Iron and Steel Works; JV Metalen LLC; PrJSC Makiivka Iron and Steel Works; PrJSC Krasnodon Coal Company; PrJSC Khartsyzsk Pipe Plant; PrJSC Komsomolske Flux Plant; and PrJSC Donetskcoke.

Combined Income Statement and Statement of Comprehensive Income of these subsidiaries is presented below:

	2017	2016
Revenue	137	702
Cost of sales	(122)	(661)
Gross profit	**15**	**41**
Distribution costs	(7)	(37)
General and administrative expenses	(4)	(17)
Other operating income/(expenses), net	13	(12)
Operating profit/(loss)	**17**	**(25)**
Results of the loss of control over the assets located on temporarily non-controlled territory	(293)	–
Finance income	–	40
Finance costs	(49)	(58)
Loss before income tax	**(325)**	**(43)**
Income tax (expense)/credit	(27)	8
Loss for the period	**(352)**	**(35)**
Loss attributable to:		
Owners of the Company	(327)	(33)
Non-controlling interests	(25)	(2)
Loss for the period	**(352)**	**(35)**
Other comprehensive income/(loss):		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	8	(35)
Items that will not be reclassified to profit or loss:		
Revaluation decreases that offset previous increases in the carrying amount of property, plant and equipment	(205)	–
Remeasurement of retirement benefit obligations	4	26
Income tax related to items that will not be reclassified subsequently to profit or loss	35	(5)
Total other comprehensive loss	**(158)**	**(14)**
Total comprehensive loss for the period	**(510)**	**(49)**
Total comprehensive loss attributable to:		
Owners of the Company	(479)	(49)
Non-controlling interest	(31)	–
Total comprehensive loss for the period	**(510)**	**(49)**

With respect to figures included within the disclosure above, trading operations presented until 15 March 2017, the moment when control was lost, and administrative expenses incurred during the entire 2017.

As of 15 March 2017, these subsidiaries' aggregate consolidated tangible assets located on the temporarily non-controlled territory amounted to US$515 million (5% of the Group's total consolidated assets). Due to losing control over the assets located on the temporarily non-controlled territory in March 2017, management of the Group performed a revaluation of property, plant and equipment and determined that the value of these assets is zero. Also, other assets (inventories and certain intangible assets) of these subsidiaries were fully impaired. This resulted in the recognition of property, plant and equipment impairment amounting to US$433 million and impairment of inventory and replaceable equipment amounting to US$82 million.

Management derecognises financial liabilities from the balance sheet when, and only when, the obligation specified in the contract is discharged or cancelled or expires. The amounts below derecognised represent management's assessment based on its analysis and evidence obtained to date. This accounting estimate may change in the future.

As a consequence of the loss of control over the operations of entities located on the temporarily non-controlled territory and the resultant dismissal of employees of these subsidiaries, management remeasured the retirement benefit obligation. The decrease in the obligation was primarily a result of applying an assumption that employees dismissed during 2015-2017 continue to work on the temporarily non-controlled territory and thus are unable to gain required experience to be entitled for preferential retirement under Ukrainian legislation. In addition, it was assumed that only a part of pensioners eligible for early pension will register on Ukrainian territory and claim for their pensions. The resulting US$18 million gain from the change of the above assumptions were recorded in other comprehensive income.

Further, the obligations under collective bargaining agreements were decreased to reflect the loss of control over the operations producing such coal/domestic fuel for settlement of these.

7 LOSS OF CONTROL OVER THE ASSETS LOCATED ON THE TEMPORARILY NON-CONTROLLED TERRITORY CONTINUED

Due to uncertainty of these entities' future taxable income, the Group reassessed the realisability of deferred tax assets attributable to reporting period losses as well as tax losses carry forward as at 31 December 2016. Thus, the Group did not recognise deferred tax asset of US$63 million relating to 2017 losses and wrote-down deferred tax arisen on accumulated tax losses of prior periods in the amount of US$20 million.

The above events have also affected subsidiaries whose operations are physically located on the controlled territory. As such, the Group charged impairment provision on tangible assets located on the temporarily non-controlled territory, but belonging to the subsidiaries whose operations are physically located on the controlled territory, as a result of the inability to access such assets. This resulted in recognition of an additional property, plant and equipment impairment of US$19 million and impairment of inventory and replaceable equipment of US$10 million.

Total result of loss of control over the operations of these subsidiaries charged to the Consolidated Statement of Comprehensive Income of the Group is as follows:

	Recognised in profit and loss	Recognised in Other comprehensive income	Total
Result of loss of control over the assets of subsidiaries whose operations are located on the temporarily non-controlled territory:			
Property, plant and equipment (Notes 4 and 10)	228	205	**433**
Inventory	82	–	**82**
Intangible assets	2	–	**2**
Retirement benefit obligations	(15)	(18)	**(33)**
Other non-current liabilities	(4)	–	**(4)**
Total loss attributable to the assets of subsidiaries located on the temporarily non-controlled territory:	**293**	**187**	**480**
Result of loss of control over certain assets of subsidiaries whose operations are located on the controlled territory, but certain assets were temporarily located on the temporarily non-controlled territory:			
Property, plant and equipment	19	–	**19**
Inventory	10	–	**10**
Investment in associate	7	–	**7**
Total loss attributable to the assets of subsidiaries located on the controlled territory:	**36**	**–**	**36**
Total loss	**329**	**187**	**516**

The Group also recognised impairment of JSC Yenakievskiy Koksohimprom of US$7 million as operations of this associate are also located on the temporarily non-controlled territory.

Management have sought to actively manage and limit the impact of these events on the Group's operations by adopting a number of contingency arrangements.

8 GOODWILL

The movements of goodwill were as follows:

	2017	2016
As at 1 January		
Original amount	1,222	1,303
Accumulated impairment	(679)	(702)
Net carrying amount	**543**	**601**
Currency translation differences	60	(58)
As at 31 December		
Original amount	1,315	1,222
Accumulated impairment	(712)	(679)
Net carrying amount	**603**	**543**

Management allocates and monitors goodwill at the following groups of cash-generating units ('CGUs') which represent operating segments:

	31 December 2017	31 December 2016
Metallurgical	556	493
Mining	47	50
Total	**603**	**543**

8 GOODWILL CONTINUED

As described in Note 4, management has analysed the events that have occurred and circumstances that have changed since the last year goodwill impairment testing performed, including the areas of discount rate, gross margins earned and lost assets as disclosed in Note 7, and concluded that the likelihood that a current recoverable amount determination as of 31 December 2017 would be less than the current carrying amount of the unit is remote. As such, the relevant goodwill impairment testing details has been carried forward from the preceding period.

The recoverable amount has been determined based on fair value less cost to sell estimations.

To ensure that the impairment testing model fully reflects the anticipated long-term changes in cash flows, for the impairment test the Group used cash flow projections for 10 years which are consistent with the Group's strategy approved by senior management; the first year of forecast is based on the Group's approved business plan for the year.

The valuation method used for determination of each CGU fair value is mostly based on unobservable market data, which is within Level 3 of the fair value hierarchy.

The following table and further paragraphs summarise key assumptions on which management has based its cash flow projections to undertake the impairment testing of goodwill:

	2016
Metallurgical	
Post-tax discount rate (US$)	11.67%
EBITDA margins (based on FCA prices)	2017: 15%, 2018: 20%, further – from 14% to 20%
Growth rate in perpetual period	3%
Mining	
Post-tax discount rate (US$)	12.07%
EBITDA margins (based on FCA prices)	2017: 37%, 2018: 20%, further – from 27% to 35%
Growth rate in perpetual period	3%

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

Discount rate reflects the current market assessment of the time value of money and risks specific to the Group. The discount rate has been determined using the Capital Asset Pricing Model based on observable inputs, inputs from third-party financial analysts and Group-specific inputs.

Forecasted benchmark iron ore prices for Fe 62% fines (CFR North China) are US$60 per tonne in 2017, US$48 per tonne in 2018 and recover at 4% p.a. to US$64 per tonne in 2026. Forecasted prices for other iron ore products and prices at other markets were determined based on respective discounts or premiums for Fe content, pelletising premiums, applicable transportation costs and historic discounts or premiums usual for those markets.

Forecasted coal prices used in the impairment test for all CGUs for low volatile hard coking coal (FOB Queensland) start from US$161 per tonne in 2017, US$124 per tonne in 2018 and grow at 2.25% p.a. on average thereafter. Forecasted prices for other types of coal and prices at other markets were determined based on respective historic discounts for differences in quality of each particular coal type and estimated transportation costs.

Forecasted prices for hot-rolled coils at Ukrainian ports used in the impairment test were estimated based on the benchmark (Metal Expert HRC CIS export FOB Black Sea). Forecasted prices are expected to reach US$476 per tonne in 2026 from year-end levels. Forecasted prices for other steel products are based on historic discounts or premiums to prices for hot-rolled coils.

Forecasts from industry experts and other external reputable sources, as well as internal analysis were used by management to determine price levels used in the impairment test.

An exchange rate of 27 UAH for 1 US$ in 2017 with gradual increase to 31.7 UAH for 1 US$ in 2026 was used in the impairment test for all CGUs as of 31 December 2016.

8 GOODWILL CONTINUED

Metallurgical segment. As at 31 December 2016, the Metallurgical segment's recoverable amount is US$5,283 million and exceeds its total carrying amount by US$1,096 million. The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill (and subsequently to property, plant and equipment and intangible assets) related to the Metallurgical segment:

	31 December 2016
Volumes of production/sales	
Decrease in all the periods by 5.2%	–
Decrease in all the periods by 7.4%	Recoverable amount equals carrying amount
Decrease in all the periods by 9.0%	Impairment of US$229 million required
Steel prices	
Decrease in all the periods by 1.4%	–
Decrease in all the periods by 1.8%	Recoverable amount equals carrying amount
Decrease in all the periods by 2.6%	Impairment of US$462 million required
Decrease in all the periods by 4.0%	Impairment of US$1,302 million required
Iron ore prices	
Increase in all the periods by 7.5%	–
Increase in all the periods by 10.0%	–
Increase in all the periods by 14.6%	Recoverable amount equals carrying amount
Increase in all the periods by 17.0%	Impairment of US$183 million required
Coal prices	
Increase in all the periods by 9.0%	–
Increase in all the periods by 11.1%	Recoverable amount equals carrying amount
Increase in all the periods by 15.0%	Impairment of US$382 million required

	31 December 2016
UAH/US$ exchange rates	
Increase in all the periods by UAH 1	Recoverable amount increases by US$423 million
Discount rates	
Increase in all the periods by 2.1 pp	–
Increase in all the periods by 2.3 pp	–
Increase in all the periods by 5.3 pp	Recoverable amount equals carrying amount
Increase in all the periods by 7.0 pp	Impairment of US$308 million required
Growth rate in perpetual period	No reasonable changes would lead to impairment

Mining segment. As at 31 December 2016, the recoverable amount of the Mining segment is US$2,036 million and exceeds its total carrying amount by US$453 million. The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill related to this group of CGUs:

	31 December 2016
Iron ore prices	
Decrease in all the periods by 0.8%	–
Decrease in all the periods by 3.3%	Recoverable amount equals carrying amount
Decrease in all the periods by 5.0%	Impairment of US$231 million required
Decrease in all the periods by 10.0%	Impairment of US$915 million required
UAH/US$ exchange rates	
Increase in all the periods by UAH 1	Recoverable amount increases by US$129 million
Discount rates	
Increase in all the periods by 0.5 pp	–
Increase in all the periods by 1.7 pp	–
Increase in all the periods by 2.2 pp	Recoverable amount equals carrying amount
Increase in all the periods by 5.0 pp	Impairment of US$291 million required
Growth rate in perpetual period	No reasonable changes would lead to impairment

UCC. The table summarising the impact of changes in main assumptions to the impairment of property, plant and equipment of UCC group of CGUs is disclosed in Note 10.

