PAO Severstal and subsidiaries

Consolidated financial statements
for the years ended 31 December 2019, 2018 and 2017

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Contents

Independent Auditors' Report

To the Shareholders of PAO Severstal and Board of Directors

Opinion

We have audited the consolidated financial statements of PAO Severstal (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2019, 2018 and 2017, the consolidated income statements, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

Adoption of IFRS 16 *Leases*

Please refer to the Notes 2, 16, 19 and 21 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The Group has a significant number of short and long term lease contracts, which were previously classified as operating leases under IAS 17. The new IFRS 16 requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments. Management has applied judgment in assessing whether arrangements with certain suppliers contain a lease, as well as in determining the lease term and calculating the discount rate in identified leases. Accordingly, this is a key judgmental area that our audit is concentrated on.	We obtained the Group's calculation of the right-of-use asset, lease liability, depreciation charge and interest on the lease liability for the population of identified leases. We performed procedures to assess the completeness of management's listing of the lease contracts in place, including reconciling of lease payments to underlying lease expense accounts, management inquiry and reading board of directors meeting minutes. In addition, for a sample of service contracts we assessed whether they may contain a lease. For a sample of lease contracts we assessed whether judgments applied by management are reasonable and supportable, including the judgments with respect to lease definition, enforceability of the lease contracts and determination of the lease term. We further tested the accuracy of the lease data compiled by management by agreeing key inputs, including commencement date and lease payments, to the underlying lease arrangements selected on a sample basis to ensure the accuracy of key data points used in determining the amount of right-of-use assets and the corresponding lease liability. Our testing also included an evaluation of the mathematical accuracy of the underlying calculations. We compared the key inputs applied by management in assessing discount rates used in the lease calculations with externally derived data and our own assessments made, where appropriate, with involvement of our internal specialists.

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628
КПМГ
KPMG
МОСКВА

Kiseleva L.R.

JSC "KPMG"

Moscow, Russia

30 January 2020

PAO Severstal and subsidiaries

Consolidated income statements
Years ended 31 December 2019, 2018 and 2017
(Amounts expressed in millions of US dollars, except as otherwise stated)

	Note	Year ended 31 December 2019	2018	2017
Revenue				
Revenue - third parties		8,002	8,436	7,726
Revenue - related parties	10	155	144	122
	4	8,157	8,580	7,848
Cost of sales		(4,908)	(4,918)	(4,735)
Gross profit		3,249	3,662	3,113
General and administrative expenses		(357)	(306)	(286)
Distribution expenses		(532)	(578)	(598)
Other taxes and contributions		(56)	(69)	(71)
Share of associates' and joint ventures' gain		20	14	10
Loss on disposal of property, plant and equipment and intangible assets		(12)	(23)	(3)
Net other operating income/(expenses)		15	7	(3)
Profit from operations		2,327	2,707	2,162
Reversal of impairment/(impairment) of non-current assets	7	5	68	(3)
Gain from a bargain purchase	23	-	-	135
Net other non-operating expenses	8	(74)	(50)	(421)
Profit before financing and taxation		2,258	2,725	1,873
Finance income		5	14	49
Finance costs		(137)	(113)	(158)
(Loss)/gain on remeasurement and disposal of financial instruments		(19)	58	(45)
Foreign exchange gain/(loss)	6	125	(165)	45
Profit before income tax		2,232	2,519	1,764
Income tax expense	9	(465)	(468)	(409)
Profit for the period		1,767	2,051	1,355
Attributable to:				
shareholders of PAO Severstal		1,766	2,051	1,356
non-controlling interests		1	-	(1)
Basic weighted average number of shares outstanding during the period (millions of shares)	22	824.6	817.1	811.7
Basic earnings per share (US dollars)		2.14	2.51	1.67
Diluted weighted average number of shares outstanding during the period (millions of shares)	22	848.6	847.7	842.1
Diluted earnings per share (US dollars)		2.08	2.47	1.64

These consolidated financial statements were approved by the Board of Directors on 30 January 2020.

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

Consolidated statements of comprehensive income
Years ended 31 December 2019, 2018 and 2017
(Amounts expressed in millions of US dollars, except as otherwise stated)

		Year ended 31 December		
	Note	**2019**	**2018**	**2017**
Profit for the period		1,767	2,051	1,355
Other comprehensive income/(loss):				
Items that will not be reclassified to profit or loss				
Actuarial (losses)/gains	20	(12)	6	(8)
Translation to presentation currency		364	(663)	191
Total items that will not be reclassified to profit or loss		352	(657)	183
Items that may be reclassified subsequently to profit or loss				
Translation to presentation currency - foreign operations		(1)	(3)	9
Changes in fair value of financial assets measured through other comprehensive income		-	-	3
Total items that may be reclassified subsequently to profit or loss		(1)	(3)	12
Items that were reclassified to profit or loss				
Changes in fair value of financial assets measured through other comprehensive income		-	(4)	-
Accumulated translation reserves - foreign operations	8, 23	-	-	368
Total items that were reclassified to profit or loss		-	(4)	368
Other comprehensive income/(loss) for the period		351	(664)	563
Total comprehensive income for the period		2,118	1,387	1,918
Attributable to:				
shareholders of PAO Severstal		2,117	1,387	1,918
non-controlling interests		1	-	-

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

PAO Severstal and subsidiaries

Consolidated statements of financial position
31 December 2019, 2018 and 2017
(Amounts expressed in millions of US dollars, except as otherwise stated)

	Note	31 December 2019	31 December 2018	31 December 2017
Assets				
Current assets:				
Cash and cash equivalents	12	1,081	228	1,031
Short-term financial investments		6	7	12
Trade accounts receivable	13	582	554	598
Accounts receivable from related parties	11	21	20	16
Inventories	14	1,137	1,087	1,058
VAT recoverable		97	66	124
Income tax recoverable		5	5	7
Other current assets		166	105	106
Total current assets		3,095	2,072	2,952
Non-current assets:				
Long-term financial investments	15	26	8	217
Investments in associates and joint ventures		120	76	65
Property, plant and equipment	16	4,670	3,469	3,701
Intangible assets	17	279	212	241
Deferred tax assets	9	15	27	24
Other non-current assets		17	10	9
Total non-current assets		5,127	3,802	4,257
Total assets		8,222	5,874	7,209
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		709	545	549
Accounts payable to related parties	11	17	21	18
Short-term debt finance	18	290	110	586
Income taxes payable		19	11	40
Other taxes and social security payable		126	107	113
Dividends payable	18	7	6	6
Other current liabilities	19	418	323	358
Total current liabilities		1,586	1,123	1,670
Non-current liabilities:				
Long-term debt finance	18	2,361	1,345	1,507
Deferred tax liabilities	9	365	295	311
Retirement benefit liabilities	20	74	56	78
Other non-current liabilities	21	358	176	245
Total non-current liabilities		3,158	1,872	2,141
Equity:				
Share capital	22	2,753	2,753	2,753
Treasury shares		(107)	(133)	(206)
Additional capital		308	308	308
Translation reserve		(1,982)	(2,345)	(1,679)
Retained earnings		2,483	2,274	2,195
Other reserves		8	8	12
Total equity attributable to shareholders of PAO Severstal		3,463	2,865	3,383
Non-controlling interests		15	14	15
Total equity		3,478	2,879	3,398
Total equity and liabilities		8,222	5,874	7,209

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

PAO Severstal and subsidiaries

Consolidated statements of cash flows
Years ended 31 December 2019, 2018 and 2017
(Amounts expressed in millions of US dollars, except as otherwise stated)

