Metinvest B.V.

Abbreviated IFRS Consolidated Financial Statements

31 December 2014

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Abbreviated IFRS Consolidated Financial Statements

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Independent auditor's report

To: the general meeting of Metinvest B.V.

The accompanying summary financial statements, which comprises the summary consolidated balances sheet as at 31 December 2014, the summary consolidated income statement, the statements of comprehensive income, statement of changes in equity and cash flow for the year then ended, and related notes, are derived from the audited financial statements of Metinvest B.V. for the year 2014. We expressed an unqualified audit opinion on those financial statements in our report dated 4 March 2015. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain the company financial statements as 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, therefore, is not a substitute for reading the complete audited financial statements of Metinvest B.V.

Director's responsibility

The directors are responsible for the preparation of the summary of the audited financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and the related explanatory notes based on our procedures, which we conducted in accordance with Dutch law, including the Dutch Standard 810 "Engagements to report on summary financial statements". misstatement.

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of Metinvest B.V. for the year 2014 are consistent, in all material respects, with those financial statements.

Ref.: e0348524

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Emphasis of an uncertainty in the financial statements with respect to the political and economic uncertainties in Ukraine

We draw your attention to Note 2 and Note 4 of the consolidated financial statements. As disclosed in Note 2, the operations of the Group have been affected and may continue to be affected for the foreseeable future, by the continuing political and economic uncertainties in Ukraine. These events in Ukraine increase uncertainties regarding the Group's assessment of the revaluation of property, plant and equipment and the recoverable amount of property, plant and equipment and goodwill under impairment testing, as disclosed in Note 4. Our opinion is not qualified in respect of these matters.

Amsterdam, 4 March 2015
PricewaterhouseCoopers Accountants N.V.

Original has been signed by P.C. Dams RA

	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Goodwill	7	754	1,005
Other intangible assets	8	534	912
Property, plant and equipment	9	6,538	8,212
Investments in associates and joint ventures	10	906	786
Deferred tax asset	27	89	226
Income tax prepaid		108	-
Other non-current assets	11	139	188
Total non-current assets		**9,068**	**11,329**
Current assets			
Inventories	12	1,222	1,863
Income tax prepaid		110	193
Trade and other receivables	13	2,042	2,738
Cash and cash equivalents	14	114	783
Total current assets		**3,488**	**5,577**
TOTAL ASSETS		**12,556**	**16,906**
EQUITY			
Share capital	15	-	-
Share premium	15	6,225	5,461
Other reserves	16	(6,034)	(3,088)
Retained earnings		6,372	6,277
Equity attributable to the owners of the Company		**6,563**	**8,650**
Non-controlling interest	17	**199**	**981**
TOTAL EQUITY		**6,762**	**9,631**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	18	1,878	2,425
Seller's notes	19	-	75
Retirement benefit obligations	20	473	803
Deferred tax liability	27	504	192
Other non-current liabilities	21	39	63
Total non-current liabilities		**2,894**	**3,558**
Current liabilities			
Loans and borrowings	18	1,268	1,718
Seller's notes	19	86	90
Trade and other payables	22	1,546	1,909
Total current liabilities		**2,900**	**3,717**
TOTAL LIABILITIES		**5,794**	**7,275**
TOTAL LIABILITIES AND EQUITY		**12,556**	**16,906**

Signed and authorised for release on behalf of Metinvest B.V. on 4 March 2015:

Originally signed by Managing Director A, Yuriy Ryzhenkov

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

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Revenue	6	10,565	12,807
Cost of sales	23	(8,240)	(10,406)
Gross profit		**2,325**	**2,401**
Distribution costs	23	(1,063)	(1,121)
General and administrative expenses	23	(287)	(391)
Other operating income/(expenses), net	24	130	137
Operating profit		**1,105**	**1,026**
Finance income	25	25	66
Finance costs	26	(902)	(341)
Share of result of associates and joint ventures	10	142	14
Profit before income tax		**370**	**765**
Income tax expense	27	(211)	(373)
Profit for the year		**159**	**392**
Profit is attributable to:			
Owners of the Company		116	158
Non-controlling interests		43	234
Profit for the year		**159**	**392**

Abbreviated Consolidated Statement of Comprehensive Income

All amounts in millions of US dollars

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Profit for the year		159	392
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurement of retirement benefit obligation		(38)	(70)
Revaluation and impairment of property, plant and equipment	9, 23	2,902	553
Share in other comprehensive income of joint ventures		123	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	27	(514)	(81)
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		(5,389)	29
Total other comprehensive income		**(2,916)**	**431**
Total comprehensive (loss) / income for the period		**(2,757)**	**823**
Total comprehensive (loss) / income attributable to:			
Owners of the Company		(2,560)	567
Non-controlling interest		(197)	256
Total comprehensive (loss) / income for the period		**(2,757)**	**823**

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Cash flows from operating activities			
Profit before income tax		**370**	**765**
Adjustments for:			
Depreciation of property, plant and equipment ("PPE") and amortisation of intangible assets	23	850	1,070
Impairment and devaluation of PPE and other intangible assets	23	315	192
(Gain)/loss on disposal of property, plant and equipment and intangible assets	24	(8)	1
Finance income	25	(25)	(66)
Finance costs	26	902	341
Unrealised foreign exchange differences		(315)	7
Change in retirement benefit obligation		(44)	(71)
Impairment of accounts receivable	24	60	(56)
Share of result of associates and joint venture	10	(142)	(14)
Inventory write down	12	16	14
Impairment of goodwill		102	-
Other non-cash operating losses		14	10
Operating cash flows before working capital changes		**2,095**	**2,193**
(Increase) / decrease in inventories		(267)	318
Decrease / (increase) in trade and other accounts receivable		211	(383)
Increase / (decrease) in trade and other accounts payable		40	(81)
Decrease in other non-current liabilities		(2)	(1)
Cash generated from operations		**2,077**	**2,046**
Income taxes paid		(353)	(330)
Interest paid		(235)	(251)
Net cash from operating activities		**1,489**	**1,465**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(549)	(763)
Proceeds from sale of property, plant and equipment		15	82
Settlement of receivables for subsidiaries and associates sold to related parties in prior periods		-	277
Settlement of receivables for bonds, promissory notes and deposit certificates sold to related parties in prior periods		-	409
Acquisition of associates and joint ventures		(45)	(8)
Acquisition of subsidiaries from parties under common control		-	(33)
Loans issued to related parties	11, 13	(21)	(15)
Proceeds from repayments of loans issued	11, 13	19	240
Interest received		22	60
Proceeds from disposal of other non-current assets		-	14
Net cash (used in) / generated from investing activities		**(559)**	**263**
Cash flows from financing activities			
Proceeds from loans and borrowings	18	446	579
Repayment of loans and borrowings	18	(951)	(542)
Repayment of seller's notes	19	(90)	(90)
Net trade financing proceeds	18	(484)	73
Payment for acquisition of non-controlling interest in subsidiaries		(75)	(952)
Dividends paid		(388)	(544)
Net cash used in financing activities		**(1,542)**	**(1,476)**
Effect of exchange rate changes on cash and cash equivalents		(57)	-
Net (decrease) / increase in cash and cash equivalents		**(669)**	**252**
Cash and cash equivalents at the beginning of the year		**783**	**531**
Cash and cash equivalents at the end of the year	14	**114**	**783**

Metinvest B.V.
Abbreviated Consolidated Statement of Changes in Equity
All amounts in millions of US Dollars

In million 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 2013	**-**	**5,461**	**(3,213)**	**6,957**	**9,205**	**1,201**	**10,406**
Revaluation of property, plant and equipment (Note 9, 23)	-	-	528	-	**528**	25	**553**
Remeasurement of retirement benefit obligation	-	-	-	(67)	**(67)**	(3)	**(70)**
Income tax relating to components of other comprehensive income (Note 27)	-	-	(87)	9	**(78)**	(3)	**(81)**
Currency translation differences	-	-	26	-	**26**	3	**29**
Other comprehensive (loss) / income for the period	**-**	**-**	**467**	**(58)**	**409**	**22**	**431**
Profit for the period	-	-	-	158	**158**	234	**392**
Total comprehensive (loss) / income for the period	-	-	**467**	**100**	**567**	**256**	**823**
Realised revaluation reserve, net of tax	-	-	(309)	309	**-**	-	**-**
Acquisition of non-controlling interest in subsidiaries	-	-	-	(479)	**(479)**	(476)	**(955)**
Acquisition of subsidiaries from parties under common control	-	-	(33)	-	**(33)**	-	**(33)**
Dividends declared by the Company	-	-	-	(610)	**(610)**	-	**(610)**
Balance at 31 December 2013	**-**	**5,461**	**(3,088)**	**6,277**	**8,650**	**981**	**9,631**
Revaluation and impairment of property, plant and equipment (Note 9, 23)	-	-	2,752	-	**2,752**	150	**2,902**
Share in other comprehensive income of joint venture	-	-	123	-	**123**	-	**123**
Remeasurement of retirement benefit obligation	-	-	-	(36)	**(36)**	(2)	**(38)**
Income tax relating to components of other comprehensive income (Note 27)	-	-	(494)	7	**(487)**	(27)	**(514)**
Currency translation differences	-	-	(5,028)	-	**(5,028)**	(361)	**(5,389)**
Other comprehensive income for the period	**-**	**-**	**(2,647)**	**(29)**	**(2,676)**	**(240)**	**(2,916)**
Profit for the period	-	-	-	116	**116**	43	**159**
Total comprehensive income for the period	**-**	**-**	**(2,647)**	**87**	**(2,560)**	**(197)**	**(2,757)**
Realised revaluation reserve, net of tax	-	-	(256)	256	**-**	-	**-**
Acquisition of 2% interest in PJSC Nothern Iron Ore Enrichment Works from parties under common control	-	-	(43)	-	**(43)**	(32)	**(75)**
Acquisition and disposals of non-controlling interest in subsidiaries	-	-	-	(2)	**(2)**	5	**3**
Contribution of a joint venture and non-controlling interest in two existing subsidiaries by SMART (Note 10,15)	-	764	-	154	**918**	(558)	**360**
Dividends declared by the Company	-	-	-	(400)	**(400)**	-	**(400)**
Balance at 31 December 2014	**-**	**6,225**	**(6,034)**	**6,372**	**6,563**	**199**	**6,762**

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 by Mr. Vadim Novinskyy, through various entities commonly referred to as SMART-Holding ("SMART").

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; as well as pipe rolling and plate/coil production. The steel products, iron ore and coke are sold on both the Ukrainian and export markets.

Until November 2007, the Company was indirectly 100% controlled by SCM (System Capital Management) Limited ("SCM Limited").

