METINVEST

TENACITY

A DECADE OF ACHIEVEMENTS

Annual Report and Accounts 2016

10 EXCEPTIONAL YEARS

METINVEST IS AN INTERNATIONAL, VERTICALLY INTEGRATED STEEL AND MINING GROUP WITH VAST IRON ORE RESERVES, COAL MINES AND STEELMAKING ASSETS IN UKRAINE, CONTINENTAL EUROPE, THE UK AND THE US. IN 2016, IT MARKED A MAJOR ANNIVERSARY, CELEBRATING ITS FIRST 10 YEARS IN EXISTENCE. OVER THIS TIME, THE GROUP HAS TRANSFORMED INTO A WORLD-CLASS STEELMAKER, HAVING SUBSTANTIALLY INCREASED CAPACITY, UPGRADED FACILITIES AND IMPROVED PRODUCTS, CREATED A SAFER OPERATING ENVIRONMENT AND ESTABLISHED A TRACK RECORD IN OPENNESS AND REPORTING.

more info at
www.metinvestholding.com

BUILT ON SOLID FOUNDATIONS

OVER THE LAST 10 YEARS, BOTH METINVEST AND THE MARKETS IN WHICH IT OPERATES HAVE SEEN TREMENDOUS CHANGE. BY BUILDING A BUSINESS MODEL ON SOLID FOUNDATIONS AND THROUGH TENACITY – DEDICATION – THE GROUP HAS DEVELOPED PROGRESSIVELY AND CONSISTENTLY TOWARDS ACHIEVING ITS ULTIMATE OBJECTIVES.

VERTICAL INTEGRATION

Metinvest controls all elements of the metals and mining production cycle, from extracting coal and iron ore to making finished steel products for sale worldwide. This allows it to adjust the production mix depending on demand and maximise profitability.

See pages 8-9

HEALTH, SAFETY AND ENVIRONMENT (HSE)

HSE is part of Metinvest's philosophy and integral to all of its long-term investment plans. The Group continues to target only the highest standards for health and safety, while investing to reduce its environmental impact each year.

See pages 10-11

TRANSPARENCY

Transparency is key as it inspires confidence among investors and other stakeholders. Metinvest also believes that its policy of openness and accountability makes it more efficient, responsible and recognised on capital markets.

See pages 14-15

QUALITY

Quality is critical, as it defines Metinvest's ability, reputation and success. While the Group is proud of its work, it always seeks to do better, notably through the application of continuous improvement.

See pages 12-13

THE SHARD
London, UK

Completed in 2012, this striking 95-storey skyscraper dominates the iconic London Bridge neighbourhood of London. It is the tallest building in the UK and the fourth tallest in Europe. Metinvest supplied hot-rolled plates produced by Spartan, located in Newcastle, to construct the steelwork for the skyscraper's supporting frame.

5,000T
Metinvest steel used

STRATEGIC REPORT

IN 2016, THE SITUATION IN EASTERN UKRAINE REMAINED FRAGILE AND THE STEEL AND RAW MATERIAL MARKETS WORLDWIDE HIGHLY VOLATILE. DESPITE THIS, IN ITS 10TH YEAR, METINVEST RECONFIRMED THAT IT IS BUILT TO STAND THE TEST OF TIME.

IN THIS SECTION:

STANDING THE TEST OF TIME

Metinvest's 10th anniversary is a natural point for looking back at the Group's successful development as one of the leading global steelmakers during a kaleidoscope of change, while the results for 2016 reflect the resilience of the business amid highly volatile conditions on its markets.

In 2016, we marked Metinvest's first decade, creating a good opportunity to assess our performance as a business compared with the expectations of our stakeholders. Back in 2006, it would have been quite a feat to predict the scale of the external challenges that would follow in the next decade, including high global market volatility, prolonged low prices for our products and geopolitical and economic challenges at home.

Nonetheless, in its first decade, Metinvest has stood the test of time. By building on a business model combining fundamental values and strengths, we have succeeded in exploiting our high-quality asset base and reacting proactively to external change. We remain committed to our goal of creating value for all stakeholders, including our investors, customers, shareholders, employees, suppliers and communities.

SOUND FUNDAMENTALS

The four fundamentals of our business model, all equally important, have defined us in our first decade and will continue to do so. The first, vertical integration, has enabled us to build a mining and steel group with its own resource base and global sales force. Mergers and acquisitions have expanded our production capacity and geography. This scale and flexibility has proved crucial amid the prevailing environment of price volatility and business cyclicality, as we can adjust our raw material and steel output quickly to seek to maximise margins.

The second fundamental is health, safety and the environment (HSE), which is part of our philosophy. We see our people as our main assets and believe that achieving world-class standards in the area is critical to becoming a leading European steelmaker. We have worked hard to establish a rigorous HSE system aimed at continuously improving safety and mitigating environmental impact, and our investment has reduced lost-time incidents and emissions tangibly. In addition, we have obtained international safety and environmental certification for our key operating facilities. There is further work to be done in this area and it will remain a central focus in the future.

The third fundamental, quality, is something that we strive for in everything that we do: from management through production and to customer service. Over the past decade, Metinvest has assembled and refined an international team of directors and managers with extensive industry and financial expertise, and there has been important continuity in the team. These executives have led the Group's drive to modernise and expand from the top, leading to more efficient operations and the launch of numerous new and higher value-added products. To better distribute these, we have focused on expanding our marketing and sales functions and building a long-term, personalised relationship with every client. This has cemented our reputation as a provider of high-quality service worldwide. Our achievements attest to the commitment to quality of all employees, who shape and drive the business, both individually and collectively.

Fourth, and of equal importance, is transparency. Over the last 10 years, the Group has transformed from being a traditional local company to a worldwide business that is well recognised on global financial markets. Throughout the whole period, we worked to streamline our ownership and Group structure, making the business transparent and understandable for stakeholders. In 2007, we began regular public reporting based on audited financials. Since 2008, we have received ratings from international credit rating agencies, providing clear benchmarks for our creditworthiness and helping to guide the investment community. In 2010, we issued our debut Eurobond, establishing our name on international capital markets and attracting global investors, who have become one of the key stakeholder groups. Throughout our business, we strive to adhere to international best practices in corporate governance.

INVESTING IN THE FUTURE, CONTRIBUTING TO HISTORY

Metinvest has made enormous investments in its business and country, overcoming tremendous upheaval and change by pursuing its goals with tenacity, and the results in the first decade are noteworthy.