		Year ended 31 December		
	Note	**2019**	**2018**	**2017**
Operating activities:				
Profit before financing and taxation		2,258	2,725	1,873
Adjustments to reconcile profit to cash generated from operations:				
Depreciation and amortisation		464	405	404
(Reversal of impairment)/impairment of non-current assets	7	(5)	(68)	3
Movements in provision for inventories, receivables and other provisions		(4)	(13)	(5)
Gain from a bargain purchase	23	-	-	(135)
Loss on disposal of property, plant and equipment and intangible assets		12	23	3
Loss on disposal of subsidiaries	23	21	-	72
Accumulated translation reserves - foreign operations	8	-	-	307
Share of associates' and joint ventures' results less dividends from associates and joint ventures		(20)	(14)	(5)
Changes in operating assets and liabilities:				
Trade accounts receivable		17	(23)	(93)
Accounts receivable from related parties		1	(9)	5
VAT recoverable		(24)	35	(42)
Inventories		59	(211)	(119)
Trade accounts payable		8	40	46
Accounts payable to related parties		(1)	(5)	1
Other taxes and social security payable		12	15	13
Other non-current liabilities		(7)	(8)	(8)
Assets held for sale		(10)	-	2
Net other changes in operating assets and liabilities		26	(70)	(53)
Cash generated from operations		2,807	2,822	2,269
Interest paid		(114)	(104)	(138)
Income tax paid		(401)	(464)	(217)
Net cash from operating activities		2,292	2,254	1,914
Investing activities:				
Additions to property, plant and equipment		(1,157)	(653)	(560)
Additions to intangible assets		(61)	(35)	(31)
Business combination, additions to financial investments *		(55)	(23)	(137)
Net cash inflow from disposal of subsidiaries	23	215	-	42
Proceeds from disposal of property, plant and equipment		15	15	15
Proceeds from disposal of financial investments		21	210	36
Interest received		4	16	54
Dividends received		6	4	1
Net cash used in investing activities		(1,012)	(466)	(580)
Financing activities:				
Proceeds from debt finance		1,205	-	1,306
Acquisition of non-controlling interests		-	(2)	-
Repayments of debt finance **		(58)	(584)	(1,191)
Repayments of lease liabilities		(16)	-	-
Net repayments of other financing activities		-	-	(72)
Dividends paid		(1,574)	(1,971)	(1,530)
Net cash used in financing activities		(443)	(2,557)	(1,487)
Effect of exchange rates on cash and cash equivalents		16	(34)	30
Net increase/(decrease) in cash and cash equivalents		853	(803)	(123)
Cash and cash equivalents at beginning of the period		228	1,031	1,154
Cash and cash equivalents at end of the period		1,081	228	1,031

* For the year ended 31 December 2017 this amount included purchase of rights to claim debt obligations for a total consideration of 6 billion roubles (US$ 101 million at the transaction date exchange rate) which were acquired in July 2017 (Note 23).
** These amounts include exercise of bonds' conversion rights of US$ 50 million for the year ended 31 December 2019 (2018: US$ 28 million).

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

PAO Severstal and subsidiaries

Consolidated statements of changes in equity
Years ended 31 December 2019, 2018 and 2017
(Amounts expressed in millions of US dollars, except as otherwise stated)

	Attributable to the shareholders of PAO Severstal							Non-controlling interests	Total
	Share capital	Treasury shares	Additional capital	Translation reserve	Retained earnings	Other reserves	Total		
Balances as at 31 December 2016	2,753	(236)	296	(2,246)	2,450	9	3,026	15	3,041
Profit/(loss) for the period	-	-	-	-	1,356	-	1,356	(1)	1,355
Translation to presentation currency	-	-	-	199	-	-	199	1	200
Other comprehensive income/(loss)	-	-	-	368	(8)	3	363	-	363
Total comprehensive income for the period				567	1,348	3	1,918	-	1,918
Dividends	-	-	-	-	(1,550)	-	(1,550)	-	(1,550)
Conversion of bonds	-	30	12	-	-	-	42	-	42
Other	-	-	-	-	(53)	-	(53)	-	(53)
Balances as at 31 December 2017	2,753	(206)	308	(1,679)	2,195	12	3,383	15	3,398
Profit for the period	-	-	-	-	2,051	-	2,051	-	2,051
Translation to presentation currency	-	-	-	(666)	-	-	(666)	-	(666)
Other comprehensive income/(loss)	-	-	-	-	6	(4)	2	-	2
Total comprehensive (loss)/income for the period				(666)	2,057	(4)	1,387	-	1,387
Dividends	-	-	-	-	(1,977)	-	(1,977)	-	(1,977)
Conversion of bonds	-	73	-	-	-	-	73	-	73
Other	-	-	-	-	(1)	-	(1)	(1)	(2)
Balances as at 31 December 2018	2,753	(133)	308	(2,345)	2,274	8	2,865	14	2,879
Profit for the period	-	-	-	-	1,766	-	1,766	1	1,767
Translation to presentation currency	-	-	-	363	-	-	363	-	363
Other comprehensive loss	-	-	-	-	(12)	-	(12)	-	(12)
Total comprehensive income for the period				363	1,754	-	2,117	1	2,118
Dividends	-	-	-	-	(1,545)	-	(1,545)	-	(1,545)
Conversion of bonds	-	26	-	-	-	-	26	-	26
Balances as at 31 December 2019	2,753	(107)	308	(1,982)	2,483	8	3,463	15	3,478

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

1. Operations

These consolidated financial statements of PAO Severstal and subsidiaries comprise the parent company, PAO Severstal ('Severstal' or 'the Parent Company') and its subsidiaries (collectively 'the Group') as listed in Note 23.

Severstal began operations on 24 August 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On 24 September 1993, as a part of the Russian privatisation programme, Severstal was registered as an Open Joint Stock Company ('OAO') and privatised. Through participating in Severstal's privatisation auctions and other purchases, Alexey Mordashov (the 'Majority Shareholder') purchased shares in Severstal such that as at 31 December 2019 he controlled indirectly 77.03% (31 December 2018: 77.03%, 31 December 2017: 77.03%) of Severstal's share capital. In November 2014, Severstal changed its legal form from OAO to PAO (Public Joint Stock Company) following the requirements of the amended Russian Civil Code.

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

The Group comprises the following segments (Note 23):

- *Severstal Resources* – this segment comprises three iron ore complexes, AO Karelsky Okatysh, AO Olcon in northwest Russia, Yakovlevskiy mine in southwest Russia and a coal mining complex AO Vorkutaugol in northwest Russia.

- *Severstal Russian Steel* – this segment consists primarily of the Group's steel production and high-grade automotive galvanizing facilities in Cherepovets; rolling mill 5000 and large-diameter pipe mill in Kolpino, all in northwest Russia; metalware plant located in Russia; a ferrous scrap metal recycling business operating in northwest and central Russia, as well as various supporting functions for trading, maintenance and transportation, located in Europe.

A segmental analysis of key alternative performance measures is presented in Note 24.

Economic environment

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

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

2. Basis for preparation of the consolidated financial statements

Statement of compliance

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

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

Basis of measurement

The consolidated financial statements are prepared on the historic cost basis except for financial assets and liabilities at fair value through profit and loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and assets held for sale at fair value less costs to sell.

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

Critical accounting judgments, estimates and assumptions

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

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Impairment of assets

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

Taxation

The taxation system and regulatory environment of the Russian Federation are characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations between the differing regulatory authorities and jurisdictions, who can impose significant fines, penalties and interest charges. In recent years the regulatory authorities have adopted a more assertive stance regarding the interpretation and enforcement of legislation, which has resulted in greater tax and regulatory risk. Also, a number of new laws introducing tax legislation changes have been recently adopted; their application in practice might influence the tax treatment of transactions related to foreign companies and their activities, which could potentially impact the Group's tax position and possibly create additional tax risks in the future.

Accordingly, management has to apply considerable judgement in determining the appropriate amounts of tax payable. Management believes that the Group has complied in all material respects with all existing, relevant legislation and has made appropriate provision for tax payable.

Allowance for expected credit losses

The Group makes allowance for expected credit losses of trade receivables using an allowance matrix. Loss rates are based on actual credit loss experience over the past three years. When evaluating the adequacy of an allowance for expected credit losses, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms.

Decommissioning liabilities

The Group recognises its decommissioning liabilities provision using the best estimate of the expenditures required to settle the present obligation based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

Retirement benefit liabilities

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

Litigation

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

Functional and presentation currency

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

The functional currency is determined separately for each of the Group's entities. The functional currency of the major part of the Group's entities is the Russian rouble, except for entities located in Latvia and Poland, other entities and currencies are not material to the Group.

Adoption of new and amended accounting standards

A number of new and amended accounting standards were adopted for the year ended 31 December 2019 and have been applied in these consolidated financial statements, including *IFRS 16 Leases*.

These new and amended standards did not have a significant effect on the Group's consolidated financial statements except for those discussed below.

The Group has adopted *IFRS 16 Leases* using the modified retrospective approach with the effect of initial application recognised as at 1 January 2019. Accordingly, the information presented for comparative periods has not been restated.

On transition date, the discounted present value of the Group's operating lease payments amounting to US$ 47 million was recognised as right-of-use assets and corresponding lease liabilities.