9 OTHER INTANGIBLE ASSETS

The movements of other intangible assets were as follows:

	Coal reserves	Licenses and mining permits	Other intangible assets	Total
As at 1 January 2016				
Cost	418	241	209	**868**
Accumulated amortisation and impairment	(411)	(122)	(171)	**(704)**
Net carrying amount	**7**	**119**	**38**	**164**
Additions	–	–	5	**5**
Impairment (Note 8)	(7)	–	–	**(7)**
Currency translation differences	–	(13)	(4)	**(17)**
Amortisation	–	(13)	(7)	**(20)**
As at 31 December 2016				
Cost	418	213	208	**839**
Accumulated amortisation and impairment	(418)	(120)	(176)	**(714)**
Net carrying amount	**–**	**93**	**32**	**125**
Impairment (Note 8)	–	(4)	(2)	**(6)**
Additions	–	14	9	**23**
Currency translation differences	–	(3)	–	**(3)**
Amortisation	–	(12)	(7)	**(19)**
As at 31 December 2017				
Cost	418	220	215	**853**
Accumulated amortisation and impairment	(418)	(132)	(183)	**(733)**
Net carrying amount	**–**	**88**	**32**	**120**

The iron ore license is being amortised using the units-of-production method over its remaining useful life of approximately 8 years.

The coal reserves were acquired as part of the acquisition of UCC in 2009. The coal reserves are being amortised using the units-of-production method over their useful lives of approximately 6-30 years. As at 31 December 2017 and 31 December 2016, these reserves were fully impaired.

10 PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment were as follows:

	Land	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
Cost or valuation						
As at 1 January 2016	**50**	**1,882**	**3,383**	**67**	**447**	**5,829**
Additions	–	–	–	–	369	**369**
Transfers	–	72	134	3	(209)	**–**
Disposals	–	(12)	(36)	(11)	(2)	**(61)**
Reclassification to inventory	–	–	–	–	(11)	**(11)**
Elimination against gross carrying amount upon revaluation	–	(135)	(452)	(2)	–	**(589)**
Revaluation	–	336	615	–	40	**991**
Revaluation decreases that offset previous increases	–	(159)	(201)	–	(4)	**(364)**
Currency translation differences	(2)	(201)	(351)	(6)	(61)	**(621)**
As at 31 December 2016	**48**	**1,783**	**3,092**	**51**	**569**	**5,543**
Additions					519	**519**
Transfers	1	104	299	12	(416)	**–**
Disposals	–	(4)	(18)	(2)	(1)	**(25)**
Reclassification to inventory	–	–	–	–	(6)	**(6)**
Currency translation differences	6	(46)	(71)	(1)	(17)	**(129)**
As at 31 December 2017	**55**	**1,837**	**3,302**	**60**	**648**	**5,902**
Accumulated depreciation and impairment						
As at 1 January 2016	**–**	**(270)**	**(679)**	**(31)**	**(27)**	**(1,007)**
Charge for the year	–	(132)	(371)	(9)	–	**(512)**
Disposals	–	9	34	8	–	**51**
Transfers	–	–	(1)	1	–	**–**
Elimination against gross carrying amount upon revaluation	–	135	452	2	–	**589**
Impairment	–	(10)	(5)	–	(10)	**(25)**
Currency translation differences	–	31	48	3	3	**85**
As at 31 December 2016	**–**	**(237)**	**(522)**	**(26)**	**(34)**	**(819)**
Charge for the year	–	(131)	(373)	(7)	–	**(511)**
Disposals	–	4	17	–	1	**22**
Transfers	–	–	–	–	–	**–**
Elimination against gross carrying amount upon revaluation	–	–	–	–	–	**–**
Impairment	–	(218)	(196)	(8)	(84)	**(506)**
Currency translation differences	–	17	20	1	6	**44**
As at 31 December 2017	**–**	**(565)**	**(1,054)**	**(40)**	**(111)**	**(1,770)**
Net book value as at						
31 December 2016	**48**	**1,546**	**2,570**	**25**	**535**	**4,724**
31 December 2017	**55**	**1,272**	**2,248**	**20**	**537**	**4,132**

As at 31 December 2017 and 2016, construction in progress balance includes prepayments and letters of credit for property, plant and equipment of US$79 million and US$77 million, respectively.

During 2017 and 2016, management performed assessments of whether the carrying amounts of items of property, plant and equipment are materially different from their fair values. Where the material differences were identified as probable, the Group determined the fair value of its property, plant and equipment through a combination of independent appraisers and internal assessments. The Group aims to revalue a class of property, plant and equipment simultaneously; in case of revaluing a class on a rolling basis, the Group completes the revaluation within a short period, and keeps revaluations up to date. Substantially all the property, plant and equipment balance was either revalued or tested for impairment (whenever impairment indicators existed) during both 2017 and 2016.

UCC. As at 31 December 2017, the recoverable amount of UCC is US$140 million (31 December 2016: US$160 million). The recoverable amount has been determined based on fair value less cost to sell estimations.

In 2016, the Group recognised impairment of US$7 million of coal reserves of one of the mines due to significant uncertainty in respect of its future development.

10 PROPERTY, PLANT AND EQUIPMENT CONTINUED

As at 31 December 2017, management performed assessment of the UCC impairment as a result of which additional impairment of two mines in the amount of US$51 million and reversal of impairment of the third mine in the amount of US$20 million were recognised. Out of the aggregate impairment of US$31 million, US$27 million were recorded against property, plant and equipment and US$4 million against mining permits (Note 9). The impairment losses of two mines mainly resulted from the increased cash costs due to poor geology of some sites. Additionally, the reversal of the impairment for the third mine mainly relates to decided seizure of operations of high cost site and development of the new site with better geology and cash costs.

The discount rate used for the impairment testing of UCC was 10% (31 December 2016: 10%).

The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of property, plant and equipment of UCC:

	31 December 2017	31 December 2016
Coal prices		
Decrease in all the periods by 5.0%	Impairment of US$128 million required	Impairment of US$158 million required
Cash costs		
Increase in all the periods by UAH 5.0%	Impairment of US$128 million required	Impairment of US$123 million required
Discount rates		
Increase in all the periods by 1 pp	Impairment of US$7 million required	Change in recoverable amount by US$5 million

The impairment as at and for the year ended 31 December 2017 is recorded as follows:

	Recognised in profit and loss	Recognised in Other comprehensive income	Total
Property plant and equipment due to loss of control over the assets of subsidiaries located on the temporarily non-controlled territory (Note 7)	228	205	**433**
Property plant and equipment due to loss of control over the assets of subsidiaries located on the controlled territory (Note 7)	19	–	**19**
UCC property plant and equipment	27	–	**27**
Property, plant and equipment due to physical impairment during the period	4	23	**27**
Total property, plant and equipment	**278**	**228**	**506**

During 2017, US$22 million of borrowing costs were capitalised as part of property, plant and equipment, capitalisation rate was 10% (2016: US$27 million, capitalisation rate was 8%).

As at 31 December 2017 US$543 million of property, plant and equipment were pledged as collateral for loans and borrowings (as at 31 December 2016 no property, plant and equipment were pledged).

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's investment in joint ventures and associates were as follows as at 31 December 2017 and 2016:

			2017		2016	
Name	Type of relationship	Segment	% of ownership	Carrying value	% of ownership	Carrying value
Zaporozhstal Group	Joint venture	Metallurgical	49.9%	569	49.9%	491
PJSC Southern Iron Ore Enrichment Works	Joint venture	Mining	45.9%	503	45.9%	394
PrJSC Yenakievskiy Koksohimprom	Associate	Metallurgical	50.0%	–	50.0%	10
PrJSC Zaporozhogneupor	Associate	Metallurgical	45.4%	2	45.4%	2
IMU	Associate	Metallurgical	49.9%	11	49.9%	11
Other	Associate	Mining	n/a	0	n/a	0
Total				**1,085**		**908**

All Group's associates and joint ventures are accounted for using the equity method.

None of the joint ventures and associates are traded on active markets and there are no reliable market prices available.

PJSC SOUTHERN IRON ORE ENRICHMENT WORKS

PJSC Southern Iron Ore Enrichment Works is a large Ukrainian iron ore mining plant which produces iron ore concentrate and sinter. Its products are used by the Group's integrated steel plants and are also sold to the third parties (mostly in China, Ukraine and Europe) primarily through the Group's trading companies.

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

ZAPOROZHSTAL GROUP

The investment in the Zaporozhstal Group is represented by the number of interests in the steel and mining businesses, the most significant being:

- 49.9% effective interest in JSC Zaporozhstal Integrated Iron & Steel Works ('Zaporozhstal'), a large Ukrainian integrated steel plant which sources majority of its iron ore and coke consumption from the Group and sells majority of its finished products through the Group's trading companies;
- 24% effective interest in PrJSC Zaporizhya Iron Ore Plant, large iron ore mining enterprise in Ukraine which sells part of its iron ore output to Zaporozhstal; and
- 42.8% effective interest in PrJSC Zaporozhkoks and a 49.2% effective interest in PrJSC Zaporozhogneupor which are Group's subsidiary and associate, respectively.

As at 31 December 2017 and 2016, Metinvest's investments in Zaporozhstal Group and PJSC Southern Iron Ore Enrichment Works were classified as joint ventures due to the fact that decisions on the key relevant activities require participation of and unanimous consents both from Metinvest and from the other shareholders of the Zaporozhstal Group and PJSC Southern Iron Ore Enrichment Works.

Movements in the carrying amount of the Group investments in associates and joint venture are presented below:

	2017	2016
Carrying amount at 1 January	**908**	**779**
Share of after tax results of joint ventures and associates	191	205
Share of other comprehensive income of joint ventures and associates	39	35
Impairment of PrJSC Yenakievskiy Koksohimprom (Note 7)	(7)	–
Sale of share in Black Iron (Cyprus) Limited	–	(6)
Dividends declared	(6)	–
Currency translation difference	(40)	(105)
Carrying amount at 31 December	**1,085**	**908**

As of 31 December 2017, Zaporozhstal engaged independent appraiser to perform a revaluation of its property, plant and equipment as the assets' fair value was expected to be higher than their carrying amounts. The revaluation result of property, plant and equipment of US$56 million is included within the 'Share of other comprehensive income of joint ventures' line above. The valuation approach, key estimates and judgements applied are substantially in line with those applied by the Group as part of the revaluation of property, plant and equipment as of 31 December 2016 which are described in Notes 4 and 10.

The nature of the activities of the Group's associates, the Group's relationships with its associates and their key financial information is as follows:

- PrJSC Yenakievskiy Koksohimprom, Ukrainian producer of coke which sources majority of its coal consumption from the Group and sells majority of its coke output to the Group's steel plants; PrJSC Yenakievskiy Koksohimprom had revenues of US$18 million and net loss of US$7 million in 2017 (2016: US$75 and net profit of US$7, respectively) and total assets of US$47 million as at 31 December 2017 (31 December 2016: US$92 million). Operations and assets of this entity are located on temporarily non-controlled territory. Due to events described in Note 7, the Group recognised impairment of this investment amounting to US$7 million in 2017.
- PrJSC Zaporozhogneupor, Ukrainian producer of refractories, with revenue of US$63 million and net profit of US$2 million in 2017 (2016: revenue of US$49 million and net profit of US$1 million, respectively) and total assets of US$35 million as at 31 December 2017 (31 December 2016: US$24 million);
- Industrial-Metallurgical Union ('IMU'), entity which owns 4.5% interest in ArcelorMittal Kryvyi Rih, the largest integrated steel plant in Ukraine.