Between 2006 and 2016, the Group invested around US$6.7 billion in maintaining and modernising facilities, raising their efficiency and environmental standards ever higher. During that time, Metinvest produced more than 110 million tonnes of crude steel and 350 million tonnes of iron ore concentrate, as well as around 50 million tonnes of coking coal concentrate. Today, we are one of Ukraine's largest employers and taxpayers:

we have more than 85,000 staff and, in our first decade, we have paid US$4.7 billion of corporate income tax, excluding other levies and duties.

The Group is proud that its metal products have been used to build crucial infrastructure and iconic structures worldwide. These include bridges, stadiums, buildings, ships, railways, rolling stock, energy equipment, pipelines and more. Metinvest steel helped to create the T. Esra and T. Aylin, the world's largest asphalt tankers; and the Shard, the tallest building in the UK and the fourth largest in Europe. It also features in the Darnitskiy Bridge and Olympic Stadium in Kyiv, as well as the Hudson Yards multi-functional complex, currently under construction in New York. We look forward to helping to build new monuments over the next decade and beyond.

UNWAVERING TENACITY AT HOME

While 2016 was another complex year, it also reconfirmed our tenacity amid considerable domestic challenges.

The majority of the Group's assets are safe and functioning normally, including all of the steelmakers in Mariupol and iron ore assets in Kryvyi Rih. Avdiivka Coke, while operational and on territory controlled by the Ukrainian government, is close to the front line and has experienced constant disruptions due to military action. In March 2017, Yenakiieve Steel, Krasnodon Coal, Khartsyzk Pipe and all other facilities in the temporarily non-government-controlled areas were seized.

Last year brought a critical situation in Avdiivka. Our plant there was hit several times by shelling. In early 2017, bombing took out the remaining two high-voltage power lines supplying electricity to Avdiivka Coke, which provides the majority of the city's heat. Suspending operations would have created a humanitarian catastrophe for the local community. We reacted to this as a priority, hot-mothballing two coke workshops and keeping another two operational, which provided coke gas for batteries and local residents. When that ran out, natural gas was sourced. Engineers at the plant worked tirelessly with specialists from DTEK to resolve the situation and the main power supply was restored two days later.

At the time of writing, a new high voltage line to Avdiivka Coke was installed on Ukrainian territory. Thanks to this, two coke workshops have resumed operations after a three-month stop.

In February 2017, Yenakiieve Steel and Krasnodon Coal were forced to suspend production due to a blockade of all cargo railway transportation to and from temporarily non-government-controlled territories. Crucially, this prevented supplies of coking coal from our mines in Krasnodon. The only remaining railway connecting Mariupol to the rest of Ukraine is the Kamysh-Zaria-Volnovakha line. Its throughput capacity, which has increased somewhat since November, following restoration work by the state railway operator, has proved insufficient for our production needs. To keep production at our Mariupol facilities on track, it is vital that the line's throughput is increased to 27 trains a day in the near future, including at least 22 cargo trains. Similarly, boosting output at the plants will require substantial reconstruction work on the line, which needs to be started as a priority.

As mentioned above, in March 2017, after the reporting period, following an ultimatum from the unrecognised authorities to re-register certain assets, all assets owned by entities in the temporarily non-government-controlled areas, including Yenakiieve Steel, Krasnodon Coal and Khartsyzk Pipe, were seized and Metinvest declared a complete loss of control over the operations there. The Group will use all available national and international legal means to protect its rights to these assets. Around 20,000 employees work at the assets seized. We have offered alternative places of employment to all affected personnel and are monitoring the situation closely.

That situation and the logistical reality are bound to impact the business in several ways, and we understand them. Until the above mentioned assets are returned, there will be a loss of EBITDA for Metinvest. We will also need to import more coal from third parties and export more iron ore.

The closure of Krasnodon Coal and limited access to Ukrainian coal suppliers will force Metinvest to increase seaborne coal imports from Australia, Canada and the US. At the same time, we continue to ship coal from our US mines, at United Coal, providing some degree of self-sufficiency in premium-grade coal.

METINVEST HAS MADE ENORMOUS INVESTMENTS IN ITS BUSINESS AND COUNTRY, OVERCOMING TREMENDOUS UPHEAVAL AND CHANGE BY PURSUING ITS GOALS WITH TENACITY, AND THE RESULTS IN THE FIRST DECADE ARE NOTEWORTHY. THE GROUP HAS PRODUCED MORE THAN 110 MILLION TONNES OF CRUDE STEEL AND 350 MILLION TONNES OF IRON ORE CONCENTRATE, AS WELL AS AROUND 50 MILLION TONNES OF COKING COAL CONCENTRATE.

The seizure of Yenakiieve Steel and some other of our key clients in Eastern Ukraine will force the Group to re-direct for export iron ore products that were due to be consumed internally or sold domestically. Europe is our number one market for iron ore due its proximity and profitability. At our iron ore facilities, we are also undertaking various projects to address the demand for new products in Europe. These will enhance the quality of our pellets substantially. Initiatives include introducing separate enrichment of different iron ores from two open pits at Northern GOK and making pellets from premium concentrate, with a high Fe grade, from Ingulets GOK.

Greater export and import flows require deepwater port capacity to be allocated between iron ore exports, coal imports and other third-party goods appropriately. This will require support from the government. Our plan is to maintain iron ore output in Kryvyi Rih and partly compensate the country's lower foreign-currency revenues caused by the suspension of operations at our steelmakers in the non-controlled territories, while importing coking coal as needed.

OPERATIONAL AND FINANCIAL RESULTS

While the situation on the global and domestic markets improved somewhat in 2016, there was ongoing turbulence, and Metinvest underscored its dedication by delivering commendable results.

Global steel, iron ore and coal prices remained highly volatile. After hitting new multi-year lows in the first quarter of the year, steel prices rebounded. The market in China, in particular economy stimulus measures and steel and iron capacity cuts there, is the main driver.

Meanwhile, we remain cautious in our outlook, as we believe that the fundamental indicators do not yet support the case for a sustained recovery.

In Ukraine, there were the first indications of economic improvement since 2012. Real GDP growth was 2.3% in 2016 and the recovery accelerated by the year-end. This led to a 24.7% increase in apparent steel demand in 2016. We are encouraged by this positive economic news and the potential for continued growth in the country's steel market, while acknowledging that the economic and geopolitical situation remains fragile.

In 2016, amid the improved steel prices worldwide and recovering demand in Ukraine, the Group delivered a healthy increase in steel production, which rose by 9% year-on-year to 8,393 thousand tonnes. Iron ore concentrate output fell by 8% year-on-year to 29,640 thousand tonnes, as we sought to restore overburden removal volumes, which deteriorated amid the underinvestment of recent years. Coking coal concentrate production dropped by 7% year-on-year to 3,051 thousand tonnes, mainly due to the unfavourable market environment in the first half of 2016.