The lease liability is discounted using the Group's incremental borrowing rates varying between 1% and 10% depending on the lease agreement's currency. For some specific lease agreements, the discount rate is determined by the interest rate implicit in these lease agreements.

The Group's right-of-use assets include land and buildings, plant and machinery, vehicles and other productive assets. Short-term and low value leases are accounted as leases; lease and non-lease components are treated as a single lease item for all leased assets.

3. Summary of the principal accounting policies

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

a. Exploration for and evaluation of mineral resources

Expenditures associated with search for specific mineral resources are recognised as exploration and evaluation assets.

The Group measures its exploration and evaluation assets at cost and classifies as tangible or intangible according to the nature of the assets acquired and applies the classification consistently.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are proved and the development of the deposit is sanctioned by management. The carrying amount of such exploration and evaluation asset is reclassified into property, plant and equipment or intangible assets depending on the type of the asset.

b. Development expenditure

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

c. Stripping costs

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

- Stripping activity asset;
- Current stripping costs.

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

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

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

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

d. Property, plant and equipment

Depreciation is calculated using the straight-line basis, except for depreciation on vehicles and certain metal-rolling equipment, which is calculated on the basis of mileage and units of production, respectively. The estimated useful lives of assets are reviewed regularly and revised when necessary.
The principal periods over which assets are depreciated are as follows:

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

e. Intangible assets (excluding goodwill)

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

The table below presents the useful lives of intangible assets:

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

The major component of the software is the SAP business system. Amortisation of intangible assets is included in the captions "Cost of sales" and "General and administrative expenses" in the consolidated income statement.

f. Impairment of non-current assets

At each reporting date the Group assesses whether there is any indication of impairment of the Group's non-current assets. If any such indication exists, the asset's recoverable amount is estimated.

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

g. Inventories

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads. Allowances are recorded against slow-moving and obsolete inventories.

h. Dividends payable

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

i. Other taxes and contributions

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

j. Income tax

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

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

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

k. Provisions

Employee benefits

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

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

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

The Group's retirement benefit service costs are allocated and recognised in the income statement as part of "Cost of sales" and "General and administrative expenses" proportionally to related salary expenses. Any actuarial gain or loss arising from the calculation of the retirement benefit liability is fully recognised in other comprehensive income.

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

Decommissioning liabilities

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closure of its certain production sites. Decommissioning liabilities are estimated case-by-case based on available information, taking into account applicable local legal requirements. The estimation is made using existing technology, at current prices, and discounted using a real discount rate.

l. Share capital

Ordinary shares

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

Repurchase of issued shares

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

m. Revenue recognition

The Group has adopted IFRS 15 using the cumulative effect method with the effect of initial application recognised as of 1 January 2018. Accordingly, the information presented for comparative periods has not been restated.

Most of the Group's revenue is revenue from contracts with customers.

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

Revenue from the sale of hot rolled strip and plate, other steel products, pellets and iron ore and most other revenue (see Note 4) is recognised in the income statement primarily at the point in time when control over the promised goods passes to the customer.

The amount of revenue recognised reflects the consideration to which the Group is or expects to be entitled in exchange for those goods and is reduced for estimated customer returns, rebates and other similar allowances.

In most instances, control passes, and sales revenue is recognised when the product is delivered to the vessel or vehicle on which it will be transported once loaded to the destination port or the customer's premises.

The Group's products are sold to customers under contracts which vary in tenure, but are generally less than one year in duration (therefore, no significant effect of any financing component exists) and pricing mechanisms, including some volumes sold in the spot market. Revenue is generally recognised at the contracted price as this reflects the stand-alone selling price.

n. Earnings per share

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

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

o. Segment reporting

An operating segment's results are reviewed regularly by the key management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available and is prepared on the same basis as these consolidated financial statements.

4. Revenue

Revenue by product was as follows:

	Year ended 31 December		
	2019	**2018**	**2017**
Hot-rolled strip and plate	2,780	2,756	2,458
Pellets and iron ore	688	627	517
Galvanized and other metallic coated sheet	667	629	470
Cold-rolled sheet	604	802	783
Long products	575	701	600
Metalware products	539	542	549
Shipping and handling *	501	543	541
Other tubes and pipes, formed shapes	447	456	474
Colour-coated sheet	397	364	353
Large diameter pipes	376	477	570
Semi-finished products	194	321	219
Coal and coking coal concentrate	95	93	60
Scrap	4	6	6
Others	290	263	248
	8,157	8,580	7,848

* Shipping and handling do not represent a separate performance obligation under IFRS 15 "Revenue from contracts with customers" and is disclosed only for presentation purposes. For the year ended 31 December 2019 shipping and handling related to Severstal Resources and Severstal Russian Steel Divisions amounted to US$ 24 million and US$ 477 million, respectively (2018: US$ 119 million and US$ 424 million, respectively).

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

Revenue by delivery destination was as follows:

	Year ended 31 December		
	2019	**2018**	**2017**
Russian Federation	5,451	5,126	4,692
Europe	1,812	2,233	1,471
CIS	475	492	478
The Middle East	141	295	589
Africa	128	140	152
Central and South America	80	86	113
North America	52	141	240
China and Central Asia	18	43	50
South-East Asia	-	24	63
	8,157	8,580	7,848

5. Staff costs

Employment costs were as follows:

	Year ended 31 December		
	2019	**2018**	**2017**
Wages and salaries	(794)	(739)	(742)
Social security costs	(254)	(244)	(242)
Retirement benefit service costs (Note 20)	(1)	1	(1)
	(1,049)	(982)	(985)

Key management personnel include the following positions within the Group:

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

Key management's remuneration for the year ended 31 December 2019, consisting of salaries and bonuses, totalled US$ 9 million (2018: US$ 11 million; 2017: US$ 11 million).

Additionally, in 2019, a provision for their long-term cash-settled share-based incentive programmes of US$ 3 million was accrued (2018: US$ 4 million; 2017: US$ 1 million). This provision is subject to further adjustments, depending on a range of the Group's financial and non-financial indicators.

6. Foreign exchange gain/(loss)

	Year ended 31 December		
	2019	**2018**	**2017**
Foreign exchange gain/(loss) on cash and cash equivalents and debt finance	126	(184)	93
Foreign exchange gain/(loss) on derivatives	7	-	(15)
Foreign exchange (loss)/gain on other assets and liabilities	(8)	19	(33)
	125	(165)	45

7. Reversal of impairment/(impairment) of non-current assets

	Year ended 31 December		
	2019	**2018**	**2017**
Reversal of impairment/(impairment) of property, plant and equipment	5	66	(3)
Reversal of impairment of intangible assets	-	2	-
	5	68	(3)

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

- For all cash-generating units, apart from those included in the Severstal Resources segment, cash flow projections cover a period of five years. Cash flows beyond the five-year period have been extrapolated taking into account business cycles. Cash flow projections for cash-generating units of the Severstal Resources segment cover a period which corresponds to the contractual time remaining of the respective mining licenses.

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

- Cash flow projections were prepared in nominal terms.
- Cash flow projections during the forecast period are based on long-term price trends for both sales prices and material costs specific for each segment and geographic region and operating cost inflation are in line with consumer price inflation for each country. Consumer price inflation expectations (in local currency) during the forecast period are as follows in percentage terms:

	Year ended 31 December		
	2019	**2018**	**2017**
Russia	n/a	3.8 - 4.4	n/a

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

	Year ended 31 December		
	2019	**2018**	**2017**
Severstal Resources:			
Russia (US$ rate)	n/a	13.8	n/a

Values assigned to key assumptions and estimates used to measure the unit's recoverable amount are consistent with external sources of information and historic data for each cash-generating unit. Management believes that the values assigned to the key assumptions and estimates represent the most realistic assessment of future trends.

Severstal Resources segment

AO Olcon

2018

The Group performed an analysis and identified factors that indicated that the previously recognised impairment loss in respect of the AO Olcon cash generating unit may require reversal. For the purposes of impairment testing, the value in use was determined by discounting expected future net cash flows of this cash generating unit. Based on the results of the impairment testing, a reversal of the impairment of US$ 51 million was recognised in 2018, of which US$ 49 million was allocated to property, plant and equipment and US$ 2 million to intangible assets. The carrying amount of the AO Olcon non-current assets was US$ 151 million as at 31 December 2018.