The summarised financial information of the Group's joint ventures is as follows:

	Zaporozhstal Group		PJSC Southern Iron Ore Enrichment Works	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Balance sheet:				
Non-current assets	**933**	**796**	**357**	**363**
Cash and cash equivalents	18	39	176	8
Other current assets	1,311	733	684	560
Total current assets	**1,329**	**772**	**860**	**568**
Trade and other payables and provisions	103	84	–	–
Other non-current financial liabilities	25	31	42	30
Total non-current liabilities	**128**	**115**	**42**	**30**
Trade and other payables and provisions	1,055	532	76	41
Other current financial liabilities	108	110	–	1
Total current liabilities	**1,163**	**642**	**76**	**42**
Net assets	**971**	**811**	**1,099**	**859**

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

	Zaporozhstal Group		PJSC Southern Iron Ore Enrichment Works	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Profit or loss for the year ended (selected items):				
Revenue	1,775	1,321	749	569
Depreciation and amortisation	(73)	(71)	(24)	(29)
Interest income	1	1	1	1
Interest expense	(16)	(17)	(4)	(4)
Income tax expense	(29)	(37)	(80)	(50)
Profit or loss	170	201	325	228
Statement of comprehensive income for the year ended:				
Other comprehensive income	106	(8)	(18)	74
Total comprehensive income	276	193	307	302
Dividends received by the Group during the year ended	–	–	6	–

The information above reflects the amounts presented in the financial statements of the joint ventures and associates and the impact of fair value adjustments made on acquisition of these joint ventures and associates, if any.

As at 31 December 2017, Zaporozhstal had a contingent liability with potential maximum outflow of US$30 million (31 December 2016: US$22 million). This contingent liability represents default interest on a loan taken by then a Zaporozhstal's subsidiary (deconsolidated by Zaporozhstal in 2015) which defaulted on this loan. The loan is guaranteed by Zaporozhstal. The financial guarantee was recognised in full by Zaporozhstal, but the default interest has not been accrued as there is uncertainty as to this amount.

The reconciliation of the net assets of the Group's joint ventures presented above to the carrying amounts of the respective investments is presented below:

	Zaporozhstal Group		PJSC Southern Iron Ore Enrichment Works	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Net assets	**971**	**811**	**1,099**	**859**
Group's ownership, %	49.9%	49.9%	45.9%	45.9%
Group's interest in net assets	485	404	503	394
Goodwill	84	87	–	–
Carrying value	**569**	**491**	**503**	**394**

12 INCOME TAX PREPAID

	31 December 2017	31 December 2016
Non-current portion	8	25
Current portion	9	18
Total income tax prepaid	**17**	**43**

Group's income tax prepayments originated mainly on principal Ukrainian production subsidiaries due to legislative requirement of advance payment of corporate profit tax which was in force in previous periods. Starting from 1 January 2016 changes to the Ukrainian Tax Code were enforced, including the cancellation of required advance payments of corporate profit tax.

The classification of prepayments as of 31 December 2017 is based on Group management's assessment of taxable profits of subsidiaries and amounts of expected cash refunds from the State during 2018.

13 INVENTORIES

	31 December 2017	31 December 2016
Finished goods and work in progress	563	475
Raw materials	460	329
Ancillary materials, spare parts and consumables	120	113
Goods for resale	92	32
Total inventories	**1,235**	**949**

13 INVENTORIES CONTINUED

In 2017, the Group recognised impairment of inventories which were located on the temporarily non-controlled territory amounting to US$92 million (Note 7). In 2017, write-downs of inventories to net realisable value amounted to US$4 million (2016: the Group had net reversal of an inventory write-down of US$45 million due to sale of respective inventories, increase of steel prices and recovery of gross margins).

As at 31 December 2017, inventories totalling US$35 million (31 December 2016: US$50 million) have been pledged as collateral for borrowings (Note 19).

14 TRADE AND OTHER RECEIVABLES

	31 December 2017	31 December 2016
Non-current assets		
Trade receivables	35	–
Loans issued to SCM (US$-denominated, 7% effective interest rate)	41	36
Loans issued to SMART (US$-denominated, 9% effective interest rate)	87	82
Other non-current financial assets	5	6
Other non-current non-financial assets	13	13
Total non-current assets	**181**	**137**
Current financial assets		
Trade receivables and receivables on commission sales	1,728	907
Loans issued to joint venture (US$-denominated, 11% effective interest rate, mature in 2018, renegotiated in 2017)	98	98
Other receivables	57	69
Total current financial assets	**1,883**	**1,074**
Current non-financial assets		
Recoverable value added tax	261	200
Prepayments made	107	177
Covered letters of credit related to inventory purchases	19	74
Prepaid expenses and other non-financial receivables	72	55
Total current non-financial assets	**459**	**506**
Total current assets	**2,342**	**1,580**
Total trade and other receivables (including non-current assets)	**2,523**	**1,717**

Recoverable VAT mainly relates to Ukrainian subsidiaries of the Group. During 2017, VAT refunds of US$547 million were received by the Group (2016: US$361 million). Although there are certain delays with the refund of part of this balance amounting to US$46 million related to the subsidiaries located on the temporarily non-controlled territory, the Group has a proved right for the refund of this amount and considers this balance as fully recoverable.

The Group has legal right to request settlement of the current loans issued to related parties within a 12-month period after the reporting date. The decision on whether to call for repayment or extend the term of the loan is subject to future developments and yet to be done.

In addition, the Group has extended the settlement dates for some of its customers for the period less than one year with no material losses recognised on the renegotiated terms.

During 2017, trade accounts receivable in the amount of US$1,054 million have been sold to a third party (2016: US$707 million). As at 31 December 2017 amount of such receivables which were still unsettled to a third party was US$138 million (31 December 2016: US$115 million). The carrying amount of the assets and liabilities that represent the entity's continuing involvement in the derecognised assets is US$3 million (31 December 2016: US$2 million). The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised assets approximates the carrying value. The maximum exposure to loss from such receivables relates to customer default only and is pre-agreed with the third party purchasing the receivables as the percentage of their nominal amount sold. Such percentage is determined with reference to the historical loss ratio and the statistical model of the respective markets of the Group.

Movements in the impairment provision for trade and other receivables are as follows:

	31 December 2017		31 December 2016	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Provision for impairment at 1 January	**549**	**45**	**329**	**49**
Net impairment during the year	7	–	227	–
Currency translation differences	(4)	(5)	(7)	(4)
Provision for impairment at 31 December	**552**	**40**	**549**	**45**

14 TRADE AND OTHER RECEIVABLES CONTINUED

Analysis by credit quality of financial trade and other receivables is as follows:

	31 December 2017		31 December 2016	
	Trade receivables and receivables on commission sales	Other financial receivables	Trade receivables and receivables on commission sales	Other financial receivables
Key customers	72	–	47	–
SCM and other related companies, including associates and joint ventures	81	118	56	117
Balances covered by bank letters of credit	201	–	85	–
Balances insured	202	–	159	–
Balances factored	36	2	52	3
Existing and new counterparties with no history of default	138	23	82	32
Balances renegotiated with SCM and other related companies, including associates and joint ventures	729	43	185	24
Balances renegotiated with key customers	112	–	34	–
Total fully performing (not past due)	**1,571**	**186**	**700**	**176**
Past due:				
– less than 30 days overdue	110	1	80	–
– 30 to 90 days overdue	43	3	58	1
– 90 to 180 days overdue	10	7	18	16
– 180 to 360 days overdue	11	4	16	79
– over 360 days overdue	18	87	35	19
Total past due, but not impaired	**192**	**102**	**207**	**115**
Total individually impaired	**552**	**40**	**549**	**45**
Less impairment provision	**(552)**	**(40)**	**(549)**	**(45)**
Total	**1,763**	**288**	**907**	**291**

As at 31 December 2017, 2% (31 December 2016: 9%) of receivables which were overdue but not impaired related to key customers and 60% (31 December 2016: 71%) – to SCM and other related parties.

As at 31 December 2017, trade and other receivables totalling US$250 million (31 December 2016: US$123 million) have been pledged as collateral for borrowings (Note 19).

15 CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Current accounts	207	198
Cash in transit	43	19
Bank deposits up to 3 months	9	9
Total cash and cash equivalents	**259**	**226**

The bank balances and term deposits are neither past due nor impaired. Analysis by credit quality of bank balances and term deposits is as follows:

	31 December 2017	31 December 2016
As rated by Moody's:		
– Aa2	13	19
– A1	92	61
– A2	–	–
– A3	35	14
– Baa1	2	4
– Baa2	4	–
– Ba2	4	37
Not rated – FUIB	39	41
Not rated – US and European banks	18	20
Not rated – Other Ukrainian banks	9	11
Cash in transit (in various banks)	43	19
Total cash and cash equivalents	**259**	**226**

As at 31 December 2017 and 2016, amounts in category "Not rated – FUIB" relate to First Ukrainian International Bank (a related party which is under common control of SCM).

15 CASH AND CASH EQUIVALENTS CONTINUED

As at 31 December 2017, included in Ba2 rating are US$4 million related to balance in Switzerland subsidiary of international bank, which does not have own credit rating and for which rating was based on its parents' rating. As at 31 December 2016, included in A1, A3 and Ba2 ratings are US$12 million, US$11 million and US$37 million, respectively, related to balances in Ukrainian and Russian subsidiaries of international banks, which do not have own credit ratings and for which ratings were based on their parents' ratings.

As at 31 December 2017, cash and cash equivalents totalling US$16 million (31 December 2016: US$11 million) have been pledged as collateral for borrowings (Note 19).

16 SHARE CAPITAL AND SHARE PREMIUM

	Number of outstanding shares			Total par value of shares	Share premium	Total
	Class A	Class B	Class C			
At 31 December 2016	**6,750**	**2,251**	**474**	**0**	**6,225**	**6,225**
At 31 December 2017	**6,750**	**2,251**	**474**	**0**	**6,225**	**6,225**

As at 31 December 2017 and 2016, the issued share capital comprised 6,750 ordinary Class A shares, 2,251 ordinary Class B shares and 474 ordinary Class C shares with a par value of EUR 10. Each ordinary share carries one vote and is fully paid.

In 2014, the Company changed its Articles of Association and created three classes of shares (A, B and C). Ownership interests of SCM Limited were transferred to new Class A shares. Ownership interests of SMART were transferred to new Class B shares. Ownership interests of the previous Class B shares were transferred to new Class C shares. Additional rights of these new classes of shares were established, the most significant of which were:

- Class C shareholders have the right to a portion of net assets of the Company and are represented at shareholders' meetings;
- the establishment of a Supervisory Board of 10 members, where seven are appointed by the majority of Class A and Class C shareholders and three are appointed by the Class B shareholder;
- a number of decisions with respect to acquisitions and financing decisions above a specified amount require effectively consent of Class A and B shareholder; and
- Class C shares are not entitled to receive dividends.

17 OTHER RESERVES

	Revaluation of available-for-sale investments and share in OCI of associates	Revaluation of property, plant and equipment and share in revaluation reserve of PPE of the JV	Merger reserve	Cumulative currency translation reserve	Total
Balance as at 1 January 2016	**(13)**	**4,876**	**(3,038)**	**(9,838)**	**(8,013)**
Total comprehensive income/(loss) for the period	4	546	–	(652)	**(102)**
Depreciation transfer, net of tax	–	(327)	–	–	**(327)**
Balance as at 31 December 2016	**(9)**	**5,095**	**(3,038)**	**(10,490)**	**(8,442)**
Total comprehensive income/(loss) for the period	–	(125)	–	(84)	**(209)**
Depreciation transfer, net of tax	–	(283)	–	–	**(283)**
Balance as at 31 December 2017	**(9)**	**4,687**	**(3,038)**	**(10,574)**	**(8,934)**

The revaluation reserve for available-for-sale investments is transferred to profit or loss when realised through sale or impairment. Revaluation reserve for property, plant and equipment is transferred to retained earnings when realised through depreciation, sale or other disposal. Currency translation reserve is transferred to profit or loss when realised through disposal of a subsidiary by sale, liquidation, repayment of share capital or abandonment of all, or part of, that subsidiary.