Metinvest's financial performance in 2016 was decent. Revenues totalled US$6,223 million. While this was down 9% year-on-year as expected, the decrease was driven mainly by lower realised prices and lower iron ore sales volumes. At the same time, EBITDA more than doubled to US$1,153 million amid greater finished steel product output and cost reductions. In particular, operational improvements brought a positive effect of more than US$220 million over the year. We delivered a positive net profit of US$118 million, compared with a loss in 2015, a commendable achievement.

We appreciate that the Group significantly underinvested in CAPEX in 2016. This was due to a combination of factors, including poor liquidity, market uncertainty and safety issues in the conflict zone. Nevertheless, we were able to focus resources on vital projects and delivered on important long-term investments.

Metinvest completed the pulverised coal injection (PCI) project at blast furnace no. 4 at Azovstal, and there are plans to install the technology at the plant's blast furnaces nos. 2 and 3. Today, all of our steelmaking enterprises now have PCI technology, which eliminates the need for natural gas in hot metal production, makes coke use more efficient and saves costs.

Other achievements by our steelmakers included the completion of the major overhaul of blast furnace no. 4 at Ilyich Steel, as well as the launch of a large-scale revamp project to build continuous casting machine no. 4, which will increase the plant's casting capacity, improve product quality and reduce costs. In mining, Northern GOK commissioned the first facility of the iron ore crusher and conveyor system at the Pervomaisky open pit mine, which will help to maintain production volumes and lower OPEX and CAPEX for iron ore mining.

Metinvest also pursued other initiatives designed to make enterprises more environmentally friendly, increase productivity and further reduce costs. The main ongoing environmental project is the sinter plant reconstruction at Ilyich Steel. In addition, the work continued to replace the gas cleaning units on Northern GOK's pelletising machine.

In 2017, the Group expects to increase CAPEX spending compared with recent levels, as its liquidity becomes sustainable again, albeit within the limit of US$636 million set by the debt restructuring documentation for the year.

SUCCESSFUL DEBT RESTRUCTURING

The successful restructuring of 94% of Metinvest's debt portfolio was a landmark moment for the Group and its creditors. The fair and equal treatment of all external lenders and the commitment of all parties enabled a UK court to sanction the restructuring of bonds and pre-export finance (PXF) facilities in February 2017.

The restructuring effectively involved financial debt of US$2.8 billion, including around US$1.2 in bonds, US$1.1 billion in PXF facilities, US$0.4 billion in shareholder loans and US$0.1 billion in seller notes. The completion of the process gives us the option of returning to the global financial markets.

Based on the agreement reached, three series of guaranteed bonds – due in 2016, 2017 and 2018 – have been cancelled and delisted and replaced with new listed senior secured bonds due in December 2021 and with new terms and conditions. In addition, four PXF syndicated loan agreements have been amended and restated. Their terms now provide for, among other things, combining them into one facility due in June 2021.

The terms of Metinvest's new debt instruments provide for the maturities to be extended by five years, including two years of quasi-grace period during which the Group will be liable for only 30% of its interest charge in cash, the rest being subject to a capitalisation option, and no principal repayment. This development is a fundamentally positive change to the Group's overall credit profile, as it improves its short and mid-term liquidity significantly. The agreements reached establish a repayment schedule that allows us to pursue our production and investment objectives in the next five years, while increasing business profitability.

Following the successful conclusion of the debt restructuring, in early 2017, international rating agencies Moody's Investors Service and Fitch Ratings both upgraded Metinvest's credit ratings to 'Caa2' ('stable' outlook) and 'B' ('stable' outlook), respectively. The former is capped by the country ceiling for Ukraine, while the latter is one notch higher.

TARGETED ORGANISATIONAL CHANGES

Another important development for our business was the creation of an operational directorate based on the Mining and Metallurgical segments, which were previously separate divisions. Its main objective is to ensure closer cooperation between the Group's assets, share knowledge, centralise the management of all production processes and create a truly vertically integrated chain from raw materials to high value-added steel products.

A new position of Chief Operational Officer has been created to lead the directorate, and our long-standing Director of the Metallurgical division, Alexander Pogozhev, brings extensive expertise to this role. Last year, we also welcomed a new Chief Financial Officer, Yuliya Dankova. While new to this role, Yuliya has been part of the Metinvest family since 2006, so she also brings deep and varied experience. In addition, Sergiy Detyuk was appointed as Chief Information Officer. He brings nearly a decade of experience at Ukrainian energy holding DTEK, a sister company, and will have a busy agenda driving SAP and other strategic IT projects.

STRATEGY AND OUTLOOK

Metinvest's strategy has also stood the test of time. It is focused and effective and remains in place as we enter our second decade. Its goals are to sustain our competitive advantages in steelmaking through vertical integration, strengthen our positions in strategic markets and achieve best practices in our business. In 2016, we made important progress on our strategic priorities, as the management focused on a narrow set of key initiatives regarding sales, production and fixed costs and capital management, among others.

Entering 2017, the Group has a confirmed business model and a clear set of strategic goals. In addition, with the debt restructuring complete, we are much freer to plan for our future. We look forward to revitalising our CAPEX programme and continuing to meet our strategic aims by investing selectively from a long list of projects that have been on hold since 2014. We will continue to prioritise projects with the greatest potential to deliver economic results.

In 2017, one overriding priority will be adapting to the seizure of some assets, helping the affected employees, adjusting production processes and redirecting volumes accordingly. Metinvest will also continue to follow the situation with Avdiivka Coke's power supply closely and work to ensure operations without disruption. In this light, we look forward to learning about progress regarding the installation of other power lines. In addition, working capital management will remain a focus, given the redirection of iron ore to export markets, imports of coal and the metal and coal stocks lost due to the asset seizure. There are challenges posed by volatile market conditions and the geopolitical situation in Ukraine, and we face many unknowns in the next 10 years. At the same time, with the right team in place and a clear vision, I believe that we can prevail under even the most adverse external circumstances.

On behalf of our management, I would like to salute its predecessors and all personnel of the past decade for their contributions to the Group's success today and in the future, as well as all of our current employees, lenders and partners.