The following main assumptions were used in the impairment test model:

- the forecast sales volumes decrease by 1% in 2019, stay flat in 2020, decrease by 1% in 2021 and decrease on average by 7% p.a. in 2022 to 2026;
- the forecast iron ore concentrate prices decrease by 5% in 2019, decrease by 1% in 2020, increase by 3% in 2021 and increase on average by 1% p.a. thereafter to 2026;
- operating costs are forecast to decrease by 8% in 2019, decrease by 2% in 2020, increase by 13% in 2021 and decrease on average by 7% p.a. in 2022 to 2026;
- foreign exchange rates are forecast to increase by 5% in 2019, increase by 2% in 2020, decrease by 2% in 2021 and 2022 and increase on average by 1% p.a. in 2023 to 2026;
- post-tax discount rate of 13.8% (in US$ terms).

The recoverable amount of the AO Olcon cash-generating unit is not sensitive to changes in the main assumptions used in the impairment test model. There is a significant surplus of recoverable amount compared with the carrying amount of non-current assets as at the reporting date.

Other units

2018

A reversal of impairment of US$ 4 million was recognised in 2018 in relation to specific items of property, plant and equipment.

2017

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

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

Severstal Russian Steel segment

Other units

2019

A reversal of impairment of US$ 5 million was recognised in 2019 in relation to specific items of property, plant and equipment.

2018

A reversal of impairment of US$ 13 million was recognised in 2018 in relation to specific items of property, plant and equipment.

8. Net other non-operating expenses

	Year ended 31 December		
	2019	2018	2017
Charitable donations	(31)	(30)	(26)
Social expenditure	(14)	(14)	(13)
Depreciation of infrastructure assets	-	-	(1)
Loss on disposal of subsidiaries (Note 23)	(21)	-	(72)
Accumulated translation reserves - foreign operations	-	-	(307)
Other	(8)	(6)	(2)
	(74)	(50)	(421)

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

9. Taxation

The following is an analysis of the income tax expense:

	Year ended 31 December		
	2019	2018	2017
Current tax charge	(410)	(430)	(242)
Corrections to prior year's current tax charge	9	(9)	3
Deferred tax expenses	(64)	(29)	(170)
Income tax expense	(465)	(468)	(409)

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

In 2019 and 2018, the main effect on profit taxed at different rates is caused by local tax benefits from operating in the Vologda region.

	Year ended 31 December		
	2019	2018	2017
Profit before income tax	2,232	2,519	1,764
Tax charge at Russian statutory rate	(446)	(504)	(353)
Profit/(loss) taxed at different rates	10	28	(3)
Corrections to prior years' current tax charge	9	(9)	3
Non-tax deductible (expenses)/income, net	(40)	18	(42)
Reassessment of deferred tax assets and liabilities	2	(1)	(14)
Income tax expense	(465)	(468)	(409)

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

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

	31 December 2018	Recognised in income statements	Business de-combination	Translation to presentation currency	31 December 2019
Deferred tax assets:					
Tax loss carry forwards	9	-	-	1	10
Property, plant and equipment	4	(4)	-	3	3
Inventory	26	(10)	(1)	1	16
Accounts receivable	6	10	-	-	16
Provisions	28	20	-	4	52
Financial investments	35	(9)	-	5	31
Other	14	4	-	1	19
Gross deferred tax assets	122	11	(1)	15	147
Less offsetting deferred tax liabilities	(95)	(26)	1	(12)	(132)
Recognised deferred tax assets	27	(15)	-	3	15
Deferred tax liabilities:					
Property, plant and equipment	(325)	(67)	17	(44)	(419)
Provisions	(1)	-	-	-	(1)
Intangible assets	(31)	(2)	-	(3)	(36)
Inventory	(20)	4	-	(2)	(18)
Accounts receivable	(4)	4	-	(1)	(1)
Other	(9)	(14)	-	1	(22)
Gross deferred tax liabilities	(390)	(75)	17	(49)	(497)
Less offsetting deferred tax assets	95	26	(1)	12	132
Recognised deferred tax liabilities	(295)	(49)	16	(37)	(365)
Net deferred tax liability	(268)	(64)	16	(34)	(350)

	31 December 2017	Recognised in income statements	Translation to presentation currency	31 December 2018
Deferred tax assets:				
Tax loss carry forwards	8	1	-	9
Property, plant and equipment	3	1	-	4
Inventory	19	8	(1)	26
Accounts receivable	14	(6)	(2)	6
Provisions	33	-	(5)	28
Financial investments	17	25	(7)	35
Other	16	7	(9)	14
Gross deferred tax assets	110	36	(24)	122
Less offsetting deferred tax liabilities	(86)	(30)	21	(95)
Recognised deferred tax assets	24	6	(3)	27
Deferred tax liabilities:				
Property, plant and equipment	(344)	(42)	61	(325)
Provisions	(1)	-	-	(1)
Intangible assets	(37)	(1)	7	(31)
Inventory	(7)	(14)	1	(20)
Accounts receivable	(3)	(1)	-	(4)
Other	(5)	(7)	3	(9)
Gross deferred tax liabilities	(397)	(65)	72	(390)
Less offsetting deferred tax assets	86	30	(21)	95
Recognised deferred tax liabilities	(311)	(35)	51	(295)
Net deferred tax liability	(287)	(29)	48	(268)

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

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

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

	31 December		
	2019	2018	2017
Between one and five years	18	204	218
No expiry	423	418	348
	441	622	566

In 2019 the decrease of cumulative tax losses not recognised mostly related to expired tax losses.

Taxable differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to US$ 271 million as at 31 December 2019 (31 December 2018: US$ 207 million; 31 December 2017: US$ 159 million).

10. Related party transactions

	Year ended 31 December		
	2019	2018	2017
Revenue from:			
Associates	29	30	32
Joint ventures	86	81	66
Other related parties	40	33	24
	155	144	122
Purchases from:			
Associates	63	63	71
Joint ventures	6	6	5
Other related parties	62	55	38
	131	124	114
Other income from other related parties	13	12	15

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

11. Related party balances

	31 December		
	2019	2018	2017
Short-term accounts receivable:			
Associates	4	3	3
Joint ventures	9	6	5
Other related parties	8	11	8
	21	20	16
Short-term accounts payable:			
Associates	6	6	7
Other related parties	11	15	11
	17	21	18
Long-term accounts payable - Other related parties	2	3	7
Short-term loans - Joint ventures	4	6	4
Long-term loans - Joint ventures	6	5	20

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

12. Cash and cash equivalents

	31 December		
	2019	2018	2017
Cash at bank	875	130	71
Bank deposits	206	98	960
	1,081	228	1,031

13. Trade accounts receivable

	31 December		
	2019	2018	2017
Customers	653	624	679
Allowance for expected credit losses	(71)	(70)	(81)
	582	554	598

14. Inventories

	31 December		
	2019	2018	2017
Raw materials and supplies	472	465	441
Finished goods	323	295	283
Work-in-progress	342	327	334
	1,137	1,087	1,058

Of the above amounts US$ 2 million (31 December 2018: US$ 2 million; 31 December 2017: US$ 7 million) were stated at net realisable value.

During the year ended 31 December 2019, the Group recognised a US$ 19 million release and a US$ 16 million allowance for obsolete and slow-moving inventories and reduced the carrying amount to net realisable value (2018: US$ 38 million and US$ 25 million, respectively; 2017: US$ 37 million and US$ 28 million, respectively).

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

15. Long-term financial investments

	31 December		
	2019	2018	2017
Financial assets at FVTOCI	19	3	197
Loans	7	5	20
	26	8	217

16. Property, plant and equipment

Property, plant and equipment comprise of owned and leased assets that do not meet the definition of investment property.