In November 2007 the Company acquired from SMART 82% of PJSC Ingulets Iron Ore Enrichment Works in exchange for the transfer to SMART of 25% of the Company. Following the November 2007 transaction, Metinvest B.V. was owned 75% by SCM Limited and 25% by SMART. SCM Limited and SMART additionally agreed that both would sell/contribute to the Group their remaining equity interests in certain metals and mining assets owned by SCM and SMART. In exchange SMART would acquire certain additional rights over the management of the Company and the Group. Due to the complexity of the transaction, it was executed in several stages during 2007 through 2014; and was completed in July 2014 through purchase of a 44.8% interest in PJSC Southern Iron Ore Enrichment Works, 14.1% interest in PJSC Ingulets Iron Ore Enrichment Works and 16% interest PJSC Northern Iron Ore Enrichment Works and the issue of an additional share and a revised Articles of Association of the Company (Notes 10 and 15).

In 2011, as part of the acquisition of Ilyich Group, the Company issued 5% of its share capital to the sellers of Ilyich Group.

As of 31 December 2014, Metinvest B.V. is owned 71.24% by SCM Limited and 23.76% by SMART, and 5% by a company linked to previous owners of Ilyich Group.

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

Name	Effective % interest as at 31 December 2014	2013	Segment	Country of incorporation
Metinvest Holding LLC	100.0%	100.0%	Corporate	Ukraine
PJSC Azovstal Iron and Steel Works	96.1%	96.2%	Metallurgical	Ukraine
PJSC Yenakiieve Iron and Steel Works	90.8%	91.4%	Metallurgical	Ukraine
JV Metalen LLC	100.0%	100.0%	Metallurgical	Ukraine
PJSC Khartsyzsk Pipe Plant	98.3%	98.2%	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
Metinvest Ukraine LLC	100.0%	100.0%	Metallurgical	Ukraine
JSC Promet Steel	100.0%	100.0%	Metallurgical	Bulgaria
PJSC Makiivka Iron and Steel Works	90.2%	90.2%	Metallurgical	Ukraine
PJSC Ilyich Iron and Steel Works	99.2%	99.2%	Metallurgical	Ukraine
PSC Ilyich Steel	100.0%	100.0%	Metallurgical	Ukraine
PJSC Avdiivka Coke Plant	92.5%	92.8%	Metallurgical	Ukraine
JSC Zaporozhkoks	51.0%	53.1%	Metallurgical	Ukraine
JSC Donetskkoks	93.6%	93.6%	Metallurgical	Ukraine
PJSC Northern Iron Ore Enrichment Works	96.4%	78.4%	Mining	Ukraine
PJSC Central Iron Ore Enrichment Works	99.6%	99.8%	Mining	Ukraine
PJSC Ingulets Iron Ore Enrichment Works	99.8%	85.6%	Mining	Ukraine
OSC Komsomolske Flux Plant	99.7%	99.7%	Mining	Ukraine
United Coal Company LLC ("UCC")	100.0%	100.0%	Mining	USA
PJSC Krasnodon Coal Company	92.4%	92.7%	Mining	Ukraine

The shareholdings as of 31 December 2013 for the subsidiaries that have been acquired from entities under common control during 2013 have been presented as if the Group had these shareholdings as of 31 December 2013.

As at 31 December 2014, the Group employed approximately 94 thousand people (31 December 2013: 101 thousand).

The Company's registered address is Alexanderstraat 23, 2514 JM, 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, UK and the USA.

1 Metinvest B.V. and its operations (continued)

The consolidated financial statements of Metinvest B.V. for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Management Board on 4 March 2015.

For better understanding of Metinvest's financial position and the results of operations, these abbreviated financial statements should be read in conjunction with the Metinvest's audited financial statements as of and for the year ended 31 December 2014, which include all disclosures required by Dutch legislation.

The complete set of financial statements togerther with the auditor's report is available on request at Alexanderstraat 23, 2514 JM, The Hague.

2 Operating environment of the Group

Starting in late 2013 the political situation in Ukraine has experienced instability with numerous protests and continued political uncertainty that has led to a deterioration of the State's finances, volatility of financial markets and sharp depreciation of the national currency against major foreign currencies (since early 2014). The ratings of Ukrainian sovereign debt were downgraded by international rating agencies with negative outlooks for the future. The National Bank of Ukraine, among other measures, imposed requirement for exporters to sell 75% of foreign currency received as payments for revenue and restrictions on the purchase of foreign currency on the inter-bank market.
The political situation in 2014 has also been volatile, with changes in the Ukrainian Parliament and the Presidency. In March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation. The Group has no significant operations in Crimea.

The majority of the Group's Metallurgical segment and some of the Mining segment is located in, or near to, the parts of the Donetsk and Lugansk regions where there has been armed conflict. This includes the city of Mariupol (where the Group's two largest steel plants, PJSC Ilyich Iron and Steel Works and PJSC Azovstal Iron and Steel Works, are located), which is approximately 20 kilometres from the area of conflict. Production at these plants has been negatively impacted by the situation, primarily in the second half of 2014.

The negative impact on production volumes has been caused primarily by disruptions in infrastructure (rail transportation, road transport and electricity supply). This has resulted in some temporary suspensions of operations or decrease of production at some plants during 2014. 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. Plants that were suspended have re-commenced operations. Whilst operations have re-commenced these impacted plants are still operating below capacity as a result of necessary start up time and continuing infrastructure bottlenecks. As of December 2014 and January 2015, the production levels at the assets affected by the military action or its consequences were as follows:

- PJSC Ilyich Iron and Steel Works and PJSC Azovstal Iron and Steel Works representing in total 35% of the Group's property, plant and equipment and approximately 64% of the Group's steel output in 2014 (calculated taking into account 50% of JSC Zaporozhstal Integrated Iron & Steel Works steel output) were working at approximately 60-70% capacity;
- PJSC Yenakiieve Iron and Steel Works, JV Metalen LLC and JSC Makiivka Iron and Steel Works (all located within an area not controlled by the Ukrainian government and representing total 12% of the Group's property, plant and equipment and approximately 18% of of the Group's steel output) were working at approximately 80% capacity; and
- PJSC Avdiivka Coke Plant, PJSC Krasnodon Coal Company and PJSC Khartsyzsk Pipe Plant (representing in total 7% of the Group's property, plant and equipment; the latter two located within an area not controlled by the Ukrainian government) were working at approximately 50%, and 15% and normal capacity, respectively.

There has been no significant impact to the physical conditions of the Group's assets.

The recovery in production levels noted in the last few months of 2014 has slowed in January and February 2015 as a result of a number of short-term disruptions. As of the date of this report PJSC Yenakiieve Iron and Steel Works is in suspension mode since February 2015. Management expects operations to recommence in the nearest future.

The reduction in production in 2014 of approximately 26% in steel volume term has reduced revenue and cost of sales, whilst raw material transportation costs have increased due to these disruptions in transportation infrastructure.

As of the date of this report the official NBU exchange rate of Hryvnya against US dollar was UAH 28.29 per USD 1, compared to 15.77 per USD 1 as at 31 December 2014. The devaluation of the Ukrainian Hryvnya ("UAH") during 2014 had a short-term positive impact on the Group's overall profitability, given that a large part of Group's costs is UAH based while its sales are largely US dollar ("USD") denominated.

As of 31 December 2014, the Group had significant balances receivable from and prepayments made to the State including prepaid income taxes and VAT recoverable. The timing of settlement of these balances is uncertain and is dependent upon the availability of State funds. Additionally, there has been a reduction in the market price for iron ore and coking coal in 2014 as compared to 2013 and several prior years. This, together with the impact of situation in Ukraine, has triggered the need for impairment testing of non-current assets (Notes 7 and 9).

The final resolution of the political and economic situation in Ukraine and the final effects of this are difficult to predict, but it may have further negative implications on the Ukrainian economy and the Group's business.

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. 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 Group are disclosed in Note 5.

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 judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. 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 when 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 valued on proportionate basis of net assets.

3 Basis of preparation and significant accounting policies (continued)

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 and 50 percent of the voting rights.

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 an arrangement whereby the parties that 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 have rights to the net assets of the arrangement.

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.

Any excess of the fair value of the Group's share in the acquired associate's or joint venture's net assets ("negative goodwill") is recognised immediately in the consolidated income statement.

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.

Foreign currency translation. The currency of each of consolidated entity 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 hryvnya ("UAH") or US dollar ("USD").

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 2014	**31 December 2013**
USD/UAH	15.77	7.99
EUR/UAH	19.23	11.04

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 differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation from functional to presentation currency. The Group has selected the US dollar ("USD") as the presentation currency. The USD 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 USD; (b) the USD is widely used as a presentation currency of companies engaged primarily in metallurgy; and (c) the USD 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 as a separate component of equity. All the components of consolidated equity at each balance sheet date are translated at the closing rate, except for retained earnings, which is stated at historical rates. The balancing figure goes to cumulative currency translation reserve in other reserves in equity.

3 Basis of preparation and significant accounting policies (continued)

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.

Exchange restrictions in Ukraine are limited to compulsory receipt of foreign accounts receivable within 90 days of sales, need for exporters to sell 75% of foreign currency revenue and restrictions on the purchase of foreign currency on the inter-bank market. 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. Subsequent additions to property, plant and equipment are recorded 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. As at 31 December 2014 and 31 December 2013 property, plant and equipment are stated at revalued amounts less accumulated depreciation and provision for impairment, if required.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase 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 can be allocated to a separate depreciation period.

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 is ready for use. The estimated remaining useful lives are as follows:

	Remaining 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, 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 in 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. Goodwill on acquisitions of associates is included in the investment in associates. It is carried at cost less accumulated impairment losses, if any. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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 business to which the goodwill arose.

Other intangible assets. All of the Group’s other intangible assets have definite useful lives and primarily include capitalised computer software, licences, coal reserves and long-term sales contracts. 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 to sell. 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. Amortization rates are updated when revisions to coal reserve estimates are made. Coal reserve estimates are reviewed when events and circumstances indicate a reserve change is needed. Long-term sales contracts are amortised using a units-of-production method, based on fulfilment of the contract.

Impairment of non-financial assets. Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are 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. The Group classifies financial assets as 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 recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price, except for the transactions with related parties which are based on contract value. 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.

3 Basis of preparation and significant accounting policies (continued)

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 be 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. 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.

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. Taxes, other than on income, are recorded within operating expenses.

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.

3 Basis of preparation and significant accounting policies (continued)

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 receivables. Trade and other 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.

Renegotiated trade and other receivables are measured at amortised cost based on the new pattern of renegotiated cash flows. A gain or loss is recognised in the consolidated income statement on the date of renegotiation, which is subsequently amortised using the effective interest method. If the terms of a receivable are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

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.

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 twelve 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 twelve 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. The effect of initial discounting and subsequent accretion of the discount is recognised directly in equity.

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.

3 Basis of preparation and significant accounting policies (continued)

Trade and other payables. Trade and other payables are recognised and initially measured under the policy for financial instruments. Subsequently, instruments with a fixed maturity are re-measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

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.

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.

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 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.

3 Basis of preparation and significant accounting policies (continued)

(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. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. The Group 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. 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 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.

All interest and other costs incurred in connection with borrowings are expensed using the effective interest rate method if not capitalised. Interest income is recognised as it accrues, taking into account the effective yield on the asset.

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 and goodwill. The Group and its subsidiaries are required to perform impairment tests for their cash-generating units when there is indication that a cash-generating units may be impaired. One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. Within the Group's identified cash-generating units a significant proportion of their output is input to another cash-generating unit. Therefore judgement is needed in determining a cash-generating unit.