Yuriy Ryzhenkov
Chief Executive Officer

Strategic goals

Sustain competitive advantages in steelmaking through vertical integration

- Maintain best-practice levels of performance in steelmaking
- Improve self-sufficiency in key raw materials
- Expand steelmaking capacity to maximise added value from iron ore resources
- Pursue continuous improvements in efficiency and costs

Strengthen positions in strategic markets

- Increase sales of finished steel products
- Boost steel sales in Ukraine and regional markets
- Become a preferred supplier of steel products for key accounts

Achieve best practices in the business

- Implement advanced corporate management practices aimed at achieving results

Priorities in 2016

Boost sales

- Retain positions in strategic markets
- Optimise capacity utilisation of heavy plate mills
- Increase high-margin product sales
- Ensure effective sales of raw materials and semi-finished products

Decrease production costs

- Lower cost of producing steel and iron ore
- Provide support to restore railway infrastructure to clear logistical bottlenecks

Reduce fixed costs

- Optimise headcount and labour expenses
- Streamline social assets

Manage capital

- Debt restructuring
- Manage working capital

VERTICAL INTEGRATION

METINVEST'S SUCCESSFUL DEVELOPMENT OF STEEL AND RAW MATERIAL PRODUCTION CAPACITY HAS ENSURED FLEXIBILITY IN VOLATILE COMMODITY MARKETS, WHILE ITS VERTICAL STRUCTURE HAS ALLOWED THE GROUP TO MAXIMISE PROFITABILITY AMID CHANGING CONDITIONS.

In 2006, SCM, the Group's major shareholder, established Metinvest to manage key metals and mining companies. In 2007, a strategic alliance with SMART, the second shareholder, strengthened this through a merger of valuable assets in both Ukraine and Eastern Europe. Recognising that streamlined operations would be critical to ensuring the success of such a business, we simultaneously embarked on a drive to improve vertical integration throughout, from upstream to downstream.

Over 2006-16, the Group undertook selective mergers and acquisitions in Ukraine, Europe, the UK and the US. As part of this, Metinvest has improved self-sufficiency in key raw materials, boosted production capacity, brought in new management expertise, broadened the product portfolio and expanded its sales network worldwide. We have sought to harness our vast raw material base through greater internal consumption and optimise costs.

These efforts have proved a success. By harmonising underlying assets and activities, the Group has unlocked significant synergies, bringing greater returns for all stakeholders. Our advantages enable us to be flexible in a volatile global commodity environment and protect from major external shocks. We can adjust output, internal consumption and the product mix to react to changing market conditions and maximise margin.

Our assets are diversified in various ways: we have raw material producers, processing facilities, steelmakers and rolling facilities spanning several continents. One example is United Coal, a producer of coking coal in the US, which the Group bought to increase its self-sufficiency in coal and diversify supply geographically. We also consider it a natural hedge against coal prices. In light of the recovery in coal prices since the second half of 2016, the move has proved prudent.

In addition, Metinvest has invested in two joint ventures that fit its business perfectly. By taking a stake in Zaporizhstal, a crude steel producer in Central Ukraine with an annual capacity of around 4 million tonnes, we have secured additional iron ore sales and diversified the sales mix: the vast majority of its output consists of finished goods, primarily hot- and cold-rolled plates and hot- and cold-rolled coils. By investing in Southern GOK, one of the largest iron ore producers in Ukraine, with an annual capacity of around 11 million tonnes, we have secured an additional source of iron ore concentrate and sinter for our steelmakers and boosted profitability.

111MT
Steel produced

354MT
Iron ore produced

47MT
Coking coal produced

2007-14

SCM and SMART partner in Metinvest B.V.

SCM and SMART gradually consolidated their metals and mining assets under the jointly managed holding company Metinvest B.V. The first stage of consolidation was the acquisition by Metinvest B.V. of Ukrainian iron ore producer Ingulets GOK, which has an annual production capacity of around 15 million tonnes. Next came the contribution by SMART of re-rolling mills in Ukraine and Bulgaria, as well as of its interest in Southern GOK.

2008

Acquisition of re-rollers in the EU and UK

In 2008, Metinvest acquired hot-rolled plate producers Trametal in Italy and Spartan in the UK. This expanded our annual flat production in Western Europe, which previously included Ferriera Valsider only, by 0.8 million tonnes to 1.4 million tonnes. It also secured access to Europe, our largest steel export market, making us more competitive against European peers and moving us further downstream.