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction-in-progress	Total
Cost:						
31 December 2016	1,238	3,931	197	60	762	6,188
Reclassifications	-	1	(1)	-	-	-
Additions	-	-	-	-	549	549
Disposals	(5)	(81)	(5)	(8)	(4)	(103)
Business combinations	166	31	7	-	51	255
Business de-combinations	(8)	(4)	-	-	-	(12)
Transfers to other assets	(6)	(2)	-	-	-	(8)
Transfers	66	236	145	1	(448)	-
Translation to presentation currency	70	211	16	2	42	341
31 December 2017	1,521	4,323	359	55	952	7,210
Reclassifications	13	(13)	11	(11)	-	-
Additions	-	-	-	-	774	774
Disposals	(4)	(90)	(4)	(12)	(19)	(129)
Transfers to other assets	(2)	(2)	-	-	-	(4)
Transfers	101	485	56	1	(643)	-
Translation to presentation currency	(267)	(756)	(74)	(8)	(160)	(1,265)
31 December 2018	1,362	3,947	348	25	904	6,586
Recognition of right-of-use assets on initial application of IFRS 16	25	21	1	-	-	47
Reclassifications	78	(64)	(14)	-	-	-
Additions	14	30	-	-	1,281	1,325
Disposals	(9)	(91)	(6)	(3)	(49)	(158)
Business de-combinations	(166)	(221)	(5)	-	(2)	(394)
Transfers from other assets	32	26	1	-	-	59
Transfers	84	574	238	2	(898)	-
Translation to presentation currency	166	490	55	2	119	832
31 December 2019	1,586	4,712	618	26	1,355	8,297
Depreciation and impairment:						
31 December 2016	517	2,281	110	34	111	3,053
Depreciation expense	54	299	27	1	-	381
Disposals	(5)	(70)	(4)	(1)	(2)	(82)
Business de-combinations	(6)	(3)	-	-	-	(9)
Transfers	-	8	-	-	(8)	-
Impairment	-	-	-	-	3	3
Translation to presentation currency	26	124	6	2	5	163
31 December 2017	586	2,639	139	36	109	3,509
Reclassifications	8	(8)	7	(7)	-	-
Depreciation expense	56	293	30	-	-	379
Disposals	(3)	(77)	(4)	(4)	(3)	(91)
Reversal of impairment	(8)	(23)	(21)	-	(14)	(66)
Translation to presentation currency	(103)	(462)	(29)	(6)	(14)	(614)
31 December 2018	536	2,362	122	19	78	3,117
Reclassifications	40	(35)	(5)	-	-	-
Depreciation expense	63	319	44	-	-	426
Disposals	(6)	(80)	(6)	(2)	(46)	(140)
Business de-combinations	(47)	(97)	(4)	-	-	(148)
Reversal of impairment	-	-	-	-	(5)	(5)
Translation to presentation currency	62	288	19	3	5	377
31 December 2019	648	2,757	170	20	32	3,627

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

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction-in-progress	Total
Net book values:						
31 December 2017	935	1,684	220	19	843	3,701
31 December 2018	826	1,585	226	6	826	3,469
31 December 2019	938	1,955	448	6	1,323	4,670

Other productive assets include transportation equipment and tools.

As at 31 December 2019, property, plant and equipment included right-of-use assets of US$ 162 million related to leased assets (31 December 2018: US$ 86 million of leased assets were not yet put into operation and included in construction-in-progress; 31 December 2017: nil).

17. Intangible assets

	Goodwill	Mineral rights	Software	Evaluation and exploration assets	Other intangible assets	Total
Cost:						
31 December 2016	56	49	203	258	42	608
Reclassifications	-	2	-	(2)	-	-
Additions	-	-	24	7	1	32
Business de-combinations	(25)	-	-	-	-	(25)
Translation to presentation currency	1	4	10	2	2	19
31 December 2017	32	55	237	265	45	634
Reclassifications	-	1	-	(1)	-	-
Additions	-	-	28	7	1	36
Disposals	-	(1)	-	(4)	-	(5)
Translation to presentation currency	(4)	(9)	(44)	(8)	(7)	(72)
31 December 2018	28	46	221	259	39	593
Reclassifications	-	2	-	(2)	-	-
Additions	-	2	71	9	4	86
Disposals	-	-	(10)	(1)	(1)	(12)
Business de-combinations	-	-	(2)	-	-	(2)
Translation to presentation currency	2	4	31	6	6	49
31 December 2019	30	54	311	271	48	714
Amortisation and impairment:						
31 December 2016	47	35	60	223	22	387
Amortisation expense	-	1	19	2	1	23
Business de-combinations	(25)	-	-	-	-	(25)
Translation to presentation currency	1	2	3	1	1	8
31 December 2017	23	38	82	226	24	393
Amortisation expense	-	1	22	2	1	26
Reversal of impairment	-	(2)	-	-	-	(2)
Disposals	-	(1)	-	(4)	-	(5)
Translation to presentation currency	(3)	(6)	(16)	(2)	(4)	(31)
31 December 2018	20	30	88	222	21	381
Amortisation expense	-	1	34	2	1	38
Disposals	-	-	(3)	(1)	(1)	(5)
Business de-combinations	-	-	(1)	-	-	(1)
Translation to presentation currency	2	4	11	1	4	22
31 December 2019	22	35	129	224	25	435
Net book values:						
31 December 2017	9	17	155	39	21	241
31 December 2018	8	16	133	37	18	212
31 December 2019	8	19	182	47	23	279

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

18. Debt finance

	Currency	Maturity	Interest rate	31 December 2019	2018	2017
Eurobonds 2018	US dollars	March	4.45%	-	-	555
Eurobonds 2021	US dollars	August	3.85%	505	503	503
Eurobonds 2022	US dollars	October	5.9%	633	635	635
Eurobonds 2024	US dollars	September	3.15%	799	-	-
Rouble bonds 2024	Roubles	March	8.65%	165	-	-
Rouble bonds 2026	Roubles	March	8.65%	247	-	-
Convertible bonds 2021	US dollars	April	0.5%	36	86	170
Convertible bonds 2022	US dollars	February	0.0%	231	220	209
Bank financing	Roubles			31	7	14
Other financing	Roubles			4	4	7
				2,651	1,455	2,093

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

	31 December 2019	2018	2017
Less than one year	290	110	586
Between one and five years	2,119	1,344	1,506
After more than five years	242	1	1
	2,651	1,455	2,093

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

	Debt financing	Lease liabilities, net	Dividends payable	Derivatives financial liabilities (Notes 19, 21)	Other liabilities	Total
Balance as at 31 December 2016	2,013	-	6	106	19	2,144
Net cash flow changes	(22)	-	(1,530)	12	(72)	(1,612)
Equity changes	(42)	-	1,550	-	53	1,561
Interest accrued and other finance costs	144	-	-	-	-	144
Changes in fair value of financial instruments	-	-	-	24	-	24
Foreign exchange (gain)/loss	-	-	(20)	15	-	(5)
Balance as at 31 December 2017	2,093	-	6	157	-	2,256
Net cash flow changes	(658)	-	(1,971)	(12)	-	(2,641)
Equity changes	(76)	-	1,977	3	-	1,904
Interest accrued and other finance costs	96	-	-	-	-	96
Changes in fair value and gain on disposal of financial instruments	-	-	-	(63)	-	(63)
Changes in lease liabilities, net	-	73	-	-	-	73
Foreign exchange gain	-	-	(6)	-	-	(6)
Balance as at 31 December 2018	1,455	73	6	85	-	1,619
Initial application of IFRS 16	-	47	-	-	-	47
Net cash flow changes	1,082	(23)	(1,574)	(19)	-	(534)
Equity changes	(24)	-	1,545	(2)	-	1,519
Interest accrued and other finance costs	117	3	-	-	-	120
Changes in lease liabilities, net	-	30	-	-	-	30
Changes in fair value and gain on disposal of financial instruments	-	-	-	29	-	29
Foreign exchange loss	21	13	30	-	-	64
Balance as at 31 December 2019	2,651	143	7	93	-	2,894

Bonds issued

In April 2016, the Group issued US$ 200 million senior unsecured guaranteed convertible bonds maturing in 2021. The conversion rights may be exercised at any time on or after 9 June 2016. The initial conversion price was set at US$ 13.80 per GDR. If the conversion rights are exercised, it is at the Group's discretion to determine whether to convert bonds into GDRs or to pay a cash amount as defined in the terms of the issue. This settlement option causes the conversion feature of the bond to be classified separately and measured at fair value through profit and loss, while the host liability is accounted for at amortised cost using market interest rate of 5.1% per annum at the date of the issue. The bonds bear an interest rate of 0.5% per annum, which is payable semi-annually in April and October each year, beginning in October 2016. Holders of the bonds had an option to require an early redemption of their bonds on 29 April 2019 at the principal amount plus accrued interest. The Group also has an option for early redemption, exercisable starting from 20 May 2019 provided the value of the GDRs deliverable on conversion of the bonds exceeds 130 per cent of the principal amount of the bonds for a specified period of time. The proceeds from the bonds' issuance were mainly used for general corporate purposes. During 2018-2019 conversion rights were partially exercised. As a result, as at 31 December 2019 US$ 161 million of bonds at nominal value were redeemed (31 December 2018: US$ 103 million; 31 December 2017: nil).