Annually the Group assesses whether goodwill is impaired. This requires estimation of the value in use / fair value less costs to sell of the cash-generating units or groups of cash-generating units to which goodwill is allocated. Allocation of goodwill to groups of cash generating units requires significant judgement related to expected synergies. Estimating value in use / fair value less costs to sell requires the Group to make an estimate of expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Changes in the above estimates and judgments could have a material effect on the results of the impairment tests. The estimates used to assess the impairments are impacted by the uncertainty caused by events in Eastern Ukraine, including importantly future planned production (see discussion of operating environment in Note 2). The impact of the uncertainties is discussed further in Notes 7 and 9.

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 the estimate of an 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. Factors taken into consideration when estimating the future cash flow include an ageing analysis of trade and other accounts receivable in comparison with the credit terms allowed to customers, and the financial position of and collection history with the customer. In the current environment there is significant judgement in estimating the expected payment date, the discount rate and whether penalty interest will be collected. Should actual collections be less than management's estimates, the Group would be required to record an additional impairment expense.

Changes in the above estimates and judgments could have a material effect on the results of the impairment tests. The estimates used to assess the impairments are impacted by the uncertainty caused by events in Eastern Ukraine (see discussion of operating environment in Note 2).

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 statement of financial position. 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 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 7. In addition, a number of tax planning opportunities are available to the Group to recover the deferred tax asset recognised.

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 20.

4 Critical accounting estimates and judgements in applying accounting policies (continued)

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 high-quality 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 20.

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 0).

Fair value of acquired interest in joint venture, non-controlling interest and additional shareholders' rights issued. As explained in Notes 2 and 15, in July 2014 the Company acquired from SMART, one of its shareholders, a 44.8% interest in PJSC Southern Iron Ore Enrichment Works, a 14.1% interest in PJSC Ingulets Iron Ore Enrichment Works and a 16% interest PJSC Northern Iron Ore Enrichment Works. In exchange, the Articles of Association of the Company were changed amending the rights of the shareholders and an additional share in the Company's share capital was issued to SMART. As it was concluded impracticable to fair value the additional rights obtained by SMART, the value of this consideration given was deemed equal to the fair value of the interests acquired. Fair valuation of the acquired interests in the aforementioned entities involved numerous estimates and judgements, the most significant being future prices for iron ore in Ukraine which ranged from USD 61 to USD 43 per ton. If prices were 10% higher/lower then the result of valuation would have been USD 51 million lower/higher.

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. 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.

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 which were revalued as of previous balance sheet date, the fair values as of reporting date were obtained using indexation of their carrying amounts for relevant cumulative price indices or changes in foreign exchange rates (Level 3).

When performing valuation using these methods, the key estimates and judgments 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 comparatives 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; and

· determination of applicable cumulative price indices or changes in foreign exchange rates which would most reliably reflect the change in fair value of assets revalued using indexation of carrying amounts.

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 7), except for discount rates which are specific to each of the Group's subsidiaries and are pre-tax.

The results of this revaluation of property, plant and equipment is disclosed further in Note 9.

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. The estimates used to assess the fair value of property, plant and equipment are impacted by the uncertainty caused by events in Eastern Ukraine, including importantly future planned production (see discussion of operating environment in Note 2). The impact of the uncertainties is discussed further in Notes 7 and 9.

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 requirements. Management will increase the depreciation charge where useful lives are less than previously estimated lives.

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, 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 loans and other payables of Metinvest B.V totalled USD 2,945 million as at 31 December 2014 (31 December 2013: USD 3,312 million) where potential foreign exchange gains/losses could arise should a different functional currency be determined.

5 Adoption of new or revised standards and interpretations

The following new standards and amendments to the standards which are relevant to the Group and have been adopted by the European Union are effective in the European Union for the annual periods beginning on or after 1 January 2014, and have been adopted by the Group:

- IFRS 10, Consolidated Financial Statements;
- Amended IAS 28, Investments in Associates and Joint Ventures;
- IFRS 11, Joint Arrangements and
- IFRS 12, Disclosure of Interest in Other Entities which resulted in additional disclosures presented in Notes 10 and 17.

These and other new or revised standards or interpretations that became effective from 1 January 2014 had no material impact to the Group.

The following new standards which are relevant to the Group, have been issued, but have not been adopted by the European Union:

- IFRS 9, Financial Instruments; and
- IFRS 15, Revenue from Contracts with Customers.

The Group is currently assessing the possible impact of adoption of the above standards but it is not currently expected that it will be significant.

Other new or revised standards or interpretations that will become effective for annual periods starting after 1 January 2015 will likely have no material impact to the Group.

6 Segment information

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

- Metallurgical – comprising the production and sale of coke, semi-finished and finished steel products;
- Mining – comprising the production, enrichment and sale of iron ore and coal.

The Group is a vertically integrated steel and mining business. A significant portion of the Group's iron ore and coke and coal production are used in its steel production operations.

Operating segments' performance is assessed based on a measure of adjusted EBITDA. This measurement basis excludes dividend income, charity, royalty, property, plant and equipment and inventory impairment and the effects of non-recurring expenditure from the operating segments such as goodwill impairments. Revenues and expenses for internal reporting purposes have been accounted for using the IFRS principles.

Segment information for the year ended 31 December 2014 was as follows:

	Metallurgical	Mining	Corporate overheads	Eliminations	Total
2014					
Sales – external	8,165	2,400	-	-	**10,565**
Sales to other segments	81	1,694	-	(1,775)	-
Total of the reportable segments' revenue	**8,246**	**4,094**	**-**	**(1,775)**	**10,565**
Adjusted EBITDA	**941**	**1,636**	**(140)**	**(35)**	**2,402**
Share in EBITDA of joint ventures	182	118	-	-	**300**
Adjusted EBITDA including share in EBITDA of joint ventures	**1,123**	**1,754**	**(140)**	**(35)**	**2,702**
Reconciling items:					
Depreciation and amortisation					(850)
Impairment and devaluation of PPE and other intangible assets	15	(330)	-	-	(315)
Goodwill impairment	-	(102)	-	-	(102)
Share of result of associates and depreciation, amortisation, tax and finance income and costs in joint ventures					(158)
Finance income					25
Finance costs					(902)
Other					(30)
Profit before income tax					**370**

	Metallurgical	Mining	Corporate overheads		Total
Capital expenditure	276	304	33		**613**
Significant non-cash items included into adjusted EBITDA:					
- unrealised operating foreign exchange gains less losses, net	(136)	505	2	(56)	**315**
- impairment of trade receivables	(9)	(51)	-		**(60)**
- net change in retirement benefit obligations	(9)	(8)	-		**(17)**

6 Segment information (continued)

Analysis of revenue by category:

	Metallurgical	Mining	Total
2014			
Sales of own products	**6, 226**	**2,358**	**8,584**
- Steel products	5,662	-	5,662
- Iron ore products	-	2,127	2,127
- Coke, coal and coal concentrate	290	176	466
- Other	274	55	329
Sales of purchased goods	**1,939**	**42**	**1,981**
- Steel products	1,667	-	1,667
- Iron ore products	-	-	-
- Coke, coal and coal concentrate	-	42	42
- Other	272	-	272
Total	**8,165**	**2,400**	**10,565**

Segment information for the year ended 31 December 2013 was as follows:

	Metallurgical	Mining	Corporate overheads	Eliminations	Total
2013					
Sales – external	9,727	3,080	-	-	**12,807**
Sales to other segments	80	2,214	-	(2,294)	-
Total of the reportable segments' revenue	**9,807**	**5,294**	**-**	**(2,294)**	**12,807**
Adjusted EBITDA	**204**	**2,252**	**(130)**	**(35)**	**2,291**
Share in EBITDA of joint venture	70	-	-	-	**70**
Adjusted EBITDA including share in EBITDA of joint venture	**274**	**2,252**	**(130)**	**(35)**	**2,361**
Reconciling items:					
Depreciation and amortisation					(1,070)
Impairment and devaluation of PPE	(100)	(92)	-	-	(192)
Share of result of associates and depreciation, amortisation, tax and finance income and costs in joint venture					(56)
Finance income					66
Finance costs					(341)
Other					(3)
Profit before income tax					**765**

	Metallurgical	Mining	Corporate overheads	Total
Capital expenditure	313	359	75	**747**
Significant non-cash items included into adjusted EBITDA:				
- reversal of receivables impairment	56	-	-	**56**
- net change in retirement benefit obligations	(6)	(6)	-	**(12)**

6 Segment information (continued)

Analysis of revenue by category:

	Metallurgical	Mining	Total
2013			
Sales of own products	**8,209**	**2,956**	**11,165**
- Steel products	7,424	-	7,424
- Iron ore products	-	2,619	2,619
- Coal and coal concentrate	331	275	606
- Other	454	62	516
Sales of purchased goods	**1,518**	**124**	**1,642**
- Steel products	1,505	-	1,505
- Coal and coal concentrate	-	109	109
- Other	13	15	28
Total	**9,727**	**3,080**	**12,807**

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

2014	Metallurgical	Mining	Total
Ukraine	1,578	918	**2,496**
Rest of Europe	2,751	199	**2,950**
Middle East and Northern Africa	1,872	-	**1,872**
South Eastern Asia	516	1,150	**1,666**
Commonwealth of Independent States ("CIS")	1,073	1	**1,074**
North America	281	124	**405**
Other countries	94	8	**102**
Total	**8,165**	**2,400**	**10,565**

2013	Metallurgical	Mining	Total
Ukraine	2,330	1,348	**3,678**
Rest of Europe	2,761	323	**3,084**
Middle East and Northern Africa	2,131	35	**2,166**
South Eastern Asia	792	1,164	**1,956**
Commonwealth of Independent States ("CIS")	1,471	2	**1,473**
North America	153	178	**331**
Other countries	89	30	**119**
Total	**9,727**	**3,080**	**12,807**

As at 31 December 2014 91% of the Group's property, plant and equipment were located in Ukraine (as at 31 December 2013 92%).

As at 31 December 2014, 46% and 54% of the Group's other intangible assets were owned by Group's subsidiaries in Ukraine and the US, respectively (31 December 2013: 56% and 44%, respectively).

7 Goodwill

The movements of goodwill were as follows:

	2014	2013
Book amount as at 1 January, net	**1,005**	**980**
Impairment	(102)	-
Currency translation differences	(149)	25
Book amount as at 31 December, net	**754**	**1,005**

Management allocates and monitors goodwill at the following groups of cash generating units ("CGUs"):

	31 December 2014	31 December 2013
Metallurgical	594	659
Mining (including UCC)	160	346
Total	**754**	**1,005**

The recoverable amount has been determined based on fair value less cost of disposal estimations. Management estimated in 2013 that market conditions, under which iron ore and coal suppliers earn significant margins while steelmakers nearly breakeven, would change in the next few years, resulting in a partial reallocation of margins from producers of raw materials to steel producers. Management had anticipated that this would take place in 2016. Reduction in iron ore and coal prices started to be observed in 2014.