2009

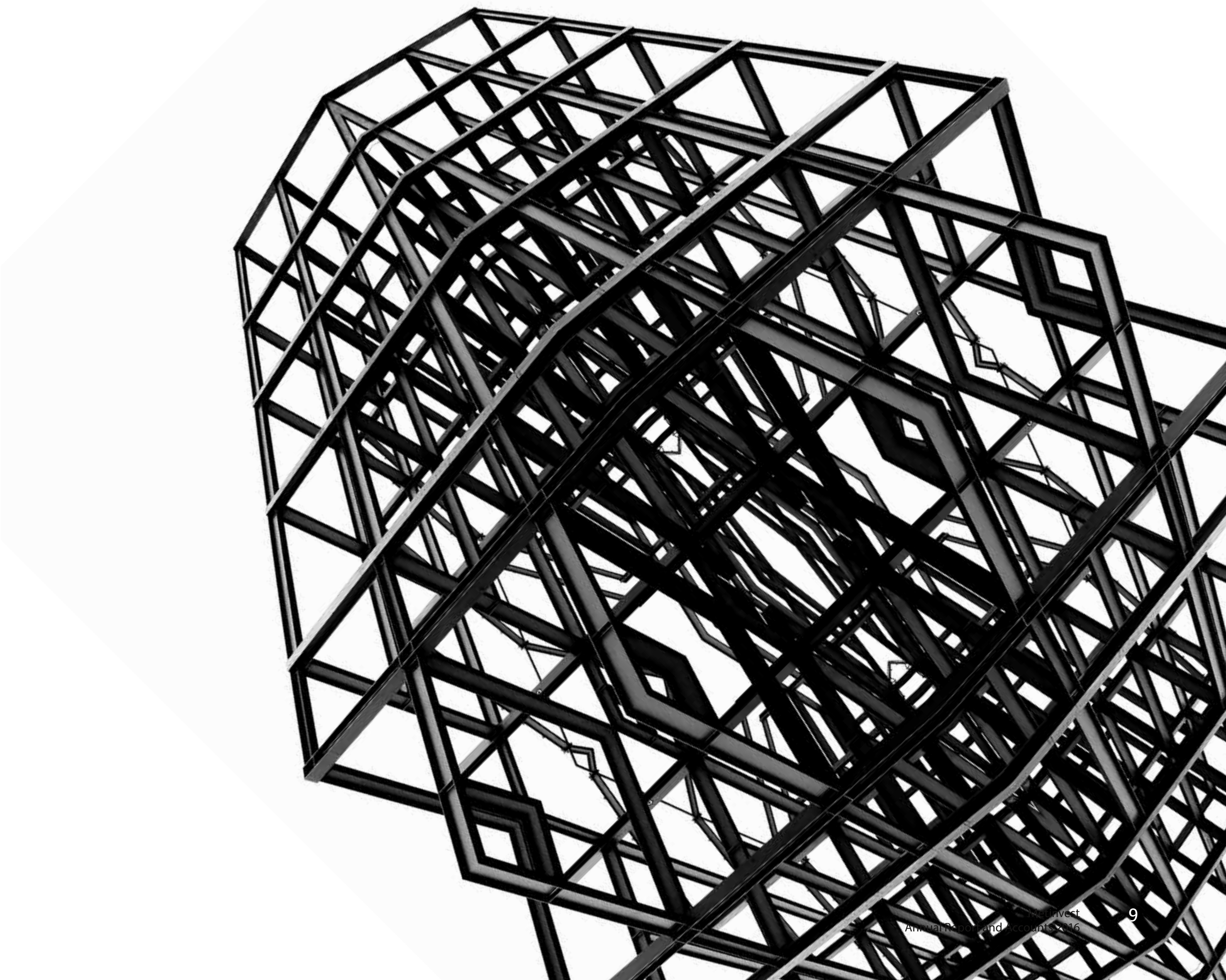
Acquisition of coal mines in the US

In 2009, Metinvest bought United Coal, which has mining assets in the central Appalachian region of the US. This has brought access to high-grade coking coal reserves, secured long-term supplies and significantly improved self-sufficiency in the raw material by boosting annual coking coal production capacity by around 3.5 million tonnes.

2010

Acquisition of steelmaker in Ukraine

In 2010, Metinvest bought Ilyich Steel, strengthening downstream integration and increasing steel production capacity by around 3 million tonnes of basic oxygen steel. The asset has brought valuable access to the coil market and was already a major customer for our raw materials. Continued investment in technology and efficient management have unlocked the plant's potential within the Group.



HEALTH, SAFETY AND THE ENVIRONMENT

OVER THE PAST DECADE, THE GROUP HAS MADE SUSTAINED INVESTMENTS IN MEETING THE HIGHEST STANDARDS IN HEALTH, SAFETY AND THE ENVIRONMENT (HSE) WORLDWIDE AND THE RESULTS HAVE BEEN SIGNIFICANT.

HSE is part of Metinvest's philosophy. The Group believes that its goal of becoming a leading European steelmaker requires it to meet the highest international standards in this area. To that end, we have invested substantially in new technology for our mines and mills that is cleaner and safer. We have also instituted a robust HSE system designed to improve oversight and drive results. In total, over the last 10 years, we spent around US$4.2 billion on HSE, including US$3.3 billion on environment protection and US$0.9 billion on health and safety.

As part of its commitment to reinforcing a safety-first culture at facilities, the Group has introduced standards to cover every type of activity. Most operating facilities have been certified as complying with the OHSAS 18001 international occupational health and safety standard, among other similar ones. We have implemented 15 corporate health and safety standards. There is a Group-wide training system, which has helped to further the knowledge of over 96,000 people. We have also set up a risk assessment system covering all business aspects. Each year, we conduct over 130,000 safety audits at facilities to identify areas bearing the greatest risk to our people.

Metinvest has prioritised safety issues since day one, seeking to implement standards based on global best practices throughout. This approach has delivered commendable results. From 2012 to 2016 alone, the lost-time injury frequency rate decreased from 1.164 to 0.829, while the fatality frequency rate fell from 0.097 to 0.054.

One of the Group's most successful occupational health programmes has focused on cardiac health, which is among the greatest risks facing many employees in terms of both safety and personal health.

New technology has also been crucial in reducing pollution and associated risks, as have targeted environmental investments. By replacing outdated technologies, decommissioning obsolete equipment and upgrading production machinery and processes, Metinvest has slashed emissions. We are committed to meeting international environmental standards and working with our local communities to create a better quality of life.

US$4.2 BILLION
Total spending on HSE

OHSAS 18001
Occupational health and safety certification at 12 enterprises

ISO 14001
Environmental management certification at 11 enterprises

2011-14

Closure of open hearths at Mariupol steelmakers

Open-hearth furnaces are less efficient and dirtier than newer crude steel production methods, such as converter technology. As part of a long-term modernisation strategy, Metinvest decommissioned its last open-hearth furnaces at Azovstal in 2011 and Ilyich Steel in 2014. This has significantly reduced gross emissions and improved steel production efficiency.

2012

Closure of Azovstal's sinter plant

In response to the environmental situation in Mariupol, the Group took the step of closing a sinter plant and three obsolete coke batteries at Azovstal in 2012. These costly measures helped to reduce pollution in surrounding communities substantially. Sinter production was transferred to Ilyich Steel.

From 2012

Reconstruction of Ilyich Steel's sinter plant

Metinvest is reconstructing the sinter plant at Ilyich Steel, due for completion around 2020, in one of the largest environmental projects in the history of independent Ukraine. When complete, the plant will achieve international standards in terms of dust and sulphur oxide discharges.

2014-16

Worker safety and communities in Ukraine

In 2014, Metinvest adopted a five-year HSE plan for its plants and communities. The conflict in Eastern Ukraine has required prompt action to safeguard employees and their families, and we have responded accordingly. We have worked with our largest shareholder to help those affected, providing humanitarian aid and other support.

QUALITY

BY CREATING A TEAM OF HIGH-CALIBRE MANAGERS AND DIRECTORS WITH AN UNSWERVING FOCUS ON IMPROVING RESULTS, METINVEST HAS ESTABLISHED STRINGENT QUALITY STANDARDS IN EVERY AREA OF THE BUSINESS.

Quality is a hallmark that differentiates. Over the years, Metinvest has sought to cultivate a culture of striving for the best possible results throughout its activities, analysing from the top-down and the bottom-up to check that every aspect is covered.

Leadership is a quality that shapes any organisation's philosophy from the top. From the outset, the Group has been selective in its move to bring and keep together executives and senior managers who will inspire. This has proved successful. Today, we have a Supervisory Board and Executive Committee consisting of high-calibre directors and executives with extensive industrial, financial and commercial expertise, both local and international. Many have been with the Group and/or sister companies for several years, and turnover has been relatively low.

From the bottom, the condition of a product is also a key quality criterion. Over the last 10 years, Metinvest has invested US$6.7 billion in transforming its facilities into finely tuned operations, in a drive to cement a reputation for excellence worldwide and move up the value chain. This includes US$0.7 billion of investments in HSE projects. Our high-quality finished steel products, which account for around 75% of our steel product mix, play a central role in us driving towards one ultimate strategic goal: to strengthen positions in key markets. We have also obtained international quality certifications for various steel mills, mines and other facilities, underscoring our commitment to the highest standards.