Retained earnings of the Group represent the earnings of the Group entities from the date they have been established or acquired by the entities under common control. The Group's subsidiaries distribute profits as dividends or transfer them to reserves on the basis of their statutory financial statements prepared in accordance with local GAAP or IFRS as appropriate. Ukrainian legislation identifies the basis of distribution as retained earnings only, however, this legislation and other statutory laws and regulations are open to legal interpretation. Since December 2014, there are particular temporary restrictions for Ukrainian entities to pay dividends abroad (Note 2).

The ability of the Group to pay dividends has been limited by the terms and conditions of the Group's agreements with its lenders and bondholders related to the debt restructuring process (Note 19).

18 MATERIAL NON-CONTROLLING INTERESTS IN SUBSIDIARIES

Subsidiaries that have non-controlling interest that is material to the Group have been determined by management based on combination of the following factors: (i) the percentage of shares held by non-controlling shareholders; (ii) accumulated amount of non-controlling interest ('NCI') in the subsidiary; and (iii) total assets, revenues, profit or loss and OCI of the respective subsidiaries.

The following table provides information about subsidiaries that have non-controlling interest that is material to the Group:

	Proportion of NCI (same as voting rights held by NCI)	Profit or loss attributable to NCI	OCI attributable to NCI	Amount of NCI in the subsidiary	Dividends paid to NCI during the year
As at 31 December 2017					
PrJSC Azovstal Iron and Steel Works	3.3%	–	(1)	30	1
PrJSC Avdiivka Coke Plant	5.4%	6	–	20	–
PrJSC Zaporozhkoks	47.8%	19	(3)	45	–
PrJSC Northern Iron Ore Enrichment Works	3.6%	11	(2)	31	–
Ferriera Valsider S.p.A.	30.0%	4	3	29	–
Other subsidiaries with NCI (Note 7)	n/a	(26)	(6)	(32)	–
Total		**14**	**(9)**	**123**	**1**
As at 31 December 2016					
PJSC Azovstal Iron and Steel Works	3.3%	1	1	34	–
PJSC Avdiivka Coke Plant	5.4%	2	(2)	15	–
JSC Zaporozhkoks	47.8%	7	(4)	29	–
PJSC Northern Iron Ore Enrichment Works	3.6%	5	(1)	38	–
Ferriera Valsider S.p.A.	30.0%	–	(1)	23	–
Other subsidiaries with NCI	n/a	(3)	3	(1)	–
Total		**12**	**(4)**	**138**	**–**

The summarised financial information of these subsidiaries (including the impact of consolidation fair value adjustments, but before intercompany eliminations), was as follows at 31 December 2017 and 2016:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Net assets
As at 31 December 2017					
PJSC Azovstal Iron and Steel Works	1,645	1,089	1,671	163	900
PJSC Avdiivka Coke Plant	629	250	466	31	382
PJSC Zaporozhkoks	233	44	175	8	94
PJSC Northern Iron Ore Enrichment Works	1,036	657	764	76	853
Ferriera Valsider S.p.A.	273	85	252	8	98
As at 31 December 2016					
PJSC Azovstal Iron and Steel Works	1,000	1,117	920	177	1,020
PJSC Avdiivka Coke Plant	449	265	399	30	285
PJSC Zaporozhkoks	98	38	69	7	60
PJSC Northern Iron Ore Enrichment Works	694	710	217	80	1,107
Ferriera Valsider S.p.A.	221	92	233	4	76

	Revenue	Profit/ (Loss)	Total comprehensive (loss)/income
Year ended 31 December 2017			
PrJSC Azovstal Iron and Steel Works	2,633	(21)	(65)
PrJSC Avdiivka Coke Plant	964	106	97
PrJSC Zaporozhkoks	323	40	34
PrJSC Northern Iron Ore Enrichment Works	963	294	238
Ferriera Valsider S.p.A.	497	12	23
Year ended 31 December 2016			
PJSC Azovstal Iron and Steel Works	1,498	26	37
PJSC Avdiivka Coke Plant	588	31	(10)
JSC Zaporozhkoks	181	14	6
PJSC Northern Iron Ore Enrichment Works	718	141	109
Ferriera Valsider S.p.A.	382	(1)	(5)

The Group's centralised treasury monitors the cash flows of the Group's subsidiaries and adjusts the subsidiaries' operating cash flows (e.g. by means of changing intragroup trading balances) to provide sufficient funds for the approved investing activities or payment of taxes, interest and dividends.

As stated in Note 19 in March 2017 the Group restructured its' bonds and pre-export financing which are secured with certain shares of the Group's subsidiaries.

18 MATERIAL NON-CONTROLLING INTERESTS IN SUBSIDIARIES CONTINUED

The bonds are guaranteed on a joint and several basis by the Group's subsidiaries PrJSC Avdiivka Coke Plant, PrJSC Ingulets Iron Ore Enrichment Works, PrJSC Khartsyzsk Pipe Plant, PrJSC Northern Iron Ore Enrichment Works, PrJSC Central Iron Ore Enrichment Works, PrJSC Azovstal Iron and Steel Works, PrJSC Yenakiieve Iron and Steel Works, PrJSC Ilyich Iron and Steel Works, Ukraine – Switzerland Joint Venture Limited Liability Company 'Metalen' and Metinvest Management B.V. The terms of bonds, subject to certain exceptions and qualifications, limit the ability of the Group to:

- undertake certain amalgamation, merger, division, spin-off, transformation or other reorganisation or restructuring;
- incur financial indebtedness above certain limits;
- pay dividends or distributions in respect of its share capital or redeem or repurchase capital stock or subordinated debt;
- create mortgages, pledges, security interests, encumbrances, liens or other charges;
- transfer or sell assets;
- make capital expenditures above certain limits; and
- enter into transactions with affiliates on not arms-length basis.

PXF loans are guaranteed by PrJSC Ingulets Iron Ore Enrichment Works, PrJSC Ilyich Iron and Steel Works and Metinvest Management B.V. Also, as a condition of these loans, certain subsidiaries of Metinvest (PrJSC Azovstal Iron and Steel Works, PrJSC Yenakiieve Iron and Steel Works, PrJSC Northern Iron Ore Enrichment Works, PrJSC Ingulets Iron Ore Enrichment Works, PrJSC Ilyich Iron and Steel Works) are jointly committed to perform sales of steel products to Metinvest International S.A. The proceeds from such sales are transferred through special accounts pledged in favour of the PXF lenders which will have rights to these proceeds only in case when Metinvest does not make a scheduled payment under the credit facilities or otherwise defaults in respect of its obligations under the PXF loans. The amount of funds on such accounts as at 31 December 2017 is US$1 million (31 December 2016: US$0 million).

19 LOANS AND BORROWINGS

As at 31 December, loans and borrowings were as follows:

	31 December 2017	31 December 2016
Non-current		
Bonds issued	1,159	–
Bank borrowings	1,074	–
Non-bank borrowings from related parties	460	–
Trade finance	36	–
Finance lease	10	–
Total non-current loans and borrowings	**2,739**	**–**
Current		
Trade finance	255	161
Bonds issued	7	1,183
Bank borrowings	7	1,110
Finance lease	2	–
Non-bank borrowings from related parties	–	425
Total current loans and borrowings	**271**	**2,879**
Total loans and borrowings	**3,010**	**2,879**

As at 31 December 2017, the bank borrowings include PXF in the amount of US$1,058 million (31 December 2016: US$1,093 million).

Following the inability to make necessary principal payments of pre-export financing in early 2015 and subsequent triggers of defaults and cross-defaults under other banks and non-banks loans and borrowings the Group undertook a number of measures aimed at restructuring of its debt in the period from April 2015. This resulted in a reclassification of all non-current loans and borrowings to current loans as at 31 December 2016.

The Restructuring was implemented on 22 March 2017 when all conditions precedent were satisfied.

Key features of the Restructuring are:

- Existing bonds and PXF facilities were reprofiled and their maturities were extended:
  - 3 series of bonds due in 2016, 2017 and 2018 were exchanged into a new US$1,197 million bond due 31 December 2021 (with a maximum amount of US$1,225 million);
  - 4 syndicated PXF facilities were consolidated into a single US$1,109 million PXF facility due 30 June 2021, with a grace period on scheduled repayments of principal until 31 December 2018; and
  - all accrued and unpaid interest during the moratoriums under bonds and the standstill agreements under the PXF facilities was converted into the principal of the new instruments.
- New bond and PXF facility are treated as senior liabilities of the Group and rank pari passu between themselves. Relationships between bondholders and PXF lenders are governed by an Intercreditor Agreement.
- Interest rates increased for both debt instruments, but interest is payable in full to the extent there is available unrestricted cash (i.e. cash balance after deduction of cash in transit, amounts held in special accounts in Ukraine for the purpose of purchase of foreign currency and certain other amounts). This provides a cash flow flexibility for the Group and makes it more resistant to the volatile external economic environment.

19 LOANS AND BORROWINGS CONTINUED

– Interest rate increased for both debt instruments – for bonds to 10.875% per annum and for PXF to the aggregate of 4.16% per annum and LIBOR for US dollar with a 1% floor.
  - Until 31 December 2018, a minimum of 30% of interest is to be paid in cash. The remaining interest is paid via a quarterly cash sweep with a condition of the average unrestricted cash balance being above US$180 million. All interest, except for catch-up interest, which is not paid in cash is to be capitalised. Catch-up interest under bonds is set at 1.5025% per annum and is payable to the extent of cash being available on the corresponding level of the cash sweep.
  - Starting 1 January 2019, all interest under both debt instruments is payable in cash in full amount.
– In addition to recourse rights of bondholders and PXF lenders existing under debt instruments which were subject to the Restructuring, the creditors received rights over common security consisting of, inter alia, the following items. The common security is subject to release under certain circumstances:
  - share pledge over 100% of shares of Metinvest Management B.V. which is 100% owned by Metinvest B.V. and owns 99.8% of the share capital of PrJSC Ingulets Iron Ore Enrichment Works, 99.3% of the share capital of PrJSC Ilyich Iron and Steel Works and 50%+1 share of PrJSC Central Iron Ore Enrichment Works;
  - a guarantee from Metinvest Management B.V.;
  - share pledge over 50%+1 share of each of PrJSC Ingulets Iron Ore Enrichment Works, PrJSC Ilyich Iron and Steel Works and PrJSC Central Iron Ore Enrichment Works;
  - pledge of certain equipment from PrJSC Ingulets Iron Ore Enrichment Works, PrJSC Ilyich Iron and Steel Works and PrJSC Central Iron Ore Enrichment Works; and
  - pledge over certain bank accounts (including debt service account).
– Certain covenants are imposed on the Group, including limitations to pay dividends, make certain payments, engage in certain transactions with related parties, make capital expenditures above certain levels, incur new debt on top of the permitted caps (unlimited trade finance, capital expenditure financing of US$175 million, debt for general corporate purposes of US$50 million), prepay or redeem subordinated debt before its maturity, as well as certain financial covenants (interest cover ratio, debt cover ratio, tangible net worth, gearing).
– Existing and future loans from SCM and SMART are to be subordinated in favour of the new bond and PXF facility.
– Additional reporting requirements are imposed on the Group.

The transaction was treated as a modification of original financial instrument as the difference between the present value of the cash flows under the new terms discounted using the original effective interest rate and discounted present value of the remaining cash flows of the original financial liability is less than 10%. This difference (including the transaction fees paid) was accounted for through the change of the effective interest rate resulting in an increase from 5% to 7% for the PXF facilities and 10% to 12% for bonds.

As of 31 December 2017, US$56 million of fees and costs paid directly related to restructuring were capitalised in the amount of borrowings.