To ensure that impairment testing model fully reflects the anticipated changes in cash flows, for the goodwill impairment test the Group used cash flow projections for 10 years which are based on Group's strategy approved by senior management; first year of forecast is based on the Group's approved business plan for the year. Valuation method used for determination of each CGU fair value is based on unobservable market data, which is within Level 3 of the fair value hierarchy.

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

	2014	2013
Metallurgical		
Post-tax discount rate (USD)	16.0% for 2015–2016 and 12.6% for 2017 onwards)	12.0%
Revenue growth rate	-1% to 4%	0% to 12%
EBITDA margins	10% to 18%	5% to 17%
Growth rate in perpetual period	3%	3%
Mining (except for UCC)		
Post-tax discount rate (USD)	16.0% for 2015–2016 and 12.6% for 2017 onwards)	12.0%
Revenue growth rate	-23% to 6%	-7% to 6%
EBITDA margins	25% to 40%	35% to 44%
Growth rate in perpetual period	3%	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 iron ore prices for Fe 62% fines (CFR North China) are USD 85 per tonne in 2015, USD 80 per tonne in 2016 and recover at 2.5% p.a. to USD 98 per tonne in 2024 (31 December 2013: range from USD 105 per tonne to USD 125 per tonne in 2023). Forecasted prices for other iron ore products and prices at other markets were determined based on respective discounts or premiums for Fe content, applicable transportation costs and historic discounts or premiums usual for those markets.

7 Goodwill (continued)

Forecasted coal prices used in the impairment test for all CGUs for low volatile hard coking coal (FOB Queensland) start from USD 129 per tonne in 2015, recover to USD 165 per tonne in 2017 and grow at 2.5% p.a. on average thereafter (31 December 2013: start from USD 165 per tonne in 2014 per ton and grow at 3.6% 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 are estimated to gradually increase from current levels to USD 593 per ton in 2024 (31 December 2013: USD 666 per ton in 2023). 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.

For entities of the Metallurgical segment which have been affected by the conflict in the Eastern Ukraine, the production volumes used in the model for first half of 2015 are consistent with those achieved in December 2014 and January 2015 as described in the Note 2, and subsequently increasing to approximately 80-95% of the plants' capacity.

Revenue growth rates depend mainly on projections of future prices for steel and iron ore products and production volumes.

As at 31 December 2014 Metallurgical division recoverable amount is USD 6,014 million and exceeds its total carrying amount by USD 1,139 million (31 December 2013: recoverable amount of USD 4,224 million, exceeded carrying value by USD 279 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 the Metallurgical division:

	31 December 2014	31 December 2013
Volumes of production/sales		
Decrease in all the periods by 2.5%	-	Recoverable amount equals carrying amount
Decrease in all the periods by 9%	Recoverable amount equals carrying amount	
Steel prices		
Decrease in all the periods by 0.4%	-	Recoverable amount equals carrying amount
Decrease in all the periods by 1%	-	Impairment of USD 545 million required
Decrease in all the periods by 2.6%	Recoverable amount equals carrying amount	-
Decrease in all the periods by 4%	Impairment of USD 647 million required	-
Iron ore prices		
Increase in all the periods by 0.7%	-	Recoverable amount equals carrying amount
Increase in all the periods by 1%	-	Impairment of USD 131 million required
Discount rates		
Increase in all the periods by 0.3 pp	-	Recoverable amount equals carrying amount
Increase in all the periods by 1 pp	-	Impairment of USD 531 million required
Increase in all the periods by 2.3 pp	Recoverable amount equals carrying amount	-
Growth rate in perpetual period		
Decrease by 0.6 pp	-	Recoverable amount equals carrying amount
Decrease by 1 pp	-	Impairment of USD 168 million required
Decrease by 1.5 pp	Recoverable amount exceeds carrying amount by USD 763 million	

7 Goodwill (continued)

As at 31 December 2014 the recoverable amount of Mining group of CGUs (except for UCC) is USD 2,537 million and exceeds its total carrying amount by USD 400 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 2014	31 December 2013
Iron ore prices		
Decrease in all the periods by 5%	Recoverable amount equals carrying amount	
Decrease in all the periods by 10%	Impairment of USD 381 million required	N/a
Discount rates		
Increase in all the periods by 1.7 pp	Recoverable amount equals carrying amount	N/a

With regard to impairment testing of the goodwill related to Mining group of CGUs as at 31 December 2013, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value to materially exceed the recoverable amount.

As at 31 December 2014, the Mining group of CGUs includes goodwill which arose on the acquisition of UCC in the amount of USD 73 million (31 December 2013: USD 176 million). Starting from 2014 management started to monitor and test this goodwill for impairment separately from other Mining CGUs. This change has been driven by reassessment of synergies available from acquisition of UCC.

As at 31 December 2014 recoverable amount of UCC was estimated at USD 603 million. Total impairment charge of USD 209 million has been recorded for UCC, out of which USD 103 million were recorded against goodwill and USD 106 million were recorded against coal reserves of separate mines (Note 8).

The impairment loss resulted from the decline in coal prices in 2014 which are not expected to recover in full in the near future. The decrease of coal prices in all forecasted periods by 5% with all other variables held constant would result in additional impairment charge of USD 152 million, out of which USD 72 million will be charged to goodwill.

8 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 2013				
Cost	418	726	71	**1,215**
Accumulated amortisation	(23)	(222)	(32)	**(277)**
Net carrying amount	**395**	**504**	**39**	**938**
Additions	-	-	41	**41**
Amortisation	(8)	(50)	(9)	**(67)**
As at 31 December 2013				
Cost	418	726	112	**1,256**
Accumulated amortisation	(31)	(272)	(41)	**(344)**
Net carrying amount	**387**	**454**	**71**	**912**
Additions	-	-	24	**24**
Impairment (Note 7)	(106)	(3)	-	**(109)**
Currency translation differences	-	(207)	(38)	**(245)**
Amortisation	(6)	(34)	(8)	**(48)**
As at 31 December 2014				
Cost	312	373	220	**905**
Accumulated amortisation	(37)	(163)	(171)	**(371)**
Net carrying amount	**275**	**210**	**49**	**534**

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 life of approximately 30 years.

9 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 2013	**78**	**3,126**	**4,979**	**153**	**937**	**9,273**
Additions	-	-	-	-	706	**706**
Transfers	-	220	424	(10)	(634)	**-**
Disposals		(43)	(101)	(1)	(2)	**(147)**
Reclassification to inventory	-	-	-	-	(50)	**(50)**
Elimination against gross carrying amount upon revaluation	-	(192)	(676)	(14)	-	**(882)**
Revaluation	2	288	329	10	(20)	**609**
Currency translation differences	3	1	2	-	-	**6**
As at 31 December 2013	**83**	**3,400**	**4,957**	**138**	**937**	**9,515**
Additions	-	-	-	-	589	**589**
Transfers	-	77	285	16	(378)	**-**
Disposals	-	(6)	(22)	(4)	(4)	**(36)**
Reclassification to inventory	-	-	-	-	(15)	**(15)**
Elimination against gross carrying amount upon revaluation	-	(203)	(591)	(15)	-	**(809)**
Revaluation	-	899	1,955	16	32	**2,902**
Currency translation differences	(11)	(1,749)	(2,328)	(62)	(479)	**(4,629)**
As at 31 December 2014	**72**	**2,418**	**4,256**	**89**	**682**	**7,517**
Accumulated depreciation and impairment						
As at 1 January 2013	**-**	**(209)**	**(762)**	**(48)**	**(6)**	**(1,025)**
Charge for the year	-	(236)	(741)	(33)	-	**(1,010)**
Disposals	-	34	69	1	-	**104**
Transfers	-	1	(22)	21	-	**-**
Elimination against gross carrying amount upon revaluation	-	192	676	14	-	**882**
Impairment	-	(161)	(69)	(3)	(15)	**(248)**
Currency translation differences	-	(2)	(4)	-	-	**(6)**
As at 31 December 2013	**-**	**(381)**	**(853)**	**(48)**	**(21)**	**(1,303)**
Charge for the year	-	(212)	(579)	(21)	-	**(812)**
Disposals	-	3	18	3	2	**26**
Transfers	-	-	-	-	-	**-**
Elimination against gross carrying amount upon revaluation	-	203	591	15	-	**809**
Impairment	-	(125)	(63)	(3)	(15)	**(206)**
Currency translation differences	-	176	314	17	-	**507**
As at 31 December 2014	**-**	**(336)**	**(572)**	**(37)**	**(34)**	**(979)**
Net book value as at						
31 December 2013	**83**	**3,019**	**4,104**	**90**	**916**	**8,212**
31 December 2014	**72**	**2,082**	**3,684**	**52**	**648**	**6,538**

9 Property, plant and equipment (continued)

During 2014, management performed assessments 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 revalued during 2014.

As of 30 June 2014 the Group decided to revalue majority of its property, plant and equipment mainly due to significant devaluation of UAH against USD and EUR. The fair values of property, plant and equipment were estimated by independent appraisers as follows:

- carrying amounts of items of plant and machinery which are priced in hard currency were adjusted for changes in USD / UAH and EUR / UAH exchange rates during six months ended 30 June 2014; and

- carrying amounts of other items of property, plant and equipment were adjusted for relevant cumulative price indices (for construction works and materials, different types of equipment, etc.) in Ukraine since the date of the latest revaluation of such items.

The revised carrying amounts were then compared to the estimated recoverable amount of groups of assets and the net revaluation amount was then recorded. The revaluations as at 30 June 2014 resulted in a USD 1,651 million revaluation surplus recorded in other comprehensive income and USD 41 million of reversal of previously recognised impairment in profit and loss.

As of 31 December 2014 due to further devaluation of UAH and increased inflation in Ukraine the Group performed another revaluation of assets where fair value was expected to be significantly higher than their carrying amounts. These revalued assets represent 76% of total value of the Group's property, plant and equipment as of 31 December 2014. The revaluations as at 31 December 2014 together with the below discussed tests for impairment resulted in a USD 1,251 million revaluation surplus recorded in other comprehensive income and USD 247 million of recognised impairment in profit and loss.

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.

Where it was considered that the fair value of assets is unlikely to be substantially higher than the carrying value as of 31 December 2014, only a test for impairment has been performed. These assets represented 17% of total value of the Group's property, plant and equipment as of 31 December 2014 before impairment.

The recoverable amount has been determined based on fair value less costs of disposal calculations over a period of expected usage of the assets. Valuation method used for determination of each CGU recoverable value is based on unobservable market data, which is within Level 3 of the fair value hierarchy. Assumptions used in impairment testing of PPE are consistent with those used in goodwill impairment test (Note 7).

Resulting from the test an impairment loss of USD 215 million and a revaluation reserve reversal of USD 249 million have been recognised on two CGUs being iron ore mining (USD 316 million in aggregate) and coal mining (USD 145 million in aggregate) operations in Ukraine. These impairments were largely driven by decrease in iron ore and coal prices in 2014. Increase of iron ore prices by 15% would increase recoverable amount of iron ore mining CGU to its carrying amount before impairment. No reasonably possible change in any of the assumptions of the impairment model of coal mining CGU would change the amount of impairment.