Equally, quality of service features prominently in clients' minds. In its first decade, the Group worked progressively to build out its marketing and sales function worldwide, bringing it closer to customers and focusing on establishing long-term personalised relationships with them all. Today, a global sales and service network, which covers more than 80 countries with 45 sales offices, provides quality service and custom-made products to more than 10,000 clients. We are now a truly global steel brand.

US$6.7 BILLION
CAPEX

ISO 9001
Quality management system certification

75 PERCENT
Share of finished goods in the steel product mix

Management strength

The Group has an international management team with deep industry and financial market experience. It has changed relatively little over the first decade, which has been critical in dealing with the issues posed by global market volatility and Ukraine's geopolitical and economic challenges.

Investment in modernisation

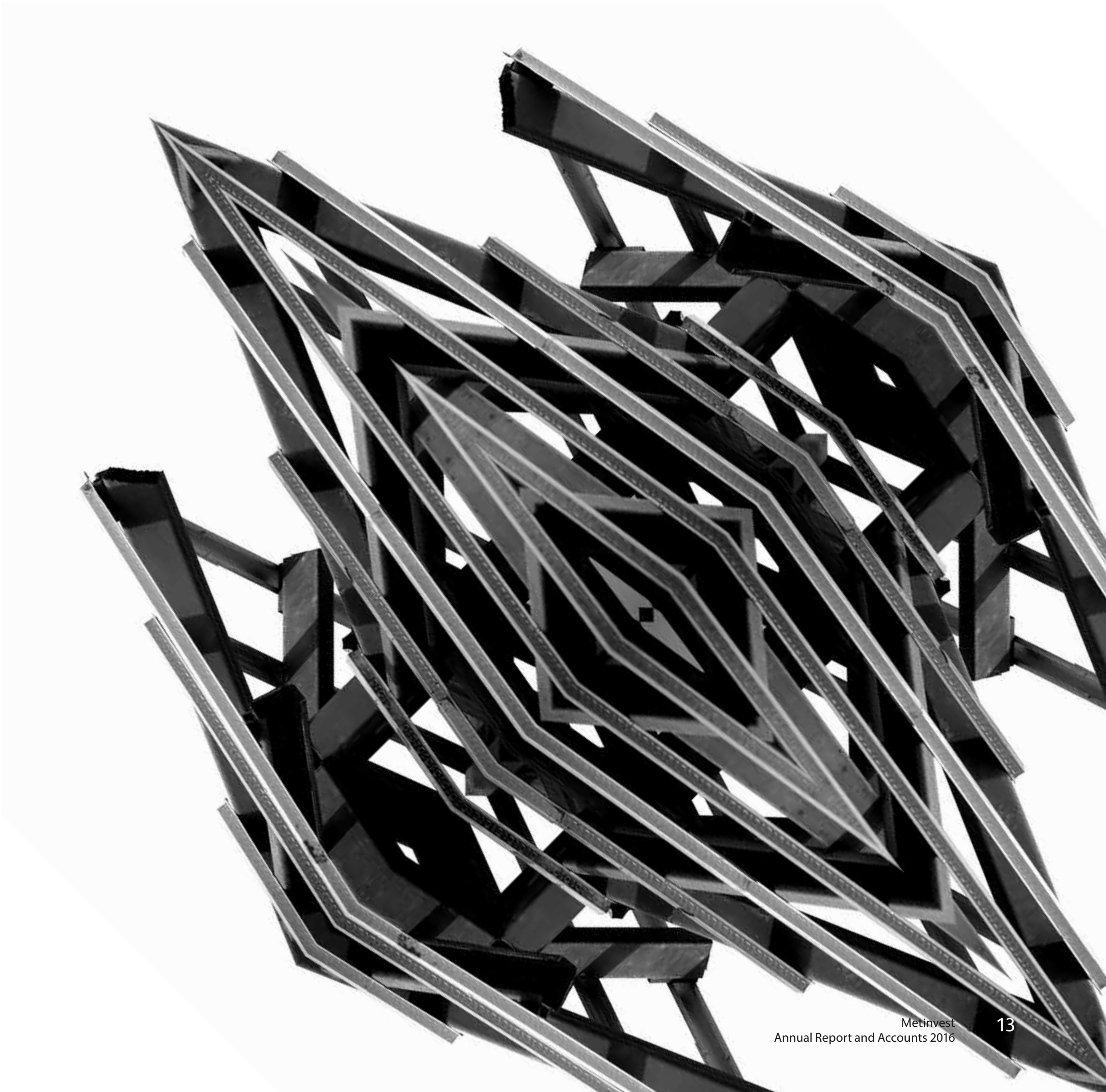
The Group has made major investments to improve quality. In the steel business, they include major overhauls of blast furnaces, the construction of continuous casting machines, upgrades of rolling mills and the implementation of PCI technology. In mining, we have installed beneficiation facilities, crusher and conveyor systems and magnetic floatation technology.

Internationally certified products

Metinvest's key operating facilities have certified quality management systems (ISO 9001). Most products are certified by internationally recognised classification organisations, including Lloyd's Register (London), Bureau Veritas (France), the American Bureau of Shipping (the US), Krivbasstandartmetrologiya (Ukraine) and others.

Distribution and post-sales service

In a highly competitive marketplace, customer service is a key differentiator. The Group aims to stand out by treating each and every client individually, as well as by building new sales and service centres to reinforce its network and serve clients on location.



TRANSPARENCY

METINVEST IS ONE OF THE WORLD'S LEADING PRODUCERS OF STEEL AND IRON ORE, WITH A CLEARLY DEFINED CORPORATE STRUCTURE, AN ESTABLISHED PRESENCE IN GLOBAL FINANCIAL MARKETS AND A FOCUS ON INTERNATIONAL STANDARDS OF GOVERNANCE.

From the outset, Metinvest has sought to build institutions equivalent to those of an international company, to better engage with the global financial community. In 2007, it began regular public corporate reporting based on financials audited to international standards, marking the first move to enhancing transparency.

Since 2007, the Group has been working to streamline its ownership and corporate structure, making the business transparent and understandable for investors. A year later, it received its first ratings from international credit rating agencies, establishing a clear benchmark for its creditworthiness and helping to guide the financial community.

In 2010, as proof of the soundness of its investment story, Metinvest issued its debut Eurobond. Ever since, we have engaged closely with investors, amid headwinds in global markets and the Ukrainian political and economic situation. These strong relationships enabled us to complete a landmark debt restructuring in early 2017, one that gives us the option of returning to international capital markets in the future.