As of 31 December 2017, the Group's restructured bonds were traded on open markets with a premium of approximately 5% (31 December 2016: the Group's 2018 bonds were traded on open market with a discount of approximately 8% to their nominal value, 2017 bonds – with a discount of approximately 9% and 2016 bonds – with discount of approximately 8%). As at 31 December 2017, the fair value of bonds was US$1,251 million (31 December 2016: US$1,102 million) as determined by reference to observable market quotations. Have these market quotations been used to determine the fair values of the bank borrowings as at 31 December 2017, those would be US$1,161 million (31 December 2016: in the range of US$1,032 million and US$1,040 million, respectively). Despite these quotations, these amounts do not necessarily represent the fair value of the bonds and bank borrowings as at 31 December 2016. These amounts reflect the situation as at 31 December 2016 when the Company was in default and cross-default on its bank and non-bank loans and borrowings.

The majority of the Group's bank borrowings and trade finance have variable interest rates. The weighted average effective interest rates and currency denomination of loans and borrowings as at the balance sheet dates are as follows:

	31 December 2017				31 December 2016	
In % per annum	**US$**	**EUR**	**GBP**	**CHF**	**US$**	**EUR**
Bank borrowings	7%	3%	–	–	5%	3%
Bonds issued	12%	–	–	–	10%	–
Non-bank borrowings from related parties	7%	–	–	–	10%	–
Trade finance	4%	3%	5%	7%	4%	2%
Finance lease	8%	–	–	–		
Reported amount	**2,844**	**144**	**20**	**2**	**2,802**	**77**

The Group defines net debt as the sum of bank loans, bonds, trade finance, seller notes and subordinated shareholder loans less cash and cash equivalents.

19 LOANS AND BORROWINGS CONTINUED

Movements in the Groups' net debt are presented below:

	Cash in banks	Deposits up to 3 months	Bank borrowings	Bonds issued	Non-bank borrowings from related parties	Trade finance	Seller's notes	Finance lease	Total
Net debt as at 1 January 2016	**176**	**4**	**(1,091)**	**(1,146)**	**(393)**	**(228)**	**(88)**	**–**	**(2,766)**
Cash flows	49	5	10	–	–	67	–	–	**131**
Interest accrued (Notes 10 and 27)	3	–	(81)	(123)	(35)	(6)	(8)	–	**(250)**
Interest paid/(received)	(3)	–	44	75	3	5	6	–	**130**
Legal and consulting fees capitalised	–	–	8	11	–	–	–	–	**19**
Currency translation differences	(8)	–	–	–	–	1	–	–	**(7)**
Net debt as of 31 December 2016	**217**	**9**	**(1,110)**	**(1,183)**	**(425)**	**(161)**	**(90)**	**–**	**(2,743)**
Cash flows	36	–	40	44	–	(117)	85	7	**95**
Interest accrued (Notes 10 and 27)	4	–	(77)	(128)	(35)	(8)	(6)	–	**(250)**
Interest paid/(received)	(4)	–	42	76	–	6	4	–	**124**
Legal and consulting fees capitalised	–	–	11	8	–	–	–	–	**19**
Commissions capitalised	–	–	16	17	–	–	–	–	**33**
Currency translation differences	(3)	–	(3)	–	–	(11)	–	–	**(17)**
Equipment received under finance lease	–	–	–	–	–	–	–	(19)	**(19)**
Net debt as of 31 December 2017	**250**	**9**	**(1,081)**	**(1,166)**	**(460)**	**(291)**	**(7)**	**(12)**	**(2,758)**

20 SELLER'S NOTES

	31 December 2017	31 December 2016
Current portion	7	90
Total seller's notes	**7**	**90**

Seller's notes represent consideration payable for acquisition of United Coal Company LLC (Group's subsidiary) in 2009.

On 4 January 2017, UCC Seller Notes were restructured. Maturity was extended by 5 years to 31 December 2021. Interest rate was increased from 7% per annum to 9% per annum. The principal repayments are to be done through the cash sweep mechanism to the extent that United Coal Company's price of coal sold exceeds a certain threshold, and it receives funds associated with various railroad rebate programs based on coal prices and to be calculated on a monthly basis. Until 31 December 2018, a minimum of 30% of interest is to be paid in cash. The remaining 70% of interest are to be paid in cash only if the average unrestricted cash (after repayment of 30% of interest and cash sweep) exceeds US$15 million, otherwise it must be capitalised. Starting 1 January 2019, 100% of interest is payable in cash.

During the reporting period the Group repaid US$85 million of principal according to the updated terms of notes agreement. Based on current market coal prices forecasts, management expects to settle the notes within 12 months of the reporting date.

As at 31 December 2017, nominal interest rate of seller's notes was approximated effective.

As of 31 December 2017 and 31 December 2016, the fair value of seller's notes approximated their carrying amount.

21 RETIREMENT BENEFIT OBLIGATIONS

The Group's defined benefit obligations relate to:

	31 December 2017	31 December 2016
State-defined early pensions for employees working in hazardous and unhealthy working conditions	352	300
Long-term employee benefits under collective bargaining agreements	17	26
Total defined benefit obligations	**369**	**326**

Nature and the risks and uncertainties associated with the Group's defined benefit obligations are further disclosed in the Note 4.

In October 2017 there were certain changes introduced to the Law of Ukraine on Mandatory State Pension Insurance.

- Increase in retirement age and required employment period which resulted in increase of preferential pensions period covered by the Group and consequently past service costs;
- Decrease of index used in the calculation of insurance period which subsequently led to decrease of pensions amount; and
- The Government of Ukraine deblocked pensions indexation starting from 2019 which are now estimated as 50% of salary increase and 50% of inflation.

21 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

In addition retirement benefit obligations were impacted by the events as described in Note 7.

Changes in the present value of the defined benefit obligation were as follows:

	2017	2016
Defined benefit obligation as at 1 January	**326**	**335**
Current service cost	7	10
Remeasurements of the defined benefit liability resulting from:		
– changes in financial assumptions	36	13
– changes in demographic assumptions	48	(1)
– experience adjustments	18	(6)
Negative past service cost	(59)	(2)
Interest cost	42	46
Benefits paid	(23)	(29)
Curtailment (Note 7)	(15)	–
Currency translation difference	(11)	(40)
Defined benefit obligation as at 31 December	**369**	**326**

The amounts recognised in the consolidated income statement were as follows:

	2017	2016
Current service cost	7	10
Past service cost	(59)	(2)
Interest cost	42	46
Total	**(10)**	**54**

The principal actuarial assumptions used were as follows:

	31 December 2017	31 December 2016
Nominal discount rate	12.85%	14.40%
Nominal salary increase	10.0%	10.0%
Nominal pension entitlement increase (indexation)	7.5%	3.5%
Long-term inflation	5.0%	5.0%

Assumptions about mortality are based on the publicly available mortality tables for city population of the respective regions of Ukraine (depending on the location of the Group's subsidiaries) for 2017 and are consistent with the prior year.

The sensitivity of the defined benefit obligation to changes in the principal assumptions is presented below:

	2017	2016
Nominal discount rate increase/decrease by 1 pp	(31)/36	(26)/30
Nominal salary increase/decrease by 1 pp	20/(20)	12/(13)
Inflation increase/decrease by 1 pp	8/(10)	4/(6)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The methods and types of assumptions used in preparing the sensitivity analysis did not change significantly compared to the previous period.

As at 31 December 2017, the weighted average maturity of the Group's defined benefit obligations is 9.2 years and it varies across different Group's subsidiaries from 7 to 10.5 years (31 December 2016: 8.3 years, varying from 7 to 9.6 years). Payments in respect of defined benefit obligations expected to be made during the year ending 31 December 2018 are US$29 million (2017: US$27 million).

22 OTHER NON-CURRENT LIABILITIES

	31 December 2017	31 December 2016
Asset retirement obligations	68	66
Tax liabilities under moratorium (Note 30)	7	7
Other non-current liabilities	5	6
Long-term advances received from related parties (Note 29)	–	13
Total other non-current liabilities	**80**	**92**

23 TRADE AND OTHER PAYABLES

	31 December 2017	31 December 2016
Trade payables and payables on sales made on commission	1,354	1,081
Dividends payable to shareholders of Metinvest B.V.	88	88
Dividends payable to non-controlling shareholders of Company's subsidiaries	19	2
Payables for acquired property, plant and equipment and other intangible assets	74	38
Other financial liabilities	17	61
Total financial liabilities	**1,552**	**1,270**
Prepayments received	124	105
Accruals for employees' unused vacations and other payments to employees	62	54
Other taxes payable, including VAT	143	61
Wages and salaries payable	18	17
Other allowances and provisions	32	23
Total trade and other payables	**1,931**	**1,530**

According to terms of restructuring (Note 19), any payment of dividends prior to the settlement of 45% of relevant borrowings principal would trigger the ability of lenders to call for immediate repayment of borrowings.

24 EXPENSES BY NATURE

	2017	2016
Raw materials including change in finished goods and work in progress	2,023	1,391
Goods and services for resale, including related transportation	2,351	1,205
Energy materials including gas, electricity and fuel	949	875
Wages and salaries	509	470
Transportation services	642	612
Repairs and maintenance expenses	194	172
Pension and social security costs	84	79
Pension costs – defined benefit obligations (Note 21)	(52)	8
Depreciation and amortisation	525	529
Impairment and devaluation of property, plant and equipment and other intangible assets (Notes 9 and 10)	35	34
Taxes and duties	88	84
Services and other costs	322	217
Total operating expenses	**7,670**	**5,676**
Classified in the consolidated income statement as:		
– cost of sales	6,756	4,833
– distribution costs	721	660
– general and administrative expenses	193	183
Total operating expenses	**7,670**	**5,676**

Raw materials include externally purchased coke and coal, iron ore, scrap metal, ferroalloys, ancillary and other materials and cost of their transportation.

Unallocated fixed production costs incurred at the Group's subsidiaries during the months of operations at levels substantially below normal capacity are not included in the cost of inventories, are expensed in the profit or loss and presented within cost of sales according to their nature.

Auditor's fees. The following fees were expensed in the consolidated income statement in the reporting period:

	2017	2016
Audit of the financial statements (including audit fee of the signing firm of US$0.2 million in 2017 and US$0.1 million in 2016)	2	2
Total	**2**	**2**

During 2017, tax and other non-audit services expensed in the consolidated income statement amounted to US$0.1 million and US$0.1 million, respectively (2016: US$0.2 million and US$0.1 million). None of the services are performed by the signing firm.

25 OTHER OPERATING INCOME/(EXPENSE), NET

Other operating income and expenses for the year ended 31 December were as follows:

	2017	2016
Charity and social payments	(10)	(6)
Maintenance of social infrastructure	(8)	(12)
VAT on sales below cost and VAT write-off	(7)	(9)
Impairment of trade and other receivables (Note 14)	(7)	(227)
Operating foreign exchange gains less losses, net	66	18
Gain on disposal of property, plant and equipment, net	7	3
Other income/(expense), net	(2)	11
Total other operating income/(expense), net	**39**	**(222)**

26 FINANCE INCOME

Finance income for the year ended 31 December was as follows:

	2017	2016
Interest income:		
– loans issued	21	20
– bank deposits	4	3
– imputed interest on other financial instruments	–	3
Other finance income	4	–
Total finance income	**29**	**26**

27 FINANCE COSTS

Finance costs for the year ended 31 December were as follows:

	2017	2016
Net foreign exchange loss	50	106
Interest expense on:		
– borrowings	98	95
– bonds	128	123
– seller's notes	6	6
– imputed interest on seller's notes	–	2
Interest cost on retirement benefit obligations	42	46
Other finance costs	26	19
Total finance costs	**350**	**397**

During 2017, other finance costs mainly include factoring fees and discounting of the financial instruments (2016: factoring fees, discounting of the financial instruments and legal fees connected with debt restructuring).