The specific risk of future severe physical damage or loss of control over entities located within or in close proximity to the areas not controlled by Ukrainian government were not taken into account when building cash flow projections nor was this included within the discount rate in either goodwill or CGU impairment testing. If a 20% probability that this risk crystallises was applied with respect to the CGUs located within the territories not controlled by the Ukrainian government and 10% for CGUs in close proximity to it, all other factors remaining constant, then impairment of USD 464 million of property, plant and equipment would need to be recognised.

During 2014 USD 23 million of borrowing costs were capitalised, capitalisation rate was 7% (2013: USD 37 million, capitalisation rate 6%).

As at 31 December 2014 and 2013 no buildings, plant and machinery were pledged to third parties as collateral for loans and borrowings.

10 Investments in associates and joint ventures

The Group's investment in joint ventures and associates were as follows as at 31 December 2014 and 2013:

				2014		**2013**
Name	**Type of relationship**	**Segment**	**% of ownership**	**Carrying value**	**% of ownership**	**Carrying value**
PJSC Southern Iron Ore Enrichment Works	Joint venture	Mining	45.9%	345	-	-
Zaporozhstal Group	Joint venture	Metallurgical	49.9%	522	49.9%	742
Zaporozhogneupor	Associate	Metallurgical	45.4%	4	39.7%	11
Yenakievskiy Koksohimprom	Associate	Metallurgical	50.0%	6	50.0%	8
IMU	Associate	Metallurgical	49.9%	13	49.9%	22
Black Iron (Cyprus) Limited	Associate	Mining	49.0%	14	-	-
Other	Associate	Mining	n/a	2	n/a	3
Total				**906**		**786**

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

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

PJSC Southern Iron Ore Enrichment Works

On 14 July 2014 the Company acquired a 44.8% ownership interest in PJSC Southern Iron Ore Enrichment Works. This ownership interest, together with the acquisition of non-controlling interests in two already consolidated subsidiaries made in consideration of an additional share in the Company together with a change in the ownership rights assigned to each share (see Note 15). Additional 1.1% of ownership interest in PJSC Southern Iron Ore Enrichment Works had been acquired in a separate transaction ealier in the year.

The Company has assessed the cost of acquisition of PJSC Southern Iron Ore Enrichment Works through valuation of its business using estimated discounted cash flows (Level 3). The resulting fair value of a USD 360 million is considered to be the fair value of consideration transferred and has been credited to share premium. Management has attributed fair values to identifiable assets and liabilities, including a mining license.

As of the date of acquisition, this investment was classified as a joint venture due to the fact that strategic financial and operating decisions require participation of and consent from both Metinvest and another major shareholder of 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.

Zaporozhstal Group

Investment in 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;
- 38.9% effective interest in JSC Zaporizhya Iron Ore Plant, large iron ore mining enterprise in Ukraine which sells part of its iron ore output to Zaporozhstal;
- 42.7% effective interest in JSC Zaporozhkoks and a 49.2% effective interest in JSC Zaporozhogneupor which are Group's subsidiary and associate respectively.

As at 31 December 2014 and 2013, Metinvest's investment in Zaporizhstal Group was classified as a joint venture due to the fact that direction of key relevant activities (strategic financial and operating decisions) requires participation of and consents from the other shareholders of Zaporizhstal Group.

10 Investments in associates and joint ventures (continued)

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

	2014	2013
Carrying amount at 1 January	**786**	**764**
Acquisition of share in PJSC Southern Iron Ore Enrichment Works	369	-
Acquisition of share in Black Iron (Cyprus) Limited	20	-
Acquisition of associate	-	8
Share of after tax results of joint ventures and associates	142	14
Share of other comprehensive income of joint ventures and associates	123	-
Currency translation difference	(534)	-
Carrying amount at 31 December	**906**	**786**

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

- JSC Zaporozhogneupor, Ukrainian producer of refractories, with revenues of USD 54 million and net loss of USD 6 million in 2014 (2013: USD 64 and nil, repectively) and total assets of USD 29 million as at 31 December 2014 (31 December 2013: USD 50 million);
- 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; Yenakievskiy Koksohimprom had revenues of USD 83 million and net profit of USD 4 million in 2014 (2013: USD 126 and USD 5, respectively) and total assets of USD 46 million as at 31 December 2014 (31 December 2013: USD 66 million)
- Black Iron (Cyprus) Limited, entity which owns licences for development of two iron ore deposits nearby Kryvyi Rih, Ukraine; and
- 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 2014	31 December 2013	31 December 2014
Balance sheet:			
Non-current assets	**1,077**	**1,527**	**488**
Cash and cash equivalents	12	27	5
Other current assets	470	481	392
Total current assets	**482**	**508**	**397**
Trade and other payables and provisions	74	97	-
Other non-current financial liabilities	109	112	53
Total non-current liabilities	**183**	**209**	**53**
Trade and other payables and provisions	448	713	80
Other current financial liabilities	186	225	-
Total current liabilities	**634**	**938**	**80**
Net assets	**742**	**888**	**752**

10 Investments in associates and joint ventures (continued)

	Zaporozhstal Group			PJSC Southern Iron Ore Enrichment Works
	31 December 2014	**31 December 2013**		**31 December 2014**
Profit or loss for the year ended:				
Revenue	1,862	1,710		316
Depreciation and amortisation	(75)	(109)		(26)
Interest income	-	16		4
Interest expense	(147)	(55)		(3)
Income tax expense/ income	(16)	7		(46)
Profit or loss	111	(1)		190
Statement of comprehensive income for the year ended:				
Other comprehensive income	245	-		-
Total comprehensive income	348	(2)		190
Dividends received by the Group during the year ended	-	-	-	-

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

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 2014	**31 December 2013**	**31 December 2014**
Net assets	**742**	**888**	**752**
Group's ownership, %	49.9%	49.9%	45.9%
Group's interest in net assets	370	443	345
Goodwill	152	299	-
Carrying value	**522**	**742**	**345**

11 Other non-current assets

	31 December 2014	31 December 2013
Long-term loans issued to related parties (USD denominated, 9% effective interest rate, mature during 2014-2017)	20	30
Long-term loans issued to related parties (USD denominated, 11% effective interest rate, mature in 2016)	98	98
Long-term loans issued to related parties (USD denominated, 9% effective interest rate, mature in 2015)	-	26
Other non-current financial assets	11	26
Other non-current non-financial assets	10	8
Total	**139**	**188**

Analysis by credit quality of financial non-current assets is as follows:

	31 December 2014	31 December 2013
Balances neither past due nor impaired:		
- related parties	118	154
- other	11	26
Total non-current and not impaired	**129**	**180**

The maximum exposure to credit risk at the reporting date is the carrying value of financial non-current assets. The Group does not hold any collateral as security.

12 Inventories

	31 December 2014	31 December 2013
Finished goods and work in progress	566	928
Raw materials	409	450
Ancillary materials, spare parts and consumables	210	414
Goods for resale	37	71
Total inventories	**1,222**	**1,863**

In 2014, inventory write down expense was USD 16 million (2013: USD 14 million).

As at 31 December 2014, inventories totalling USD 151 million (31 December 2013: USD 158 million) have been pledged as collateral for borrowings (Note 18).

13 Trade and other receivables

	31 December 2014	31 December 2013
Trade receivables and receivables on commission sales	1,544	1,844
Current portion of loans issued to related parties (Note 11)	86	48
Other receivables	78	148
Total financial assets	**1,708**	**2,040**
Recoverable value added tax	225	308
Prepayments made	45	298
Prepaid expenses and other non-financial receivables	64	92
Total trade and other receivables	**2,042**	**2,738**

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

	31 December 2014		31 December 2013	
	Trade receivables	**Other financial receivables**	**Trade receivables**	**Other financial receivables**
Provision for impairment at 1 January	**56**	**25**	**118**	**18**
Net impairment during the year	50	10	(64)	8
Reclassification	-	-	1	(1)
Currency translation differences	(29)	(8)	1	-
Provision for impairment at 31 December	**77**	**27**	**56**	**25**

13 Trade and other receivables (continued)

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

	31 December 2014		31 December 2013	
	Trade receivables and receivables on commission sales	**Other financial receivables**	**Trade receivables and receivables on commission sales**	**Other financial receivables**
Key customers	30	-	120	-
SCM and other related companies, including associates and joint venture(s)	73	126	67	119
Balances covered by bank letters of credit	202	-	295	-
Balances insured	249	-	265	-
Existing and new customers with no history of default	69	25	141	20
Balances renegotiated with SCM and other related companies, including associates and joint venture(s)	28	-	37	40
Total current and not impaired	**651**	**151**	**925**	**179**
Past due:				
- less than 30 days overdue	162	-	190	-
- 30 to 90 days overdue	91	-	282	2
- 90 to 180 days overdue	73	2	279	2
- 180 to 360 days overdue	33	2	32	5
- over 360 days overdue	16	9	21	8
Total past due	**375**	**13**	**804**	**17**
Total individually impaired	**595**	**27**	**171**	**25**
Less impairment provision	**(77)**	**(27)**	**(56)**	**(25)**
Total	**1,544**	**164**	**1,844**	**196**

As at 31 December 2014, 12% of overdue receivables related to key customers (2013: 59%) and 61% to SCM and other related parties (2013: 32%). The payments from one of key customers have been delayed. During 2014 Group has recorded impairment charge totalling USD 50 million related to this receivable.

As at 31 December 2014, trade and other receivables totalling USD 175 million (31 December 2013: USD 182 million) have been pledged as collateral for borrowings (Note 18).

During 2014 trade accounts receivable in the amount of $175 million has been sold to a third party. The fair value of the assets and liabilities that represent the entity’s continuing involvement in the derecognised assets is USD 2 million. The maximum exposure to loss is determined with reference to the historical loss ratio and the statistical model of the respective markets the Group.

14 Cash and cash equivalents

	31 December 2014	31 December 2013
Current accounts	105	765
Bank deposits up to 3 months	9	18
Total cash and cash equivalents	**114**	**783**

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 2014	31 December 2013
As rated by Moody's:		
- A2	35	607
- A3	1	-
- Baa2	3	3
- Ba1	2	3
- Caa1	-	122
- Ca	61	-
Not covered by Moody's rating	12	48
Total cash and cash equivalents	**114**	**783**

As at 31 December 2014, amounts in banks rated Ca (31 December 2013: Caa1) relate mainly to First Ukrainian International Bank which is under common control of SCM.

15 Share capital and share premium

	Number of outstanding shares			Ordinary shares	Share premium	Total
	Class A	Class B	Class C			
At 31 December 2013	**9,000**	**474**	**-**	**0**	**5,461**	**5,461**
At 31 December 2014	**6,750**	**2,251**	**474**	**0**	**6,225**	**6,225**

As at 31 December 2014, the issued share capital comprised 6,750 ordinary class A shares (2013: 9,000), 2,251 ordinary class B shares (2013: 474) and 474 class C shares (2013: nill) 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:

- the establishment of a Supervisory Board of ten members, where seven are appointed by the Class A shareholder 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.