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

As at 31 December 2019, the value of conversion option of convertible bonds maturing in 2021 was US$ 34 million and was determined with reference to the quoted market price (level 2 of the fair value hierarchy) and included in other non-current liabilities (Note 21) (31 December 2018: US$ 50 million was included in other current liabilities; 31 December 2017: US$ 109 million was included in other non-current liabilities).

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

As at 31 December 2019, the value of the conversion option of convertible bonds maturing in 2022 was US$ 59 million and was determined with reference to the quoted market price (level 2 of the fair value hierarchy) and included in other current liabilities (Note 19) (31 December 2018: US$ 35 million was included in other non-current liabilities; 31 December 2017: US$ 48 million was included in other non-current liabilities).

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

In April 2019, the Group issued two rouble denominated bonds amounting to US$ 230 million and US$ 153 million with put-options in 2026 and 2024, respectively, both due in 2029. The bonds bear an interest rate of 8.65% per annum, which is payable every 182 days, beginning in October 2019. Proceeds from the bond issues were used mainly for general corporate purposes.

In September 2019, the Group issued US$ 800 million bonds denominated in US dollars maturing in 2024. These bonds bear an interest rate of 3.15% per annum, which is payable semi-annually in September and March each year, beginning in March 2020. The proceeds from the bonds' issuance were mainly used for general corporate purposes.

At the reporting date the Group had US$ 1,250 million (31 December 2018: US$ 1,157 million; 31 December 2017: US$ 1,072 million) of committed unused long-term credit lines and overdraft facilities.

19. Other current liabilities

	31 December		
	2019	2018	2017
Advances received	148	107	161
Amounts payable to employees	136	105	120
Derivatives financial liabilities (Note 18)	59	50	-
Provisions	16	19	21
Lease liabilities	15	6	-
Retirement benefit liabilities (Note 20)	6	6	7
Deferred income	-	-	23
Other liabilities	38	30	26
	418	323	358

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

20. Retirement benefit liabilities

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

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

	31 December		
	2019	2018	2017
Current portion	6	6	7
Non-current portion	74	56	78
	80	62	85

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

	31 December		
	2019	2018	2017
Discount rates:			
Russia	6.5%	8.9%	7.6%
Future rates of benefit increase:			
Russia	4.0%	4.1%	4.3%

The Group's weighted average remaining life of the pensioners and employees, receiving the retirement benefits equaled to 17 years as at 31 December 2019 (31 December 2018: 16 years; 31 December 2017: 17 years).

The movements in the defined benefit obligation were as follows:

	Year ended 31 December		
	2019	2018	2017
Opening balance	62	85	73
Benefits paid	(8)	(7)	(8)
Interest cost	5	6	6
Service cost* (Note 5)	1	(1)	1
Actuarial losses/(gains)**	12	(6)	8
Translation to presentation currency	8	(15)	5
Closing balance	80	62	85

*In the year ended 31 December 2018 service cost additionally included the effect of the retirement age increase in Russia.
**Actuarial losses/(gains) arise primarily from changes in financial assumptions.

The defined benefit obligations were wholly unfunded at the years ended 31 December 2019, 2018 and 2017.

21. Other non-current liabilities

	31 December		
	2019	2018	2017
Decommissioning liabilities	155	62	76
Lease liabilities	137	67	-
Derivatives financial liabilities (Note 18)	34	35	157
Amounts payable to employees	7	5	5
Deferred income	1	3	7
Other liabilities	24	4	-
	358	176	245

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

Decommissioning liabilities

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of its mines and production facilities. These costs are expected to be incurred between 2023 – 2048. The present value of expected cash outflows was estimated using existing technology, and discounted using a real discount rate. These rates are as follows:

	Discount rates, %		
Severstal Resources:	2019	2018	2017
Russia	1.8 - 3.2	4.1 - 5.3	2.8 - 5.6

The movements in the decommissioning liabilities were as follows:

	Year ended 31 December		
	2019	2018	2017
Opening balance	62	76	76
Change in assumptions	75	(8)	(9)
Interest cost	7	6	5
Translation to presentation currency	11	(12)	4
Closing balance	155	62	76

The change in assumptions related to changes in the discount rate and re-scheduling of the decommissioning of AO Vorkutaugol in 2019 and 2017, AO Olcon in 2019 and 2018.

22. Shareholders' equity

Share Capital

The Parent Company's share capital consists of ordinary shares with a nominal value of RUB 0.01 each. The authorised share capital of Severstal as at 31 December 2019, 2018 and 2017 comprised 837,718,660 issued and fully paid shares and amounted to US$ 2,753 million.

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

All shares carry equal voting and distribution rights.

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

	Year ended 31 December		
	2019	2018	2017
Weighted average number of shares in issue	837.7	837.7	837.7
Weighted average number of treasury shares	(13.1)	(20.6)	(26.0)
Weighted average number of shares outstanding during the period	824.6	817.1	811.7

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

Earnings per share

In 2017 the Group issued US$ 250 million convertible bonds and in 2016 issued US$ 200 million convertible bonds (Note 18), which had an effect on earnings per share as demonstrated below:

	Year ended 31 December		
	2019	**2018**	**2017**
Profit for the period attributable to shareholders of PAO Severstal	1,766	2,051	1,356
Adjustments related to convertible bonds, net of tax	(3)	46	22
Adjusted profit for the period attributable to shareholders of PAO Severstal	1,763	2,097	1,378
Basic weighted average number of shares outstanding during the period (millions of shares)	824.6	817.1	811.7
Effect on conversion of convertible bonds (millions of shares)	24.0	30.6	30.4
Diluted weighted average number of shares outstanding during the period (millions of shares)	848.6	847.7	842.1
Basic earnings per share (US dollars)	2.14	2.51	1.67
Diluted earnings per share (US dollars)	2.08	2.47	1.64

Dividends

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

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

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

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

On 8 June 2018, the Meeting of Shareholders approved an annual dividend of RUB 27.72 (US$ 0.45 at 8 June 2018 exchange rate) per share and per GDR for the year ended 31 December 2017 and an interim dividend of RUB 38.32 (US$ 0.62 at 8 June 2018 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2018.

On 14 September 2018, an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 45.94 (US$ 0.67 at 14 September 2018 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2018.

On 23 November 2018, an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 44.39 (US$ 0.68 at 23 November 2018 exchange rate) per share and per GDR for the first nine months of the year ended 31 December 2018.

On 26 April 2019, the Meeting of Shareholders approved an annual dividend of RUB 32.08 (US$ 0.50 at 26 April 2019 exchange rate) per share and per GDR for the year ended 31 December 2018.

On 7 June 2019, the Extraordinary Meeting of Shareholders approved an interim dividend of RUB 35.43 (US$ 0.54 at 7 June 2019 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2019.

On 6 September 2019, the Extraordinary Meeting of Shareholders approved an interim dividend of RUB 26.72 (US$ 0.4 at 6 September 2019 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2019.

On 22 November 2019, the Extraordinary Meeting of Shareholders approved an interim dividend of RUB 27.47 (US$ 0.43 at 22 November 2019 exchange rate) per share and per GDR for the first nine months of the year ended 31 December 2019.