Net foreign exchange losses arise on intragroup loans and dividends payable between the entities with different functional currencies.

28 INCOME TAX

Income tax for the year ended 31 December was as follows:

	2017	2016
Current tax	241	82
Deferred tax	(17)	(41)
Income tax expense	**224**	**41**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries. In 2017, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2016: 18%). In 2017, the tax rate for Swiss operations was 10% (2016: 10%) and for European companies tax rate in 2017 varied from 10% to 28% (2016: varied from 10% to 32%). The tax rate for US operations was 35% (2016: 35%).

28 INCOME TAX CONTINUED

Reconciliation between the expected and the actual taxation charge is provided below.

	2017	2016
IFRS profit/(loss) before tax	**841**	**159**
Tax calculated at domestic tax rates applicable to profits in the respective countries	72	(16)
Tax effect of items not deductible or assessable for taxation purposes:		
– impairment of non-current assets at UCC (Notes 8 and 9)	13	2
– impairment of trade and other receivables	–	11
– other non-deductible expenses	66	51
– non-taxable income	(7)	(22)
Write-down/(Reversal of write-down) of deferred tax assets, net	80	15
Income tax expense/(benefit)	**224**	**41**

The effect of events described in Note 7 is included in the write-down of deferred tax assets stated above.

The weighted average applicable tax rate was 9% in 2017 (2016: (10%). Variation in weighted average tax rate is mostly due to variation in profitability of the Group's subsidiaries in Ukraine some of which are profitable and some are loss-making.

Differences between IFRS and Ukrainian and other countries' statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

	1 January 2017	Credited/ (Charged) to income statement	Credited/ (Charged) to other comprehensive income	Currency translation difference	31 December 2017
Tax effect of deductible temporary differences					
Property, plant and equipment and intangible assets	4	(1)	–	–	3
Long-term receivables	2	1	–	–	3
Inventory valuation	9	16	–	–	25
Trade and other accounts receivable	30	1	–	(1)	30
Accrued expenses	19	1	–	–	20
Tax losses carried forward	52	(47)	–	–	5
Retirement benefit obligations	50	(2)	17	(2)	63
Other	52	(2)	–	4	54
Gross deferred tax asset	**218**	**(33)**	**17**	**1**	**203**
Less offsetting with deferred tax liabilities	(122)	34	(7)	1	(94)
Recognised deferred tax asset	**96**	**1**	**10**	**2**	**109**
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	(480)	49	39	8	(384)
Inventory tax differences	(3)	(1)	–	–	(4)
Other	(7)	2	–	(1)	(6)
Gross deferred tax liability	**(490)**	**50**	**39**	**7**	**(394)**
Less offsetting with deferred tax assets	122	(34)	7	(1)	94
Recognised deferred tax liability	**(368)**	**16**	**46**	**6**	**(300)**

Other non-tax deductible expenses include mainly the expenses incurred by Metinvest B.V. and other subholdings where no sufficient taxable profits are expected to utilise these.

Deferred tax asset on unused tax losses not recognised of Ukrainian subsidiaries as at 31 December 2017 comprised US$80 million (31 December 2016: US$47 million). There are no expiry dates on tax losses carried forward in Ukraine and Italy. Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable; future taxable profits are estimated using the cash flow forecasts used for impairment testing of non-current assets (Note 8).

28 INCOME TAX CONTINUED

	1 January 2016	Credited/ (Charged) to income statement	Credited/ (Charged) to other comprehensive income	Currency translation difference	31 December 2016
Tax effect of deductible temporary differences					
Property, plant and equipment and intangible assets	21	(15)	–	(2)	4
Long-term receivables	1	1	–	–	2
Inventory valuation	4	5	–	–	9
Trade and other accounts receivable	13	19	–	(2)	30
Accrued expenses	7	13	–	(1)	19
Tax losses carried forward	115	(54)	–	(9)	52
Retirement benefit obligations	46	9	1	(6)	50
Other	79	(21)	–	(6)	52
Gross deferred tax asset	**286**	**(43)**	**1**	**(26)**	**218**
Less offsetting with deferred tax liabilities	(181)	43	(1)	17	(122)
Recognised deferred tax asset	**105**	**–**	**–**	**(9)**	**96**
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	(508)	76	(106)	58	(480)
Inventory tax differences	(7)	4	–	–	(3)
Other	(14)	4	–	3	(7)
Gross deferred tax liability	**(529)**	**84**	**(106)**	**61**	**(490)**
Less offsetting with deferred tax assets	181	(43)	1	(17)	122
Recognised deferred tax liability	**(348)**	**41**	**(105)**	**44**	**(368)**

The tax charge relating to components of other comprehensive income is as follows:

	2017			2016		
	Before tax	Deferred tax charge	After tax	Before tax	Deferred tax charge	After tax
Revaluation decreases that offset previous increases in the carrying amount of property, plant and equipment	(228)	38	(190)	(7)	1	(6)
Revaluation of property, plant and equipment	–	–	–	636	(107)	529
Remeasurement of retirement benefit obligation	(102)	18	(84)	(6)	1	(5)
Other comprehensive income	**(330)**	**56**	**(274)**	**623**	**(105)**	**518**

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES CONTINUED

As at 31 December 2017 and 2016 significant balances outstanding with related parties are detailed below:

	31 December 2017					31 December 2016				
	SCM Limited	Associates	Joint ventures	SCM and related entities	SMART Group	SCM Limited	Associates	Joint ventures	SCM and related entities	SMART Group
ASSETS										
Non-current trade and other receivables, including:	**–**	**–**	**–**	**41**	**87**	**–**	**–**	**–**	**36**	**82**
Long-term loans issued	–	–	–	41	87	–	–	–	36	82
Current trade and other receivables, including:	**–**	**29**	**924**	**117**	**2**	**–**	**62**	**368**	**130**	**2**
Trade receivables and receivables on commission sales	–	27	814	51	2	–	61	269	30	2
Prepayments made	–	–	–	52	–	–	–	–	69	–
Loans issued	–	–	98	–	–	–	–	98	–	–
Other financial receivables (short-term, non-interest-bearing)	–	2	12	14	–	–	1	1	31	–
Cash and cash equivalents	**–**	**–**	**–**	**39**	**–**	**–**	**–**	**–**	**41**	**–**

	31 December 2017					31 December 2016				
	SCM Limited	Associates	Joint ventures	SCM and related entities	SMART Group	SCM Limited	Associates	Joint ventures	SCM and related entities	SMART Group
LIABILITIES										
Other non-current liabilities	–	–	–	–	–	–	–	–	11	–
Non-bank borrowings	–	–	–	341	119	–	–	–	315	110
Trade and other payables, including:	**41**	**50**	**716**	**116**	**48**	**41**	**81**	**510**	**139**	**48**
Dividends payable	40	–	–	15	48	40	–	–	–	48
Trade payables and payables on sales made on commission	–	32	711	97	–	–	62	510	87	–
Prepayments received	–	18	–	1	–	–	19	–	4	–
Other financial liabilities	1	–	5	3	–	1	–	–	48	–

Significant transactions (excluding purchases) with related parties during 2017 and 2016 are detailed below:

2017	Associates	Joint ventures	SCM and related entities	SMART Group	Total
Sales, including:	**11**	**942**	**62**	**1**	**1,016**
Steel	–	27	53	1	**81**
Scrap metal	–	33	–	–	**33**
Coke and coking coal	9	520	1	–	**530**
Iron ore	–	275	1	–	**276**
Other	2	87	7	–	**96**
Other operating income/(expenses), net	**2**	**7**	**(2)**	**–**	**7**
Finance income/(expenses), including:	**–**	**11**	**(22)**	**(3)**	**(14)**
Interest income – bank deposits	–	–	1	–	1
Interest income – loans issued	–	11	4	6	21
Interest expense – borrowings	–	–	(27)	(9)	(36)

2016	Associates	Joint ventures	SCM and related entities	SMART Group	Total
Sales, including:	**35**	**451**	**42**	**1**	**529**
Steel	–	21	36	1	58
Scrap metal	–	32	3	–	35
Coke and coking coal	31	219	–	–	250
Iron ore	–	115	1	–	116
Other	4	64	2	–	70
Finance income/(expenses), including:	**–**	**11**	**(23)**	**(4)**	**(16)**
Interest income – bank deposits	–	–	2	–	2
Interest income – loans issued	–	11	3	5	19
Interest expense – borrowings	–	–	(28)	(9)	(37)

29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES CONTINUED

The following is a summary of purchases from related parties in 2017 and 2016:

2017	Associates	Joint ventures	SCM and related entities	SMART Group	Total
Purchases, including:	**38**	**1,523**	**1,174**	**1**	**2,736**
Metal products	–	1,466	12	–	**1,478**
Coke and coking coal	17	–	54	–	**71**
Raw materials and spare parts	13	48	64	1	**126**
Electricity	–	–	386	–	**386**
Gas	–	5	236	–	**241**
Fuel	–	–	50	–	**50**
Services	–	2	314	–	**316**
Other	8	2	58	–	**68**

2016	Associates	Joint ventures	SCM and related entities	SMART Group	Total
Purchases, including:	**84**	**985**	**1,090**	**–**	**2,159**
Metal products	1	944	5	–	950
Coke and coking coal	66	2	39	–	107
Raw materials and spare parts	9	31	76	–	116
Electricity	–	–	439	–	439
Gas	4	4	174	–	182
Fuel	–	–	49	–	49
Services	2	–	298	–	300
Other	2	4	10	–	16

Not included in the tables above are the Group's transactions on purchase and further re-sale of iron ore, coal and steel products from or to joint ventures where the Group is acting as an agent and not as principal. Income and costs related to such transactions are presented net within other operating income/(expense). The Group's net gain on such transactions was US$11 million in 2017 (2016: US$6 million).

In 2017, the remuneration of key management personnel of the Group comprised current salaries and related bonuses paid totalling US$13.3 million (in 2016: US$11.5 million).

As at 31 December 2017 and 2016, key management held the Group's bonds in the total amount of less than US$1 million. Rights of these bondholders are not different from the rights of other bondholders.

30 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. As a result, there is significant uncertainty as to the implementation or interpretation of the new legislation and unclear or non-existent implementing regulations. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and State authorities. It is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group's operations are vertically integrated and a significant portion of the Group's iron ore, coke and coal production is used in the subsequent production operations. Because of non-explicit requirements of the applicable tax legislation, intercompany transactions may be assessed by the Ukrainian tax authorities as non-market. Such transactions have not been challenged in the past by the tax authorities. However, it is possible with evolution of the interpretation of tax law in Ukraine and other jurisdictions plus changes in the approach of tax authorities, that such transactions could be challenged in the future.

The tax legislation had been expanded with the new transfer pricing rules effective from 1 September 2013 that are much more detailed than previous legislation and, to a certain extent, better aligned with the international transfer pricing principles. The new legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), if the transaction price is not arm's length and is not supported by relevant documentation. Since 1 January 2015, the transfer pricing rules were amended so that transactions between Ukrainian companies (irrespective whether they are related parties or not) ceased to be treated as controlled transactions.

Management believes it is taking appropriate measures to ensure compliance with the new transfer pricing legislation.

Bankruptcy proceedings. During 2006, bankruptcy proceedings were initiated against the Group's subsidiary PrJSC Krasnodonugol. The majority of the creditors' claims summarised by the external manager relate to the Group thus are eliminated on consolidation. As at 31 December 2017, the amount of financial and tax liabilities related to the bankruptcy proceedings recorded in these consolidated financial statements is US$10 million (31 December 2016: US$11 million), out of which US$7 million (31 December 2016: US$7 million) are presented as non-current tax liabilities under moratorium (Note 22).