As a result of the acquisition of 44.8% of PJSC Southern Iron Ore Enrichment Works, an additional 14.1% interest in PJSC Ingulets Iron Ore Enrichment Works and 16% interest PJSC Northern Iron Ore Enrichment Works (Note 10 and 17) and the issuance of additional share and share rights, management recognised Share premium of USD 764 million on these transactions, being the fair value of shares contributed.

16 Other reserves

	Revaluation of available-for-sale investments and share in OCI of associates	Revaluation of property, plant and equipment	Merger reserve	Cumulative currency translation reserve	Total
Balance as at 1 January 2013	**(13)**	**2,137**	**(2,962)**	**(2,375)**	**(3,213)**
Total comprehensive income for the period	-	441	-	26	**467**
Depreciation transfer, net of tax	-	(309)	-	-	**(309)**
Acquisition of subsidiaries from parties under common control	-	-	(33)	-	**(33)**
Balance as at 31 December 2013	**(13)**	**2,269**	**(2,995)**	**(2,349)**	**(3,088)**
Total comprehensive income / (loss) for the period	-	2,381	-	(5,028)	**(2,647)**
Depreciation transfer, net of tax	-	(256)	-	-	**(256)**
Acquisition of subsidiaries from parties under common control	-	-	(43)	-	**(43)**
Balance as at 31 December 2014	**(13)**	**4,394**	**(3,038)**	**(7,377)**	**(6,034)**

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, impairment, 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. Company subsidiaries distribute profits as dividends or transfer them to reserves on the basis of their statutory financial statements prepared in accordance with local GAAP 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 and, accordingly, management believes at present it would not be appropriate to disclose the amount of distributable reserves in these consolidated financial statements.

During the fourth quarter of 2014 the National Bank of Ukraine issued a number of instructions which limited the ability of Ukrainian legal entities other than those whose securities are traded on a stock exchange to pay dividends in foreign currency. The Group believes it still can lawfully repay the dividends from such subsidiaries abroad therefore has not classified any of such retained earnings as undistributable reserves.

The ability of the Group to pay dividends has been limited with terms and conditions of the Group’s bonds (Note 17).

17 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 and revenues of the respective subsidiaries.

The following table provides information about each subsidiary that has 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 2014					
PJSC Azovstal Iron and Steel Works	3.9%	2	(6)	50	-
PJSC Avdiivka Coke Plant	7.5%	(6)	(7)	32	-
JSC Zaporozhkoks	49.0%	(3)	(19)	34	-
PJSC Northern Iron Ore Enrichment Works	3.6%	32	(117)	54	-
PJSC Ingulets Iron Ore Enrichment Works	0.2%	32	(92)	2	1
Total		**57**	**(241)**	**172**	**1**
As at 31 December 2013					
PJSC Azovstal Iron and Steel Works	3.8%	(12)	-	53	-
PJSC Avdiivka Coke Plant	7.1%	(2)	-	43	-
JSC Zaporozhkoks	47.9%	(4)	18	54	-
PJSC Northern Iron Ore Enrichment Works	21.6%	164	(1)	433	2
PJSC Ingulets Iron Ore Enrichment Works	14.4%	94	(2)	302	-
Total		**240**	**15**	**885**	**2**

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 2014 and 2013:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Net assets
As at 31 December 2014					
PJSC Azovstal Iron and Steel Works	1,044	1,399	970	179	1,294
PJSC Avdiivka Coke Plant	186	490	207	44	425
JSC Zaporozhkoks	137	66	123	11	69
PJSC Northern Iron Ore Enrichment Works	946	1,109	365	201	1,489
PJSC Ingulets Iron Ore Enrichment Works	1,087	886	1,012	204	757
As at 31 December 2013					
PJSC Azovstal Iron and Steel Works	1,416	1,476	1,353	123	1,416
PJSC Avdiivka Coke Plant	416	579	350	41	604
JSC Zaporozhkoks	87	120	76	19	112
PJSC Northern Iron Ore Enrichment Works	1,292	1,438	312	412	2,006
PJSC Ingulets Iron Ore Enrichment Works	2,072	939	676	233	2,102

17 Material non-controlling interests in subsidiaries (continued)

	Revenue	Profit/ (loss)	Total comprehensive (loss) / income
Year ended 31 December 2014			
PJSC Azovstal Iron and Steel Works	1,900	55	(119)
PJSC Avdiivka Coke Plant	568	(76)	(177)
JSC Zaporozhkoks	312	(6)	(44)
PJSC Northern Iron Ore Enrichment Works	1,101	164	(527)
PJSC Ingulets Iron Ore Enrichment Works	984	173	(744)
Year ended 31 December 2013			
PJSC Azovstal Iron and Steel Works	2,613	(314)	(327)
PJSC Avdiivka Coke Plant	918	(24)	(30)
JSC Zaporozhkoks	172	(8)	30
PJSC Northern Iron Ore Enrichment Works	1,670	556	550
PJSC Ingulets Iron Ore Enrichment Works	1,295	590	578

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 dividends.

In partial consideration for the increase in shares and change in rights to the Smart Group the Company obtained additional 14% in Ingulets Iron Ore Enrichment works and 16% in Northern Iron Ore Enrichment works (both subsidiaries of the Group) resulting in a reduction in non-controlling interest of USD 558 million. The difference of USD 154 million between the carrying value of non-controlling interest derecognised and consideration transferred (i.e. share premium recognised – Note 15) is recognised as reduction in the equity attributable to the parent's shareholders (reflected directly in retained earnings).

On 20 May 2010, 14 February 2011 and 28 November 2014, the Company issued guaranteed bonds with aggregate amount of USD 1,150 million outstanding as at 31 December 2014 that mature from May 2015 through to February 2018 (see Note 30). The bonds are guaranteed on a joint and several basis byPJSC Avdiivka Coke Plant, PJSC Ingulets Iron Ore Enrichment Works, PJSC Khartsyzsk Pipe Plant, PJSC Northern Iron Ore Enrichment Works, PJSC Central Iron Ore Enrichment Works, PJSC Azovstal Iron and Steel Works, PJSC Yenakiieve Iron and Steel Works. The terms of bonds, subject to certain exceptions and qualifications, limit the ability of the Group to:

- undertake any amalgamation, merger, division, spin-off, transformation or other reorganisation or restructuring;
- incur additional indebtedness;
- 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; and
- enter into transactions with affiliates.

Also, Metinvest entered into a number of credit facility agreements for an aggregate amount of USD 1,181 million which mature from 2015 to 2018. These loans are guaranteed by Ingulets GOK. Also, as a condition of these loans, the certain subsidiaries of Metinvest (PJSC Azovstal Iron and Steel Works, PJSC Yenakiieve Iron and Steel Works, PJSC Northern Iron Ore Enrichment Works, PJSC Ingulets Iron Ore Enrichment Works, Metinvest International SA) are jointly committed to perform sales of steel products to Metinvest International S.A. from the date when the funds are drawn down by Metinvest. The commitment to sell steel products mirrors the repayment schedule of the loans balances and extends to loans' maturity dates. The proceeds from such sales are transferred through special accounts of the lenders and banks will have rights to these proceeds only in case when Metinvest does not make a scheduled payment under the credit facilities. There are no other restrictions to these accounts. The amount of funds on such accounts as at 31 December 2014 is USD 0 million (31 December 2013: USD 0 million).

18 Loans and borrowings

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

	31 December 2014	31 December 2013
Non-current		
Bank borrowings	476	1,186
Bonds	1,032	1,239
Non-bank borrowings	370	-
	1,878	**2,425**
Current		
Bank borrowings	714	777
Trade finance	416	911
Bonds	138	30
	1,268	**1,718**
Total loans and borrowings	**3,146**	**4,143**

	31 December 2014	31 December 2013
Loans and borrowings due:		
- within 1 year	1,268	1,718
- between 1 and 5 years	1,872	2,416
- after 5 years	6	9
Total borrowings	**3,146**	**4,143**

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 2014		31 December 2013	
In % per annum	**USD**	**EUR**	**USD**	**EUR**
Bank borrowings	4%	3%	4%	2%
Bonds issued	10%	-	9%	-
Non-bank borrowings	10%	-	-	-
Trade finance	3%	-	3%	2%
Reported amount	**3,124**	**22**	**3,990**	**153**

As at 31 December 2014, bonds issued carry fixed interest rates (31 December 2013: fixed interest rate); bank borrowings and trade finance denominated in EUR carry interest rates of EURIBOR 1–6 months plus margins of 2% (31 December 2013: EURIBOR 1–6 months plus margins of 0.5%–2.5%); the bank borrowings and trade finance denominated in USD carry interest rates of LIBOR 1–6 months plus margins of 2%–5.3% (31 December 2013: LIBOR 1–6 months plus margins of 1%–6%).

In April 2013 the Group increased a three-year loan originally received in 2012 from USD 300 million to USD 560 million.

In April 2013 the Group repaid two credit lines from Sberbank and ING Ukraine in the amount of USD 175 million and USD 85 million respectively.

In November 2013, the Group obtained a syndicate loan in the nominal amount of USD 300 million bearing nominal interest of LIBOR 3 month plus margin of 5.25% per annum. Principal is repayable in equal monthly instalments starting from June 2015 through November 2018.

In 2014 the Group has obtained USD 444 million of loans from the related parties (9.5% p.a. repayable in 2017) and repaid USD 75 million of it during the year.

In November 2014, the Group agreed with the holders of its USD 386 million (at nominal value) guaranteed bonds due in May 2015 to exchange them for immediately paid cash component of USD 97 million and new 10.5% p.a. bonds of USD 289 million repayable in 4 semiannual instalments from May 2016 through to November 2017. After this exchange, USD 114 million (at nominal value) of bonds due in May 2015 remained outstanding.

As at 31 December 2014, borrowings totalling USD 151 million were secured with inventories (31 December 2013: USD 134 million), borrowings totalling USD 175 million were secured with trade and other accounts receivable (31 December 2013: USD 182 million) and borrowings totalling USD 2,383 million were secured with the future sales proceeds (31 December 2013: USD 1,940 million).

18 Loans and borrowings (continued)

As at 31 December 2014, the fair value of bonds was USD 676 million (31 December 2013: USD 1,240 million) as determined by reference to observable market quotations. However, as the trading volumes are low, these quotations may not represent the fair value of the bonds. If the fair value of bonds is estimated based on expected cash flows discounted at 12.3% which is close to the new effective interest rate for the Group's bonds which were exchanged in November 2014, then their fair value as at 31 December would be USD 1,108 million. The fair value of bank borrowings was USD 1,118 million (31 December 2013: USD 1,948 million) as estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 31 December 2014 and 31 December 2013, the fair value of trade finance borrowings is approximately equal to their carrying value.

19 Seller's notes

	31 December 2014	31 December 2013
Non-current portion	-	75
Current portion	86	90
Total seller's notes	**86**	**165**

Seller's notes are secured with a 100% of the capital of United Coal Company LLC and subordinated to other borrowings of the Group to the extent that total borrowings do not exceed USD 3 billion excluding interest.