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

23. Subsidiaries, associates and joint ventures

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

	31 December				
Company	**2019**	**2018**	**2017**	**Location**	**Activity**
Severstal Russian Steel segment:					
Subsidiaries:					
Severstal TPZ-Sheksna LLC	100.0%	100.0%	100.0%	Russia	Steel constructions
AO Severstal LPM Balakovo	n/a	100.0%	100.0%	Russia	Iron & steel mill
JSC Domnaremont	100.0%	100.0%	100.0%	Russia	Repairs & Construction
Severstal-Proekt LLC	100.0%	100.0%	100.0%	Russia	Repairs & Construction
Aircompany Severstal Ltd	100.0%	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	100.0%	100.0%	100.0%	Switzerland [1]	Steel sales
SIA Severstal Distribution	100.0%	100.0%	100.0%	Latvia [1]	Steel sales
AO Severstal Distribution	100.0%	100.0%	100.0%	Russia	Metal sales
AO Izhora Pipe Mill	100.0%	100.0%	100.0%	Russia	Wide pipes
JSC Severstal-Metiz	100.0%	100.0%	100.0%	Russia	Steel machining
Associates:					
AO Air Liquide Severstal	25.0%	25.0%	25.0%	Russia	Production of liquid oxygen
Joint ventures:					
Rutgers Severtar LLC	34.7%	34.7%	34.7%	Russia	Production of vacuum pitch
Severstal-Gonvarri-Kaluga LLC	50.0%	50.0%	50.0%	Russia	Iron & steel mill
Gestamp-Severstal-Kaluga LLC	25.0%	25.0%	25.0%	Russia	Production of car body components
TenarisSeverstal Ltd	51.0%	n/a	n/a	Russia	Production of pipes for the oil industry
Severstal Resources segment:					
Subsidiaries:					
AO Karelsky Okatysh	100.0%	100.0%	100.0%	Russia	Iron ore pellets
AO Olcon	100.0%	100.0%	100.0%	Russia	Iron ore concentrate
AO Vorkutaugol	100.0%	100.0%	100.0%	Russia	Coking coal concentrate
Mining Holding Company LLC	100.0%	100.0%	100.0%	Russia	Holding company
LLC Metal-group [2]	0.0%	0.0%	0.0%	Russia	Iron ore
AO YaGOK [3]	n/a	100.0%	n/a	Russia	Iron ore
Korpanga Ltd	100.0%	100.0%	100.0%	Russia	Iron ore

[1] – Severstal Russian Steel segment contains foreign trading companies, which sell products primarily produced in Russia.

[2] – Note 23, Acquisition of rights.

[3] – Merged with Korpanga Ltd.

Investments in associates and joint venture

Investments in 2019

In March 2019, the Group acquired a 51% stake in TenarisSeverstal PTE. Ltd for a nominal total consideration close to nil. TenarisSeverstal PTE. Ltd is the sole participant of TenarisSeverstal Ltd that will produce pipes for the oil industry in the Surgut area, West Siberia, Russian Federation. In 2019, the Group made additional contributions to the capital amounting to US$ 20 million.

In July 2019, the Group acquired a 26% stake in Linde Severstal LLC for a total consideration of US$ 1 million. Linde Severstal LLC produces coil-wound heat exchangers for use at medium-scale and large-scale liquefied natural gas plants.

Disposal of subsidiaries

Redaelli Tecna S.p.A.

In April 2017, the Group sold its 100% stake in Redaelli Tecna S.p.A. to a third party for consideration of EUR 37 million (US$ 40 million, at the transaction date exchange rate). The loss on the disposal of US$ 43 million was recognised in these consolidated financial statements as part of net other non-operating expenses and mostly comprised Redaelli Tecna S.p.A.'s accumulated foreign exchange translation reserves as at the disposal date.

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

PJSC Dneprometiz

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

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

AO Severstal LPM Balakovo

In May 2019 Severstal entered into a definitive agreement to sell its subsidiary AO Severstal LPM Balakovo.

In July 2019, the Group sold its 100% stake in AO Severstal LPM Balakovo to a third party for a total consideration of US$215 million, of which US$205 million related to intercompany loan redemption. The loss on disposal of US$21 million was recognised in these consolidated financial statements as part of net other non-operating expenses.

A summary of assets and liabilities disposed during 2019, 2018 and 2017 is presented below:

	Year ended 31 December		
	2019	**2018**	**2017**
Property, plant and equipment	(246)	-	(3)
Inventories	(21)	-	(4)
Other	(8)	-	(13)
Assets held for sale	-	-	(89)
Total assets	(275)	-	(109)
Short-term debt finance	205	-	-
Trade accounts payable	22	-	5
Deferred tax liabilities	16	-	-
Other taxes and social security payable	3	-	-
Other	1	-	1
Liabilities related to assets held for sale	-	-	44
Total liabilities	247	-	50
Net identifiable assets	(28)	-	(59)
Translation to presentation currency foreign operations*	-	-	(61)
Consideration in cash	215	-	50
including intercompany loan redemption	(205)	-	-
Selling costs paid in cash	(3)	-	(2)
Net loss on disposal (Note 8)	(21)	-	(72)
Less cash of disposed entity	-	-	(6)
Net change in cash and cash equivalents	215	-	42

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

Acquisitions of rights

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

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

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

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

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

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

	Year ended 31 December		
	2019	2018	2017
Cash and cash equivalents	-	-	1
Trade accounts receivable	-	-	2
VAT recoverable	-	-	1
Inventories	-	-	5
Other current assets	-	-	3
Property, plant and equipment	-	-	255
Trade accounts payable	-	-	(1)
Other taxes and social security payable	-	-	(2)
Other current liabilities	-	-	(6)
Deferred tax liabilities	-	-	(22)
Net identifiable assets and liabilities acquired	-	-	236
Consideration in cash	-	-	(101)
Gain from a bargain purchase	-	-	135
Net change in cash and cash equivalents	-	-	(100)

In November 2018, the Group completed the purchase price allocation of the mining company with no effect on these consolidated financial statements.

24. Alternative performance measures

In order to access the Group's performance the Group's management constantly monitors the following set of alternative performance measures presented in the table below:

	Year ended 31 December		
	2019	2018	2017
EBITDA	2,805	3,142	2,577
EBITDA margin[1], %	34.4	36.6	32.8
Free Cash Flow	1,099	1,601	1,393
Low Debt (NetDebt[2]/EBITDA), x	0.6	0.4	0.4

[1] EBITDA margin is equal to EBITDA divided by Revenue;

[2] Net Debt is equal to the total debt finance less cash and cash equivalents.

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

Twelve months ended 31 December 2019:

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Revenue	2,169	8,025	(2,037)	8,157
Profit from operations	1,080	1,218	29	2,327
Adjustments to reconcile profit from operations to EBITDA:				
Depreciation and amortisation of productive assets	165	299	-	464
Loss on disposal of property, plant and equipment and intangible assets	3	9	-	12
Share of associates' and joint ventures' depreciation and amortisation and non-operating income	-	2	-	2
EBITDA	1,248	1,528	29	2,805
Additional information:				
intersegment revenue	1,954	83	(2,037)	-

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

Twelve months ended 31 December 2018:

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Revenue	1,908	7,803	(1,131)	8,580
Profit from operations	872	1,877	(42)	2,707
Adjustments to reconcile profit from operations to EBITDA:				
Depreciation and amortisation of productive assets	137	268	-	405
Loss on disposal of property, plant and equipment and intangible assets	7	16	-	23
Share of associates' and joint ventures' depreciation and amortisation and non-operating income	-	6	1	7
EBITDA	1,016	2,167	(41)	3,142
Additional information:				
intersegment revenue	1,061	70	(1,131)	-

Twelve months ended 31 December 2017:

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

The following is a reconciliation of net cash from operating activities to Free Cash Flow by segments:

Twelve months ended 31 December 2019:

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Net cash from operating activities	1,202	1,040	50	2,292
Additions to property, plant and equipment	(394)	(781)	18	(1,157)
Additions to intangible assets	(13)	(48)	-	(61)
Proceeds from disposal of property, plant and equipment and intangible assets	-	33	(18)	15
Interest received	55	15	(66)	4
Dividends received	-	6	-	6
Free Cash Flow	850	265	(16)	1,099

Twelve months ended 31 December 2018:

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Net cash from operating activities	771	1,434	49	2,254
Additions to property, plant and equipment	(296)	(357)	-	(653)
Additions to intangible assets	(5)	(30)	-	(35)
Proceeds from disposal of property, plant and equipment and intangible assets	1	14	-	15
Interest received	47	27	(58)	16
Dividends received	1	3	-	4
Free Cash Flow	519	1,091	(9)	1,601

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

Twelve months ended 31 December 2017:

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso-lidated
Net cash from operating activities	709	1,020	185	1,914
Additions to property, plant and equipment	(238)	(322)	-	(560)
Additions to intangible assets	(6)	(25)	-	(31)
Proceeds from disposal of property, plant and equipment and intangible assets	-	15	-	15
Interest received	67	87	(100)	54
Dividends received	-	1	-	1
Free Cash Flow	532	776	85	1,393

25. Financial instruments

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

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

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

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

	31 December 2019			31 December 2018			31 December 2017		
	Fair Value	Book value	Difference	Fair Value	Book value	Difference	Fair Value	Book value	Difference
Eurobonds 2018	-	-	-	-	-	-	558	555	3
Eurobonds 2021	517	505	12	489	503	(14)	512	503	9
Eurobonds 2022	687	633	54	653	635	18	704	635	69
Eurobonds 2024	804	799	5	-	-	-	-	-	-
Rouble bonds 2024	177	165	12	-	-	-	-	-	-
Rouble bonds 2026	247	247	-	-	-	-	-	-	-
Convertible bonds 2021	71	70	1	142	136	6	288	279	9
Convertible bonds 2022	296	290	6	249	255	(6)	267	257	10
	2,799	2,709	90	1,533	1,529	4	2,329	2,229	100

The above amounts include accrued interest. The fair value of the Group's Eurobonds was determined based on London Stock Exchange quotations (level 1 of the fair value hierarchy), the fair value of the Group's rouble bonds was based on MICEX.