During its first decade, the Group raised US$9.3 billion in external corporate financing (excluding trade finance facilities and shareholder loans). As of 31 December 2016, US$2.4 billion of such debt remained outstanding. The instruments used most have been bonds and bank loans. Alongside those, we have several revolving trade finance facilities, which peaked at around US$900 million in outstanding debt historically and stood at around US$160 million at the year-end.

One of the key governance bodies that Metinvest has instituted is the Supervisory Board. Another major step towards enhancing transparency was the introduction of a code of ethics, which every employee is obliged to follow and which established rules and procedures for dealing with suppliers and clients.

These efforts have received official recognition from an international watchdog. In 2016, Transparency International Ukraine, a global non-governmental organisation dedicated to combatting corruption, ranked Metinvest among the top 10 most transparent private companies in Ukraine.

TOP 10

Most transparent private companies in Ukraine in 2016

#37

Steel producer in the world

#9

Iron ore producer in the world

2007-14

Drive to streamline corporate structure

Metinvest inherited a complex ownership structure at many of its plants and other subsidiaries. Over several years, we undertook a process of consolidation, including buying out minority shareholders and making a major deal with SMART. This has streamlined the composition of the business.

2008

International credit rating

In 2008, well ahead of entering international financial markets, Metinvest sought and received its first international credit rating from the Fitch and Moody's rating agencies. The aim was to begin to create a track record for potential investors and identify areas for improvement.

2010

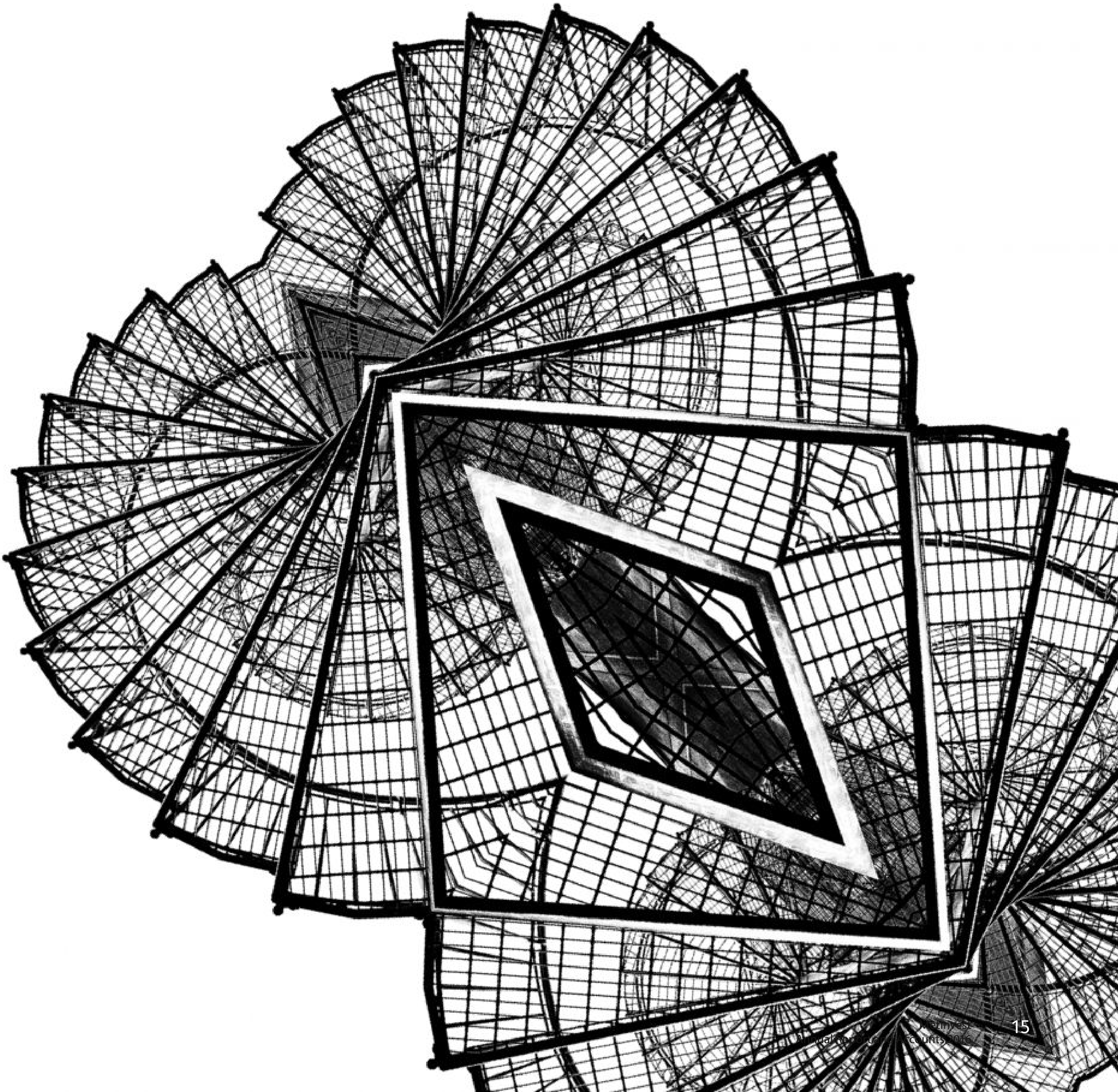
Debut Eurobond

The debut Eurobond created a new group of stakeholders for Metinvest, bondholders, and demonstrated the solidity of its investment story. It has also provided us with an overseas listing and the opportunity to access the wide expertise of international bond investors, who have knowledge of the industry and global markets.

2014

Establishment of Supervisory Board

In 2014, the Supervisory Board of Metinvest B.V. was established as one of the key corporate governance bodies. This has created a clear line of accountability from the management to shareholders and made corporate governance more transparent and efficient, which benefits all stakeholders.