Seller's notes bear nominal interest rate of 5% p.a., and are recorded at an effective interest rate of 12.5% p.a. In January 2015 the Group renegotiated to extend the repayments till 2016.

As of 31 December 2014, the fair value of seller's notes was USD 80 million (31 December 2013: USD 178 million).

20 Retirement benefit obligations

The Group's defined benefit obligations relate to:

	31 December 2014	31 December 2013
State-defined early pensions for employees working in hazardous and unhealthy working conditions	434	749
Long-term employee benefits under collective bargaining agreements	39	54
Total defined benefit obligations	**473**	**803**

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

	2014	2013
Defined benefit obligation as at 1 January	**803**	**714**
Current service cost	17	17
Remeasurements of the defined benefit liability resulting from:		
- changes in financial assumptions	16	59
- changes in demographic assumptions	3	(3)
- experience adjustments	19	14
Past service cost	-	(5)
Interest cost	70	90
Benefits paid	(61)	(83)
Currency translation difference	(394)	-
Defined benefit obligation as at 31 December	**473**	**803**

20 Retirement benefit obligations (continued)

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

	2014	2013
Current service cost	17	17
Past service cost	-	(5)
Interest cost	70	90
Total	**87**	**102**

The principal actuarial assumptions used were as follows:

	31 December 2014	31 December 2013
Nominal discount rate	16.04%	14%
Nominal salary increase	12.9%-15.0%	4%-10%
Nominal pension entitlement increase (indexation)	3.6%	5.2%
Long-term inflation	5.0%	5.2%

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

	2014	2013
Nominal discount rate increase / decrease by 1 pp	(35) / 40	(55) / 62
Nominal salary increase / decrease by 1 pp	11 / (12)	28 / (26)
Inflation increase / decrease by 1 pp	10 / (12)	27 / (26)

The above sensitivity analyses are 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 compared to the previous period.

As at 31 December 2014, the weighted average maturity of the Group's defined benefit obligations is 9.3 years and it varies across different Group's subsidiaries from 6 to 12 years (31 December 2013: 9.5 years, varying from 6 to 12 years). Payments in respect of defined benefit obligations expected to be made during the year ending 31 December 2015 are USD 51 million.

21 Other non-current liabilities

	31 December 2014	31 December 2013
Tax liabilities under moratorium (Note 29)	12	23
Asset retirement obligations	17	17
Other non-current liabilities	10	18
Deferred income	-	5
Total other non-current liabilities	**39**	**63**

22 Trade and other payables

	31 December 2014	31 December 2013
Trade payables and payables on sales made on commission	996	1,255
Payables for acquired non-controlling interest	-	3
Dividends payable to shareholders of Metinvest B.V.	88	70
Dividends payable to non-controlling shareholders of Company subsidiaries	3	12
Payable for acquired property, plant and equipment and other intangible assets	95	98
Other financial liabilities	37	18
Total financial liabilities	**1,219**	**1,456**
Prepayments received	114	189
Accruals for employees' unused vacations and other payments to employees	67	116
Income tax payable	9	15
Other taxes payable	73	57
Wages and salaries payable	20	35
Other allowances	44	41
Total trade and other payables	**1,546**	**1,909**

23 Expenses by nature

	2014	2013
Raw materials including change in finished goods and work in progress	2,016	3,569
Goods for resale	1,935	1,608
Energy materials including gas, electricity and fuel	1,593	2,221
Wages and salaries	787	949
Transportation services	1,074	912
Repairs and maintenance expenses	296	355
Pension and social security costs	220	301
Pension costs – defined benefit obligations (Note 20)	17	12
Depreciation and amortisation	850	1,070
Impairment and devaluation of property, plant and equipment and other intangible assets (Notes 8 and 9)	315	192
Taxes and duties	149	133
Services and other costs	338	596
Total operating expenses	**9,590**	**11,918**
Classified in the income statement as:		
- cost of sales	8,240	10,406
- distribution costs	1,063	1,121
- general and administrative expenses	287	391
Total operating expenses	**9,590**	**11,918**

Raw materials include externally purchased coke and coal, iron ore, scrap metal, ferroalloys, ancillary and other materials and cost of their transportation.

23 Expenses by nature (continued)

Auditor's fees. The following fees were expensed in the income statement in the reporting period:

	2014	2013
Audit of the financial statements (including audit fee of the signing firm of USD 0.1 million)	2	3
Tax services	-	-
Other non-audit services	-	-
Total	**2**	**3**

24 Other operating income / (expense), net

Other operating income and expenses for the year ended 31 December were as follows:

	2014	2013
(Impairment) / reversal of impairment of trade and other receivables (Note 13)	(60)	56
Maintenance of social infrastructure	(30)	(66)
Operating foreign exchange gains less losses, net	391	101
Sponsorship and other charity payments	(39)	(15)
(Loss) / gain on disposal of property, plant and equipment and intangible assets, net	8	(1)
Impairment of goodwill (Note 7)	(102)	-
Other (expense) / income, net	(38)	62
Total other operating income, net	**130**	**137**

25 Finance income

Finance income for the year ended 31 December was as follows:

	2014	2013
Interest income:		
- loans issued	20	28
- bank deposits	3	5
- imputed interest on other financial instruments	-	13
Other finance income	2	20
Total finance income	**25**	**66**

The majority of finance income relates to term deposits and long term loans issued to related parties.

26 Finance costs

Finance costs for the year ended 31 December were as follows:

	2014	2013
Net foreign exchange loss	593	6
Interest expense		
- borrowings	100	95
- bonds	118	118
- seller's notes	8	12
- imputed interest on seller's notes	10	16
Interest cost on retirement benefit obligations	70	90
Other finance costs	3	4
Total finance costs	**902**	**341**

Net foreign exchange losses arise on intragroup loans and dividends payable between the entities with different functional currencies.

27 Income tax

Income tax for the year ended 31 December was as follows:

	2014	2013
Current tax	198	394
Deferred tax	13	(21)
Income tax expense	**211**	**373**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries. In 2014 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2013: 19%). In 2014, the tax rate for Swiss operations was 10% (2013: 10%) and for European companies tax rate in 2014 varied from 10% to 31% (2013: varied from 10% to 35%). The tax rate for US operations was 35% (2013: 35%).

Reconciliation between the expected and the actual taxation charge is provided below.

	2014	2013
IFRS profit before tax	**370**	**765**
Tax calculated at domestic tax rates applicable to profits in the respective countries	(10)	95
Tax effect of items not deductible or assessable for taxation purposes:		
- impairment of goodwill (Note 7)	36	-
- charitable donations and sponsorship	3	1
- other non-deductible expenses	75	50
- non-taxable income	(14)	(12)
Write-down / reversal of write-down of deferred tax assets, net	168	155
Indexation of tax base of PPE in Ukraine	(51)	-
Effect of other changes in estimates regarding realisability and timing of realisation of deferred tax balances	4	84
Income tax expense	**211**	**373**

The weighted average applicable tax rate was -2.7% in 2014 (2013: 12.4%). Variation in weighted average tax rate is mostly due to variation in profitability of Group's subsidiaries in Ukraine some of which are profitable and some are loss making.

27 Income tax (continued)

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 2014	Credited/ (charged) to income statement	Credited/ (charged) to other compre-hensive income	Currency translation difference	31 December 2014
Tax effect of deductible temporary differences					
Property, plant and equipment and intangible assets	93	20	14	(22)	105
Long-term receivables	92	(47)	-	(45)	-
Inventory valuation	35	(8)	-	(9)	18
Trade and other accounts receivable	8	(3)	-	(5)	-
Accrued expenses	75	(36)	-	(4)	35
Tax losses carried forward	297	(91)	-	(103)	103
Retirement benefit obligations	128	10	7	(63)	82
Prepayments received	3	(3)	-	-	-
Other	24	2	(1)	(22)	3
Gross deferred tax asset	**755**	**(156)**	**20**	**(273)**	**346**
Less offsetting with deferred tax liabilities	(529)	90	(9)	191	(257)
Recognised deferred tax asset	**226**	**(66)**	**11**	**(82)**	**89**
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	(588)	135	(535)	285	(703)
Advances paid	(3)	3	-	-	-
Inventory tax differences	(7)	(2)	-	1	(8)
Borrowings and long-term payables	(92)	45	-	45	(2)
Other	(31)	(38)	1	20	(48)
Gross deferred tax liability	**(721)**	**143**	**(534)**	**351**	**(761)**
Less offsetting with deferred tax assets	529	(90)	9	(191)	257
Recognised deferred tax liability	**(192)**	**53**	**(525)**	**160**	**(504)**

During the year ended 31 December 2014 the Group recognised a valuation provision in the amount of USD 186 million against deferred tax asset due to a change in estimate regarding recoverability of the related balance (2013: USD 155 million).

Deferred tax asset on unused tax losses not recognised as at 31 December 2014 comprised USD 167 million (31 December 2013: USD 86 million).

27 Income tax (continued)

	1 January 2013	Credited/ (charged) to income statement	Credited/ (charged) to other compre-hensive income	Currency translation difference	31 December 2013
Tax effect of deductible temporary differences					
Property, plant and equipment and intangible assets	69	1	23	-	93
Long-term receivables	105	(13)	-	-	92
Inventory valuation	29	6	-	-	35
Trade and other accounts receivable	23	(15)	-	-	8
Accrued expenses	67	8	-	-	75
Tax losses carried forward	339	(42)	-	-	297
Retirement benefit obligations	114	4	10	-	128
Prepayments received	33	(30)	-	-	3
Other	24	-	-	-	24
Gross deferred tax asset	**803**	**(81)**	**33**	**-**	**755**
Less offsetting with deferred tax liabilities	(526)	(3)	-	-	(529)
Recognised deferred tax asset	**277**	**(84)**	**33**	**-**	**226**
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	(524)	51	(114)	(1)	(588)
Advances paid	(33)	30	-	-	(3)
Inventory tax differences	(13)	6	-	-	(7)
Borrowings and long-term payables	(115)	23	-	-	(92)
Other	(23)	(8)	-	-	(31)
Gross deferred tax liability	**(708)**	**102**	**(114)**	**(1)**	**(721)**
Less offsetting with deferred tax assets	526	3	-	-	529
Recognised deferred tax liability	**(182)**	**105**	**(114)**	**(1)**	**(192)**

27 Income tax (continued)

The tax charge relating to components of other comprehensive income is as follows:

	2014			2013		
	Before tax	**Deferred tax charge**	**After tax**	**Before tax**	**Deferred tax charge**	**After tax**
Revaluation of property, plant and equipment	2,902	(521)	2,381	553	(91)	462
Remeasurement of retirement benefit obligation	(38)	7	(31)	(70)	10	(60)
Other comprehensive income	**2,864**	**(514)**	**2,350**	**483**	**(81)**	**402**

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.

As discussed in the Note 34, there were revisions introduced to the Tax Code of Ukraine from 1 January 2015. These changes were considered to be substantially enacted with respect of calculation of deferred taxes as at 31 December 2014. The application of these revisions to the Tax Code is yet to be reviewed by the tax authorities. Consequently, the management interpretation of these changes (and the related impact on tax base of assets and liabilities as at 31 December 2014) may be challenged.