30 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS CONTINUED

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Environmental matters. The enforcement of environmental regulation in Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations (including asset retirement obligations) under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Capital expenditure commitments. As at 31 December 2017, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling US$185 million (31 December 2016: US$135 million). The Group has already allocated the necessary resources in respect of these commitments. Management of the Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

Guarantees issued. As at 31 December 2017 the Group's deposit amounting to US$9 million was pledged as part of energy guarantee provided to the Group's related party. As at 31 December 2016, the Group has no outstanding guarantees to third parties.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non compliance with such covenants may result in negative consequences for the Group including increase in the cost of borrowings and declaration of default. In March 2015 the Group breached its payment covenants triggering default and cross-defaults under its bank and non-bank loans and borrowings, as well as bonds. However, subsequent to restructuring reached in March 2017 (Note 19) and as at 31 December 2017 the Group was in compliance with the covenants.

Insurance. Metinvest maintains mandatory insurance policies against certain types of risk in accordance with Ukrainian law, including life and health insurance; third-party liability insurance on hazardous industrial assets and in respect of cargo and motor vehicles; voluntary insurance cover for most of its production facilities and in respect of cargo and motor vehicles; 'All Risk' insurance to cover property damage and provide business interruption coverage including 'inter-dependency' coverage for its key production facilities in Ukraine; property damage and business interruption policies in respect of its European and US assets.

31 FINANCIAL RISK MANAGEMENT

The Group activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out jointly by the internal control and risk management department and the central treasury department. These departments identify, evaluate and mitigate financial risks in close co-operation with the Group's operating units.

(A) MARKET RISK

(I) FOREIGN EXCHANGE RISK

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed through: (i) borrowings denominated in the relevant foreign currencies; and (ii) different treasury operations like forward, swap and other.

Foreign exchange risk is managed centrally by the Group's treasury. The Group's treasury has set up a policy to manage foreign exchange risk. The Group's treasury sets limits on the level of exposure by currency and maximum amount of exposure. The subsidiaries have not entered into transactions designed to hedge against these foreign currency risks without permission of the Group's treasury.

At 31 December 2017, if the UAH had strengthened/weakened by 25% against the US dollar with all other variables held constant, post-tax profit for the year would have been US$61 million lower/higher (2016: if the UAH strengthened/weakened by 25% against US dollar, post-tax profit for the year would have been US$172 million lower/higher), mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated trade receivables and foreign exchange gains/losses on translation of US dollar-denominated intragroup borrowings and dividends payable.

(II) PRICE RISK

The Group's revenue is exposed to the market risk from price fluctuations related to the sale of its steel and iron ore products. The prices of the steel and iron ore products sold both within Ukraine and abroad are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of raw material inputs) and global economic growth. The prices of the products that the Group sells to third parties are also affected by supply/demand and global/Ukrainian economic growth. Adverse changes in respect of any of these factors may reduce the revenue that the Group receives from the sale of its steel or mined products.

The Group's exposure to commodity price risk associated with the purchases is limited as the Group is vertically integrated and is self-sufficient for iron ore and certain portion of coking coal requirements.

No financial instruments are exposed to price risk.

31 FINANCIAL RISK MANAGEMENT CONTINUED

(A) MARKET RISK CONTINUED

(III) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

The Group's income and operating cash flows are dependent on changes in market interest rates.

The Group's interest rate risk arises from long-term and short-term borrowings. Borrowings attracted at variable rates expose the Group to cash flow interest rate risk. Borrowings attracted at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a balanced borrowings portfolio of fixed and floating rate instruments. As at 31 December 2017, 54% of the total borrowings were provided to the Group at fixed rates (31 December 2016: 56%). During 2017 and 2016, the Group's borrowings at variable rate were denominated in US$, EUR and GBP.

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of attracting new debt management uses its judgement to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Refer to Notes 14, 19 and 31 for information about maturity dates and effective interest rates of financial instruments.

At 31 December 2017, if interest rates on US$, EUR and GBP denominated floating rate borrowings had been by 1 pp higher/lower (2016: 1 pp) with all other variables held constant, post-tax profit for the year would have been US$11 million lower/higher (2016: US$11 million).

(B) CREDIT RISK

Credit risk is managed centrally by the Group management. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. When wholesale customers are independently rated, these ratings are used for credit quality assessment. Otherwise, if there is no independent rating, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

Financial assets, which potentially subject the Group to credit risk, consist principally of cash, loans, trade and other accounts receivable.

Cash is placed with major Ukrainian and international reputable financial institutions, which are considered at time of deposit to have minimal risk of default.

The Group has policies in place to ensure that provision of loans and sales of products/services are made to customers with an appropriate credit history. The Group's credit risk exposure is monitored and analysed on a case-by-case basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The carrying amount of loans, trade and other accounts receivable, net of provision for impairment, represents the maximum amount exposed to credit risk. Concentration of credit risk mainly relates to CIS and European countries where the major customers are located.

The maximum exposure to credit risk as at 31 December 2017 is US$2,310 million (2016: US$1,424 million) being the carrying value of long and short-term loans issued and receivables and cash. In order to reduce credit risk on receivables, the Group uses letters of credit, guarantees and trade insurance. The Group does not hold any collateral as security.

Management believes that credit risk is appropriately reflected in impairment allowances recognised against assets, and management does not expect any significant losses from non-performance by these counterparties.

(C) LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

As at 22 March 2017 the Group has completed the restructuring of its debts to achieve healthy liquidity position and maintain its ability to continue operating on a going concern basis.

The Group treasury analyses the ageing of Group's assets and the maturity of Group's liabilities and plans their liquidity depending on the expected repayment of various instruments. In case of insufficient or excessive liquidity in individual entities, the Group relocates resources and funds among the entities of the Group to achieve optimal financing of the business needs of each entity.

31 FINANCIAL RISK MANAGEMENT CONTINUED

(C) LIQUIDITY RISK CONTINUED

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Cash flows from borrowings were calculated using spot rates.

At 31 December 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings	25	335	918	–
Trade finance	255	38	–	–
Bonds	38	120	1,555	–
Non-bank borrowings	–	–	636	–
Seller's notes	7	–	–	–
Finance lease	2	10	–	–
Financial trade and other payables	1,552	–	–	–
Total	**1,879**	**503**	**3,109**	**–**

At 31 December 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings	1,123	–	–	–
Trade finance	161	–	–	–
Bonds	1,196	–	–	–
Non-bank borrowings	425	–	–	–
Seller's notes	90	–	–	–
Financial trade and other payables	1,270	–	–	–
Total	**4,265**	**–**	**–**	**–**

32 CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and Seller's Notes (including current and non-current parts) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within 2-5 years and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy. As at 31 December 2016, all debt was either in default or matures within 1 year, but the Group managed to restructure them (Note 19) in 2017.

	31 December 2017	31 December 2016
Total borrowings (Note 19)	3,010	2,879
Seller's notes (Note 20)	7	90
Less: cash and cash equivalents (Note 15)	(259)	(226)
Net debt	**2,758**	**2,743**
Total equity	4,308	4,028
Total capital	**7,066**	**6,771**
Gearing ratio	**39%**	**41%**

33 FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date, which is Level 1 of fair valuation hierarchy. The quoted market price used for financial assets held by the Group is the current bid price. This valuation technique is used for fair value disclosures of bonds issued.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Estimated discounted cash flows, are used to determine fair value for seller's notes. Calculation is based on current interest rates for new instruments with similar credit risk, currency and remaining maturity; such estimation represents Level 3 of fair value hierarchy.

The carrying values less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

33 FAIR VALUES OF FINANCIAL INSTRUMENTS CONTINUED

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is required to interpret market data to determine the estimated fair value. Ukraine continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of financial assets carried at amortised cost approximate their fair values.

Financial liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. Except as discussed in the Note 19, the estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ('demandable liabilities') is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid (Notes 19, 20 and 22).

34 RECONCILIATION OF CLASSES OF FINANCIAL INSTRUMENTS WITH MEASUREMENT CATEGORIES

All of the Group's financial assets and financial liabilities are carried at amortised cost, except for investments in associates and joint ventures which are accounted for by the equity method of accounting.

35 EVENTS AFTER THE BALANCE SHEET DATE

There were no events after the balance sheet date other than those already disclosed in these consolidated financial statements.

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GLOSSARY

TECHNICAL METALS AND MINING TERMS

Bars
Long steel products that are rolled from billets. Merchant bar and reinforcing bar (rebar) are two common categories of bars. Merchant bar includes rounds, flat-bulbs, angles, squares and channels that are used by fabricators to manufacture a wide variety of products, such as furniture, stair railings and farm equipment. Rebar is used to strengthen concrete in highways, bridges and buildings.

Basic oxygen furnace (BOF)
A pear-shaped furnace, lined with refractory bricks, which refines molten iron from the blast furnace and scrap into steel due to oxidising action of oxygen blown into the melt under a basic slag. Basic oxygen process is the most powerful and effective steel making method. About 67% of the crude steel in the world is made in BOF.

Blast furnace (BF)
A towering cylinder lined with heat-resistant (refractory) bricks, used by integrated steel mills to smelt iron from ore. Its name comes from the 'blast' of hot air and gases forced up through the iron ore, coke and limestone that load the furnace. Under extreme heat, chemical reactions among the ingredients release liquid iron from the ore.

Coils
Hot, cold or coated flat-rolled products, supplied in regularly wound coils.

Coke
Coke is the solid product obtained from the dry distillation of coking coal in the absence of oxygen. Depending on property, coke is known as hard coke, soft coke and metallurgical coke.

Coking coal
Coking coal is those varieties of coal that, on heating in the absence of oxygen (a process known as carbonisation), undergo transformation into a plastic state, swell and then re-solidify to produce a cake. On quenching, the cake results in a strong and porous mass called coke. Coking coal needed for production of blast furnace coke (the right type of fuel/ reductant needed for a blast furnace) is characterised by certain specific properties in terms of appropriate composition (low ash (up to 10%), volatile matter (17-26%) and low sulphur and phosphorous content, etc).

Cold rolling
Plastic deformation of a metal at room temperature that might results in substantial increases in strength and hardness. The usual end product is characterised by improved surface, greater uniformity in thickness and improved mechanical properties compared with hot-rolled steels. Cold-rolled products typically include sheets, coils, strips and rebars, among others.

Continuous casting
A method of casting steel into a billet, bloom or slab directly from its molten form. Continuous casting avoids the need for large, expensive mills for rolling ingots into semi-finished products. Continuous cast slabs and billets also solidify in a few minutes versus several hours for an ingot. As a result, the chemical composition and mechanical properties are more uniform. Steel from the BOF or electric furnace is poured into a tundish (a shallow vessel that looks like a bathtub) atop the continuous caster. As steel carefully flows from the tundish down into the water-cooled copper mould of the caster, it solidifies into a ribbon of red-hot steel to form slabs or blooms.

Continuous improvement (CI)
An aspect of lean manufacturing, CI encompasses various changes in business processes that aim to improve operational results by taking a systematic approach to analysing problems and finding solutions throughout an organisation.

Crude steel
Liquid steel used to make steel castings. The term is also internationally used to mean the steel produced in basic oxygen furnaces and electric arc furnaces of open-hearth furnaces.

Crusher and conveyor system
A transportation system used to move bulk materials from mine shafts and open pits to the surface for further processing.

Downstream
In manufacturing, this term refers to processes that happen later in a production sequence or production line.

Direct reduced iron (DRI)
Solid metallic iron product obtained upon direct reduction of high-grade iron ore in solid state itself without being converted into liquid form like that in a blast furnace. DRI is also known as sponge iron because of its spongy micro structure. Merchant DRI product is delivered mainly in the form of pellets or briquettes.

Environmental Impact Identification (ENVID)
A systematic approach designed to identify and reduce the risk of incidents that can damage the surrounding environment, and to limit the environmental impact throughout the production process.