Credit risk

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

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

The Group allocates each exposure to a credit risk based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements and publicly available information about customers) and applying experienced credit judgement.

Expected credit losses rate is calculated for accounts receivable based on delinquency status and actual credit losses experience over the past three years.

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

The Group has developed policies and procedures for the management of credit exposure, including the establishment of a credit committee that actively monitors credit risk.

Additionally, in order to minimise credit risk of the counterparty banks, the analysis is carried out in respect of banks' financial stability, and a quarterly review of the risks limits for banks with subsequent review of the Group's operations within those established limits.

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

	31 December		
	2019	2018	2017
Loans and receivables	681	621	663
Cash and cash equivalents	1,081	228	1,031
Financial assets at FVTOCI	19	3	205
	1,781	852	1,899

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

	31 December		
	2019	2018	2017
Russian Federation	432	363	388
Europe	88	136	155
Africa	37	12	11
CIS	17	13	17
North America	9	-	14
The Middle East	9	29	26
China and Central Asia	8	17	-
Central and South America	-	1	1
	600	571	612

Concentration of credit risk

2019

The Group held cash and cash equivalents of US$ 1,081 million as at 31 December 2019. The cash and cash equivalents are mostly held with banks, which are rated Baa3, based on Moody's ratings.

2018

The Group held cash and cash equivalents of US$ 228 million as at 31 December 2018. The cash and cash equivalents are mostly held with banks, which are rated Ba2, based on Moody's ratings.

2017

The Group held cash and cash equivalents of US$ 1,031 million as at 31 December 2017. The cash and cash equivalents are mostly held with bank, which is rated Ba2, based on Moody's ratings.

Allowance for expected credit losses

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

	31 December					
	2019		2018		2017	
	Gross	Allowance	Gross	Allowance	Gross	Allowance
Not past due	492	-	532	-	605	(37)
Past due less than 30 days	84	-	35	-	27	-
Past due 31-90 days	21	(1)	4	(1)	13	(1)
Past due 91-180 days	3	(1)	2	(1)	2	(1)
Past due 181-365 days	2	(1)	39	(39)	5	(1)
More than one year	69	(68)	29	(29)	41	(41)
	671	(71)	641	(70)	693	(81)

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

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

	Year ended 31 December		
	2019	2018	2017
Opening balance	(70)	(81)	(82)
Allowance recognised	(3)	(4)	(5)
Allowance reversed	6	8	8
Translation to presentation currency	(4)	7	(2)
Closing balance	(71)	(70)	(81)

The allowance account for expected credit losses in respect of trade receivables, including those from related parties, is used to record losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

The allowance for expected credit losses contains primarily individually impaired trade receivables from debtors placed under liquidation or companies which are in breach of contract terms.

Liquidity risk

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

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

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

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

31 December 2019

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivatives financial liabilities						
Debt finance	2,651	(3,133)	(401)	(656)	(1,802)	(274)
Trade and other payables	793	(793)	(771)	(8)	(14)	-
Lease liabilities	152	(223)	(19)	(13)	(45)	(146)
Derivatives financial assets						
Outflow	-	(275)	(6)	(6)	(175)	(88)
Inflow	7	357	20	21	219	97
	3,603	(4,067)	(1,177)	(662)	(1,817)	(411)

31 December 2018

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivatives financial liabilities						
Debt finance	1,455	(1,692)	(162)	(307)	(1,223)	-
Trade and other payables	600	(600)	(600)	-	-	-
Lease liabilities	73	(69)	(6)	(6)	(14)	(43)
	2,128	(2,361)	(768)	(313)	(1,237)	(43)

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

31 December 2017

	Carrying amount	Contractual cash flows	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivatives financial liabilities						
Debt finance	2,093	(2,425)	(634)	(59)	(1,731)	(1)
Trade and other payables	592	(592)	(592)	-	-	-
	2,685	(3,017)	(1,226)	(59)	(1,731)	(1)

As at 31 December 2019, 2018 and 2017, the Group had no significant bank financing.

Currency risk

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

In order to reduce the sensitivity to a currency risk the Group makes best effort to match cash inflows and outflows in the same currency.

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

	31 December 2019		31 December 2018		31 December 2017	
	EUR	USD	EUR	USD	EUR	USD
Cash and cash equivalents	856	-	146	10	12	966
Loans and receivables	813	393	851	523	342	1,127
Financial assets at FVTOCI	-	-	-	-	4	198
Trade and other payables	(296)	(38)	(209)	(41)	(123)	(212)
Debt finance	(621)	(2,561)	(500)	(1,934)	(124)	(2,942)
Derivatives financial liabilities	(241)	(93)	-	(85)	-	(157)
Net exposure	511	(2,299)	288	(1,527)	111	(1,020)

Sensitivity analysis

A 10 percent strengthening of the following currencies against the functional currency as at 31 December 2019 would have increased/(decreased) profit and equity by the amounts shown below.

This analysis assumes that all other variables, in particular interest rates, remain constant and no translation difference into the presentation currency is included. The analysis is performed on the same basis for 2018 and 2017.

	Year ended 31 December		
	2019	2018	2017
Net profit			
EUR	43	26	9
USD	(186)	(121)	(79)

A 10 percent weakening of these currencies against the functional currency as at 31 December 2019 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Commodity price risk

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

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

Fair value sensitivity analysis for fixed rate instruments

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

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would not have a significant effect on profit and equity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2018 and 2017.

Fair value hierarchy

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

	Level 1	Level 2	Level 3	Total
Balance as at 31 December 2019	-	(86)	19	(67)
Financial assets at FVTOCI (Note 15)	-	-	19	19
Derivatives financial assets	-	7	-	7
Derivatives financial liabilities (Note 18)	-	(93)	-	(93)
Balance as at 31 December 2018	-	(85)	3	(82)
Financial assets at FVTOCI (Note 15)	-	-	3	3
Derivatives financial liabilities (Note 18)	-	(85)	-	(85)
Balance as at 31 December 2017	202	(157)	3	48
Financial assets at FVTOCI	202	-	3	205
Derivatives financial liabilities (Note 18)	-	(157)	-	(157)

Financial assets at FVTOCI presented in Level 1 included mainly bonds quoted on an active market.

The description of the levels is presented below:

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

26. Commitments and contingencies

a. For litigation and liabilities

In 2015 a claw-back claim had been made by Lucchini S.p.A's ('Lucchini') extraordinary commissioner against the Group's subsidiary amounting to approximately US$ 142 million.

The bankruptcy claw-back action is a remedy offered by the Italian Bankruptcy Act to allow commissioners to declare ineffective, vis-à-vis all creditors of a bankrupt company, certain payments and transactions executed in the period preceding the insolvency declaration that altered the equal treatment of all the unsecured creditors of an insolvent debtor. Lucchini was previously the Group's subsidiary and was deconsolidated in 2011 and currently is under the bankruptcy procedure. This claim relates to cash received by the Group's subsidiary for supplies of raw materials to Lucchini primarily during the period when Lucchini was already not part of the Group.

The judge of the first instance court reduced the amount of the claw-back claim in its decision of 25 May 2018 to US$ 86 million (31 December 2018: US$ 86 million, 31 December 2017: US$ 142 million). Management did not agree both with this claim and the judgement of the first instance court and appealed against the court decision on 18 July 2018. The hearing is scheduled on 28 April 2020. The Group and its legal advisors believe that there are strong grounds in support of the Group's position, however, the group is unable to assess the ultimate outcome of the claim, including the outflow of the financial resources to settle the claim, if any, because it depends on multiple circumstances concerning the facts and the applicability and interpretation of the relevant statutes. In case the Group has to make any payment, the relevant amount paid will be included in Lucchini's creditors' list and will be settled in the course of the bankruptcy procedure.

b. Capital commitments

At the reporting date the Group had contractual capital commitments of US$ 664 million (31 December 2018: US$ 247 million; 31 December 2017: US$ 271 million).