28 Balances and transactions with related parties

For the purposes of these IFRS 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.

As at 31 December 2014 and 2013 significant balances outstanding with related parties are detailed below:

	31 December 2014					31 December 2013				
	SCM Limited	**Asso-ciates**	**Joint ventures**	**SCM and related entities**	**SMART**	**SCM Limited**	**Asso-ciates**	**Joint venture**	**SCM and related entities**	**SMART**
ASSETS										
Other non-current assets, including:	**-**	**-**	**98**	**20**	**-**	**-**	**-**	**98**	**32**	**26**
Long-term loans issued	-	-	98	20	-	-	-	98	30	26
Other non-current assets	-	-	-	-	-	-	-	-	2	-
Trade and other receivables, including:	**1**	**27**	**274**	**92**	**74**	**3**	**34**	**505**	**178**	**40**
Trade receivables and receivables on commission sales	-	27	270	33	3	-	34	291	51	7
Prepayments made	-	-	1	4	-	-	-	214	2	-
Loans issued	-	-	3	12	71	3	-	-	10	31
Interest accrued on long term loans issued	-	-	-	-	-	-	-	-	1	2
Receivables for disposal of subsidiaries and associates	-	-	-	2	-	-	-	-	5	-
Receivables for deposit certificates sold	-	-	-	1	-	-	-	-	1	-
Other financial receivables	1	-	-	40	-	-	-	-	108	-
Cash and cash equivalents	**-**	**-**	**-**	**60**	**-**	**-**	**-**	**-**	**122**	**-**

	31 December 2014					31 December 2013				
	SCM Limited	**Asso-ciates**	**Joint ventures**	**SCM and related entities**	**SMART**	**SCM Limited**	**Asso-ciates**	**Joint venture**	**SCM and related entities**	**SMART**
LIABILITIES										
Non-current liabilities, including:	**-**	**-**	**1**	**279**	**92**	**-**	**-**	**1**	**1**	**-**
Non-bank borrowings	-	-	-	278	92					
Other non-current liabilities	-	-	1	1	-	-	-	1	1	-
Trade and other payables, including:	**41**	**35**	**396**	**159**	**60**	**15**	**48**	**55**	**154**	**590**
Dividends payable	40	-	-	-	48	12	-	-	-	58
Trade payables and payables on sales made on commission	-	32	394	118	-	-	47	55	84	531
Prepayments received	-	3	2	29	-	-	-	-	66	-
Other financial liabilities	1	-	-	12	12	3	1	-	4	1

28 Balances and transactions with related parties (continued)

Significant transactions (excluding purchases) with related parties during 2014 and 2013 are detailed below:

2014	**SCM Limited**	**Asso-ciates**	**Joint ventures**	**SCM and related entities**	**SMART**	**Total**
Sales, including:	**-**	**49**	**684**	**68**	**39**	**840**
Steel	-	9	20	56	10	95
Scrap metal	-	-	82	3	-	85
Coke and coking coal	-	29	260	2	4	295
Iron ore	-	-	271	1	-	272
Other	-	11	51	6	25	93
Other operating income/(expense) net	**-**	**1**	**-**	**(15)**	**-**	**(30)**
Sponsorship and other charity payments	-	-	-	(29)	-	(29)
Other	-	1	-	14	-	(1)
Finance income / (expenses), including:	**-**	**-**	**11**	**(14)**	**(1)**	**(4)**
Interest income - bank deposits	-	-	-	1	-	1
Interest income - other	-	-	11	4	5	20
Other finance income (expenses)	-	-	-	(19)	(6)	(25)

2013	**SCM Limited**	**Asso-ciates**	**Joint venture**	**SCM and related entities**	**SMART**	**Total**
Sales, including:	**-**	**56**	**775**	**114**	**61**	**1,006**
Steel	-	8	11	71	22	112
Scrap metal	-	-	138	6	-	144
Coke and coking coal	-	42	331	30	3	406
Iron ore	-	-	284	2	-	286
Other	-	6	11	5	36	58
Other operating income / (expense) net	**-**	**-**	**-**	**4**	**-**	**4**
Sponsorship and other charity payments	-	-	-	-	-	-
Other	-	-	-	4	-	4
Finance income / (expenses), including:	**9**	**-**	**11**	**21**	**7**	**48**
Interest income - bank deposits	-	-	-	2	-	2
Interest income - other	6	-	11	4	7	28
Other finance income (expenses)	3	-	-	15	-	18

28 Balances and transactions with related parties (continued)

The following is a summary of purchases from related parties in 2014 and 2013:

2014	**Associates**	**Joint ventures**	**SCM and related entities**	**SMART**	**Total**
Purchases, including:	**93**	**1,563**	**1,569**	**56**	**3,281**
Metal products	10	1,528	12	-	1,550
Coke and coking coal	73	15	49	-	137
Raw materials and spare parts	7	18	139	55	219
Electricity	-	-	689	-	689
Gas	-	-	230	-	230
Fuel	-	-	38	-	38
Services	2	2	402	-	406
Other	1	-	10	1	12

2013	**Associates**	**Joint venture**	**SCM and related entities**	**SMART**	**Total**
Purchases, including:	**78**	**1,307**	**2,028**	**79**	**3,492**
Metal products	-	1,278	14	1	1,293
Coke and coking coal	69	2	107	-	178
Raw materials and spare parts	9	11	215	78	313
Electricity	-	-	972	-	972
Gas	-	-	322	-	322
Fuel	-	-	13	-	13
Services	-	-	333	-	333
Other	-	16	52	-	68

In 2014 the Group has obtained USD 444 million of loans from the related parties (9.5% p.a. repayable in 2017) and repaid USD 75 million of it during the year.

In 2014, the remuneration of key management personnel of the Group comprised current salaries and related bonuses totalling USD 10.9 million (in 2013: USD 8.6 million).

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. With effect from 1 January 2011, Ukraine adopted the new Tax Code of Ukraine. Applicable taxes include value-added tax, corporate income tax, customs duties and other taxes. 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 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.

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 JSC 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 2014, the amount of the financial liabilities recorded in these financial statements is USD 15 million. USD 12 million are presented as non-current liability related to the bankruptcy moratorium (Note 21).

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 2014, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling USD 166 million (31 December 2013: USD 346 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 this and any similar commitments.

Guarantees issued. As at 31 December 2013 and 2012, 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. As at 31 December 2014 and as at 31 December 2013 and during 2014 and 2013 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.

30 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; (ii) different treasury operations like forward, swap and other.

Foreign exchange risk is managed centrally by the Group treasury. The Group treasury has set up a policy to manage foreign exchange risk. The Group 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 treasury.

At 31 December 2014, if the UAH had strengthened/ weakened by 50% against the US dollar with all other variables held constant, post-tax profit for the year would have been USD 190 million higher/lower (2013: if the UAH strengthened/weakend by 10% against USD dollar, post tax profit for the year would have been USD 17 million higher/lower), 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 borrowings.

(ii) Price risk.

Metinvest'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 Metinvest 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 Metinvest receives from the sale of its steel or mined products.

Metinvest'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.

(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 2014, 49% of the total borrowings were provided to the Group at fixed rates (31 December 2013: 29%). During 2014 and 2013, the Group's borrowings at variable rate were denominated in USD and EUR.

30 Financial risk management (continued)

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 judgment 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 Note 13, 18 and 30 for information about maturity dates and effective interest rates of financial instruments.

At 31 December 2014, if interest rates on USD and EUR denominated borrowings had been by 1 pp higher/lower (2013: 1 pp) with all other variables held constant, post-tax profit for the year would have been USD 13 million lower/higher (2013: USD 25 million).

(b) Credit risk

Credit risk is managed on group basis. 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 at 31 December 2014 is USD 1,951 million (2013: USD 3,002 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.

The Group treasury analyses the ageing of their assets and the maturity of their 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.

30 Financial risk management (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the 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 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings	750	326	184	8
Trade finance	416	-	-	-
Bonds	215	237	1,005	-
Non-bank borrowings	35	35	381	-
Seller's notes	92	-	-	-
Trade and other payables	1,219	-	-	-
At 31 December 2013				
Bank borrowings	849	751	509	15
Trade finance	911	-	-	-
Bonds	117	591	914	-
Seller's notes	98	93	-	-
Trade and other payables	1,456	-	-	-

31 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.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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 needs to comply with certain restrictive covenants such as maintaining certain financial ratios determined by the loan agreements (e.g. gearing). Covenants are monitored by the management and there were no cases of non-compliance with the covenants at 31 December 2014 and 31 December 2013.

The Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within 1–5 years and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy. The Group has credit ratings assigned by two international rating agencies, Fitch ('CCC') and Moody's ('Caa2'), updated on 05 December 2014 and 02 December 2014, respectively, capped both by the Ukraine's country ceiling.

	31 December 2014	31 December 2013
Total borrowings (Note 18)	3,146	4,143
Seller's notes (Note 19)	86	165
Less: cash and cash equivalents (Note 14)	(114)	(783)
Net debt	3,118	3,525
Total equity	6,762	9,631
Total capital	9,880	13,156
Gearing ratio	32%	27%

32 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.

32 Fair values of financial instruments (continued)

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 bank loans and 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. Discount rate used to determine fair value for bank loans and seller's notes as at 31 December 2014 is 12.3% (31 December 2013: 6.2%).

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.

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. 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 (Note 18, 19 and 21).

33 Reconciliation of classes of financial instruments with measurement categories

All of the Group's financial assets and financial liabilities are carried at amortised cost.

34 Events after the balance sheet date

In late December 2014 the Parliament of Ukraine passed a law which significantly revised the tax code effective 1 January 2015. The most significant changes that are expected to impact the Group are:

- Revised corporate tax computation rules, whereby the basis for calculating corporation tax is now an adjusted accounting profit, rather than through a separate calculation of taxable income and deductible expenses. The enacted corporate tax rates were not change as a result of this revision. The Group is currently estimating the impact of these new tax changes but does not expect these to result in a significant change in the effective tax rate;
- Revision to rules governing the payment of VAT, which require output VAT to be paid to the tax authorities based on the supply of the good or service, net of input VAT if this VAT is determined to have been paid to the tax authorities by the Group's suppliers. The prior VAT settlement mechanism was based on a monthly payment computed through a VAT return where the net VAT payment was calculated based on accrued net of input and output VAT. The Group has estimated that the impact of this is to increase the cash outflow of VAT payments in 2015 following the implementation of these new rules. The amount of this increased cash outflow cannot be determined;
- New real estate (property) tax has been introduced. This tax is levied based on the floor area of the Group's buildings (subject to certain reliefs). This new tax will increase the tax burden of the Group. The Group is currently assessing the magnitude of this new tax;

The developments after the balance sheet date which are related to the operating environment are disclosed in Note 2.

On 3 March 2015 the National Bank of Ukraine issued a regulation which temporarily prohibits payment of dividends by Ukrainian legal entities abroad. The restriction is effective until 3 June 2015. Management is currently assessing the legal basis for this and the possible impact of this restriction on the Group.