Enterprise Resource Planning (ERP)
An integrated system of software applications used by companies to monitor all core aspects of their business, such as purchasing to manufacturing to sales, facilitating information sharing and allowing managers to make decisions informed by a global view of what is happening across the supply chain.

Fe content
The chemical symbol for iron, Fe, comes from the Latin word 'ferrum'. Fe content refers to the iron content of an ore.

Ferroalloy
Alloys consisting of certain elements (Mn, Si, Mo, V, Ni, B, Cr and so on) combined with iron and used in steelmaking to reach necessary chemical composition and properties of steel products. In some cases, the ferroalloys may serve as deoxidisers.

Finished products
Products that emerge at the end of a manufacturing process. In metallurgy, these products are obtained from hot-rolling, cold-rolling, forging and other processing of semi-finished steel (blooms, billets and slabs). These cover two broad categories of products, namely long and flat.

Flat products
Finished steel flat products are produced from slabs or thin slabs in rolling mills using flat rolls. These are supplied in hot-rolled, cold-rolled or in coated condition, depending on the requirement. Flat products include plates, sheets as well as wide and narrow strips.

Galvanised steel
Steel coated with a thin layer of zinc to provide corrosion resistance. Flat steel normally must be cold-rolled before the galvanising stage.

Hard coking coal (HCC)
Hard coking coal is a type of coking coal with better coking properties, which is traditionally measured by CSR (coke strength after reaction) of coke made from specific kind of coal. Usually CSR for HCC is assumed to be about 60%.

Hazard and Operability Study (HAZOP)
A structured and systematic examination of a planned or existing process or operation, aiming to identify and evaluate problems that may represent risks to personnel or equipment or prevent efficient operation.

Hazard Identification (HAZID)
A systematic approach designed to identify and reduce the risk of dangerous incidents, and to ensure safety throughout the production process.

Heavy plate
Thick flat finished product with a width from 500 millimetres to 5 metres and a thickness of at least 4 millimetres. Plates are normally produced and supplied in hot-rolled condition with or without specific heat treatment. Heavy plate is mainly used for construction, machinery, shipbuilding or large-diameter pipe fabrication.

Hot rolling
Rolling of steel at above the re-crystallisation temperature (normally above 1,000°C) to produce hot-rolled long and flat products from semis. Ingots are also hot-rolled to obtain semis.

Human resources (HR)
HR broadly refers to the people who make up the workforce of a company, while also frequently referring to the HR management function within the company responsible for ensuring the recruitment and retention of qualified employees, managing goal setting and assessments, overseeing the process of training and further education to meet company requirements and employee potential, as well as other processes required to maintain an effective workforce.

Ingot
The primary solid product obtained upon solidification of liquid steel in conventional vertical cast iron moulds, which are intended for rolling into intermediate/semi-finished products after re-heating.

Integrated steelmaking plant
A producer that converts iron ore into semi-finished or finished steel products. Traditionally, this process required coke ovens, sintering machines, blast furnaces, steelmaking furnaces and rolling mills.

Iron ore
A naturally occurring mineral from which iron (Fe) is extracted in various forms, mainly for producing hot metal and direct-reduced iron.

Iron ore concentrate
Iron ore containing the valuable minerals of an ore from which most of the waste material has been removed.

Lean manufacturing
An approach to manufacturing processes that focuses on creating value for the end user and eliminating waste.

Long products
Finished steel products produced normally by hot rolling or forging blooms, billets and pencil ingots into useable shapes and sizes (such as rounds, flat-bulbs, angles, squares, rebars, channels, etc). They are normally supplied in straight or cut length, except wire rods, which are supplied in irregularly wound coils. Long products are used in all industrial sectors, particularly in the construction and engineering industries.

LOTOTO
Lock out, tag out, try out: a standard that is used to isolate hazardous energy during repair and maintenance work.

Lost-time injury frequency rate (LTIFR)
An internationally recognised safety indicator, the LTIFR is the ratio of lost-time injuries per million hours worked. It is calculated using the total number of incidents leading to the loss of one day/shift or more from work.

Mineral
A natural inorganic substance that is both definite in chemical composition and physical characteristics, or any chemical element or compound occurring naturally as a product of inorganic processes.

Mineral resources
Mineral concentration which is known, estimated and interpreted from specific geological evidence and knowledge and with reasonable prospects for economic extraction.

Open-hearth furnace (OHF)
A furnace for melting metal, in which the bath is heated by the combustion of hot gases over the surface of the metal and by radiation from the roof. This furnace is used to derive steel from pig iron and scrap. The open-hearth process has been replaced by the basic oxygen process and electric arc method in most modern facilities.

Overburden
Used in mining to describe material that lies above the area of economic interest, e.g. the rock and soil that lies above the iron ore body. Overburden is removed during surface mining but is typically not contaminated with toxic components and may be used to restore a mining site to a semblance of its appearance before mining began.

Pelletising
Pelletising is the process of compressing or moulding a product into the shape of a pellet. Doing so with iron ore concentrate, typically spheres of 8-18 millimetres (0.31-0.71 inches) in diameter are produced. The process combines agglomeration and thermal treatment to convert the raw ore into pellets with characteristics appropriate for use in a blast furnace and DRI processes.

Pelletising machine
Specific equipment designed for production of pellets (see Pelletising).

Pellets
An enriched form of iron ore shaped into small balls or pellets, that are used as raw material in the iron making process (see Pelletising).

Permit-to-work procedure
A process used to control work that is identified as possibly hazardous.

Pickling line
Specialised equipment for the chemical removal of surface oxides (scale) and other contaminants such as dirt from steel product by immersion in an aqueous acid solution. The most common pickling solutions are sulfuric and hydrochloric acids.

Pig iron
High-carbon (above 2.14%) iron alloy made by reducing iron ore in a blast furnace. A product in solid (lumpy) form obtained on solidification of hot metal in pig casting machine. It is called pig iron because of its typical humpy shape.

Pulverised coal injection (PCI)
Technologies whereby pulverised/granulated/dust coal is injected into the blast furnace through the tuyeres along with the blast to replace natural gas and a part of the coke requirement.

Public relations (PR)
Communications between an organisation and external stakeholders, in particular members of the general public, aimed at communicating both a positive impression of the organisation and its activities and identifying and addressing negative perceptions. PR uses mass and targeted media as well as public events and other outreach.

Reserves (proven, probable, recoverable)
Proven Ore Reserve is the part of Measured resources that can be mined in an economically viable fashion. It includes diluting materials and allowances for losses that occur when the material is mined. Proven Ore Reserve represents the highest confidence category of reserve estimate.

Probable Ore Reserve is the part of indicated and in some circumstances, measured mineral resources that can be mined in an economically viable fashion. It includes diluting material and allowances for losses, which may occur when the material is mined. A Probable Ore Reserve has a lower level of confidence than Proven Ore Reserve but is of sufficient quality to serve as the basis for decision on the development of deposit.

Roasting machine
One of the types of equipment used to purify the metal component(s) at elevated temperatures. Such machines usually have variable temperatures so that they can process different types of ore.

Rolled products
Products obtained from hot rolling of semi-finished steel (blooms, billets and slabs) or cold rolling of hot-rolled steel.

Scrap
Steel waste that is not usable in its existing form and is re-melted to produce crude steel or sold. Depending on its form and type, it is classified as heavy melting scrap, light melting scrap or turnings/borings, etc.

Sections
Hot-rolled long products obtained by rolling of blooms or billets. They include angles, channels, girders, joist, I-beams, H-beams, rails and so on. Sections can also be produced by welding together pieces of flat products. They can be used for a wide variety of purposes in the construction, machinery and transportation industries.

Semi-finished products
Intermediate solid steel products obtained by hot rolling or forging of ingots or by continuous casting of liquid steel. They are intended for further rolling or forging to produce finished steel products.

Sinter
An aggregate that is normally produced from relatively coarse fine iron ore, mixed with coke breeze, limestone dolomite fines and various metallurgical return wastes used as an input/raw material in blast furnaces. Sinter improves blast furnace operation and productivity and reduces coke consumption.

Slab
A semi-finished rectangular wide steel product used to make finished hot-rolled flat products such as plates, sheets and coils.

Square billet
A semi-finished steel product with a square cross section of up to 200 millimetres x 200 millimetres. This product is used as input material to make finished long steel products such as bars, rods and light sections.

Wire
A broad range of products produced by cold reducing of hot-rolled wire rod through a series of dies or through rolls to improve surface finish, dimensional accuracy and physical properties. Typical applications include nets, screws, rivets, upholstery springs, furniture wire, concrete wire, electrical conductors, rope wire and structural cables.

Wire rod
Hot-rolled coiled plain bar and rods of up to 18.5 millimetres in diameter. Wire rod is normally used to make steel wire, cold-rolled rebar and hardware.

ABBREVIATIONS

COMPANY ABBREVIATIONS

Avdiivka Coke
PJSC 'Avdiivka Coke'

Azovstal
PJSC 'Azovstal Iron & Steel Works'

Central GOK
PJSC 'Central GOK'

Donetsk Coke
PJSC 'Doncoke'

Ferriera Valsider
Ferriera Valsider S.P.A.

Ilyich Steel
PJSC 'Ilyich Iron and Steel Works of Mariupol'

Ingulets GOK
PJSC 'Ingulets GOK'

Inkor Chemicals
SMA 'Inkor & Co' LLC

Khartsyzk Pipe
PJSC 'Khartsyzsk Pipe'

Komsomolske Flux
PJSC 'Komsomolske Flux'

Krasnodon Coal
PJSC 'Krasnodon Coal Company'

Metalen
US JVLLC 'Metalen'

Metinvest
Metinvest Group

Metinvest Distribution
'Metinvest Distributsiya', LLC

Metinvest Eurasia
'Metinvest Eurasia', LLC

Metinvest Holding
'Metinvest Holding', LLC

Metinvest International
Metinvest International S.A.

Metinvest-SMC
'Metinvest-SMC', LLC

Metinvest-Shipping
'Metinvest-Shipping', LLC

Metinvest Trametal
Metinvest Trametal S.P.A.

Northern GOK
PJSC 'Northern GOK'

Promet Steel
Promet Steel JSC

SCM
A group of companies beneficially owned by Mr Rinat Akhmetov and commonly referred to as System Capital Management

SMART, Smart Group or Smart Holding
A group of companies beneficially owned by Mr Vadim Novinsky

Southern GOK
PJSC 'Yuzhniy GOK'

Spartan UK
Spartan UK Limited

United Coal
United Coal Company LLC

Yenakiieve Steel
PJSC 'Yenakiieve Iron and Steel Works', US JV LLC 'Metalen' and PJSC 'Makiivka Iron and Steel Works'

Zaporizhia Coke
PJSC 'Zaporizhcoke'

Zaporizhstal
PJSC 'Zaporizhstal'

OTHER TERMS

ACCA
Association of Chartered Certified Accountants

CAPEX
Capital expenditure

CFA®
Chartered Financial Analyst

CIS
Commonwealth of Independent States

CSR
Corporate social responsibility

EBITDA
Earnings before interest, taxes, depreciation and amortisation

ECA
Export credit agency

GRI
Global Reporting Initiative

HRC
Hot-rolled coil

HSE
Health, safety and the environment

HVA
High value-added

IMF
International Monetary Fund

ISO
International Organisation for Standardisation

JSC
Joint-stock company

KPI
Key performance indicator

KT
One thousand metric tonnes

LHS
Left-hand side

LLC
Limited liability company

LTIFR
Lost-time injury frequency rate

MENA
Middle East and North Africa

MT
One million metric tonnes

OHSAS
Occupational Health and Safety Advisory Services

PJSC
Public or private joint-stock company

PP
Percentage point

PXF
Pre-export finance

RHS
Right-hand side

S&OP
Sales and Operations Planning

WSA
World Steel Association

NOTES

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