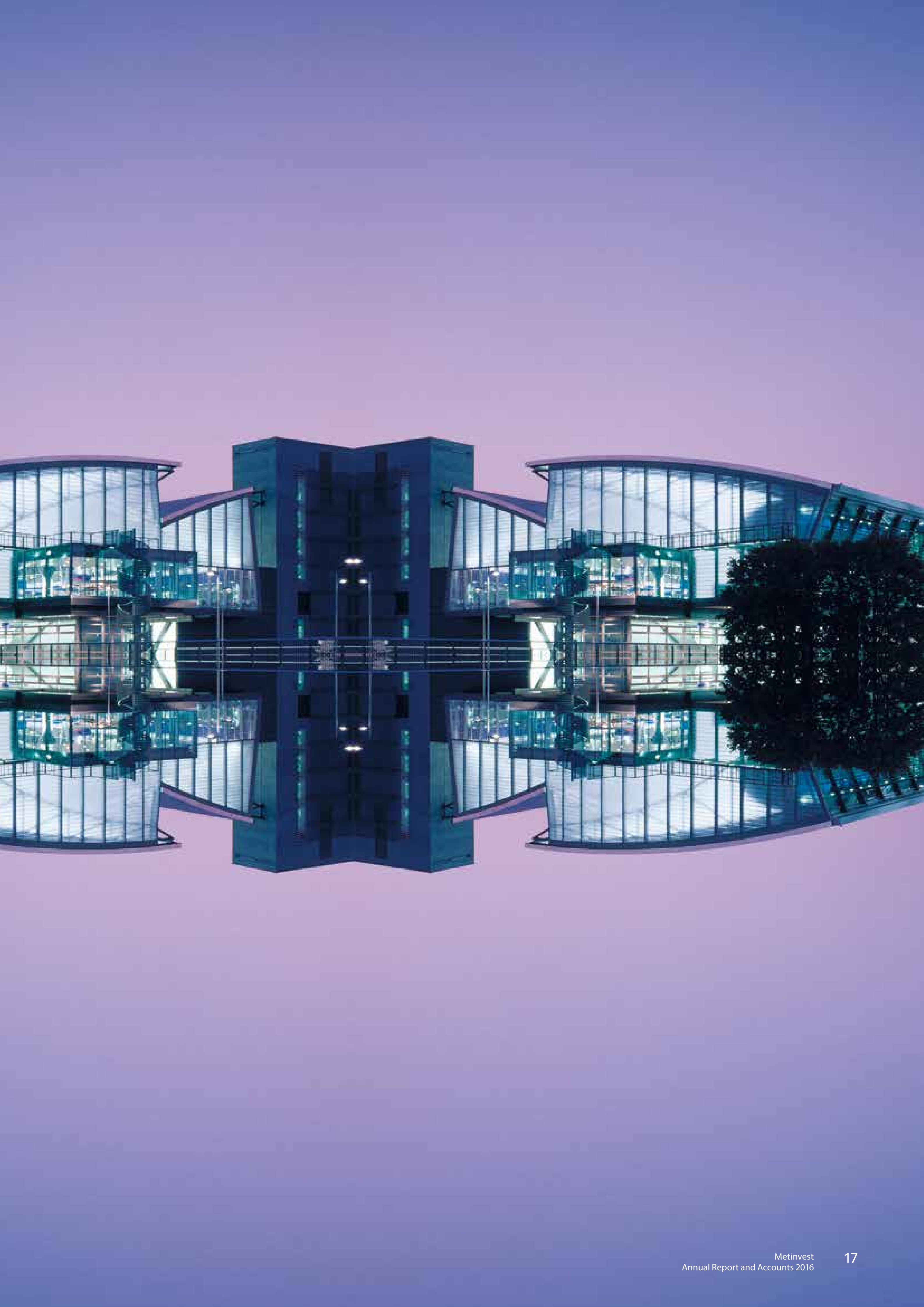
LEIPZIG/HALLE AIRPORT
Schkeuditz, Germany

Italy's Trametal supplied hot-rolled plates for the construction of this busy international airport, located near Leipzig and Halle in Saxony. It is one of Europe's most state-of-the-art airports and acts as an efficient hub, connecting air, road and rail traffic for both passengers and cargo.

2,000T
Metinvest steel used

OPERATIONAL REPORT

IN 2016, DESPITE ONGOING LOGISTICAL CHALLENGES IN UKRAINE, METINVEST INCREASED ITS STEEL PRODUCT OUTPUT, FOCUSING ON HIGHER VALUE-ADDED GOODS, AND MAINTAINED ITS RAW MATERIAL OUTPUT AT A SOLID LEVEL. OVER THE LAST DECADE, THE GROUP HAS SHOWN DEDICATION TO UPGRADING ITS STEELMAKING AND MINING FACILITIES THROUGH MAJOR INVESTMENT.



A STRONGER YEAR OVERALL

IN 2016, DESPITE VARIOUS TESTS PRESENTED BY EXTERNAL CONDITIONS, METINVEST BOOSTED ITS STEEL OUTPUT, ADJUSTING IN FAVOUR OF HIGHER-MARGIN FINISHED STEEL PRODUCTS, AND LAID THE FOUNDATIONS FOR FUTURE GROWTH IN IRON ORE OUTPUT.

MOVING UP THE VALUE CHAIN

Metinvest has dedicated a decade to building a leading, truly international vertically integrated steelmaker. Through selective mergers and acquisitions, the Group has purchased assets to create the greatest possible long-term value for all stakeholders. It has worked tirelessly to integrate them, streamline manufacturing processes and maximise synergies at every stage of the value chain.

The Group has spent billions on modernising its facilities, including on decommissioning outdated and non-efficient technologies, rebuilding blast furnaces in line with the latest approaches worldwide and constructing new, state-of-the-art continuous casting machines. We have also installed more efficient PCI units, constructed cost-effective crusher and conveyor systems and transformed safety systems at all assets. Our operations are now safer than they have ever been. We continue to work to meet the most rigorous international standards in terms of safety, environmental protection and quality.

Metinvest strives for quality in all that it does. Our highly skilled management team oversees all business activities, from purchasing, manufacturing and shipping to providing add-on services to customers, who are the centre of our focus. We work hard to build and sustain competitive advantages in steelmaking and iron ore production, as well as to strengthen our position in strategic markets. To achieve this, generate more value for customers and maximise margins, we constantly analyse our value chain for room for improvement.

Today, the Group's assets and their downstream integration allow it to move up the value chain, from raw materials to value-added finished steel products.

A key reason for Metinvest's standing today is self-sufficiency in key raw materials. In 2016, its level of self-sufficiency in iron ore was 276%[1]. This means long-term security in iron ore supplies for steel mills, while helping to capture margin from the iron ore base through steelmaking and sales of surplus volumes on the external market. At the year-end, its level of self-sufficiency in coal was almost 40%[2], while own coke facilities ensure 96%[3] self-sufficiency in coke.

If Metinvest does not have inputs required in steelmaking or does not produce them in full, it buys them from third parties, shipping by rail, sea and truck. These include raw materials, such as coking coal, PCI coal, sinter ore, sinter, scrap, refractory materials and ferroalloys, as well as energy supplies.

The Group makes pig iron and semi-finished steel at its steelmakers and processes further into finished steel products at its rolling facilities in Ukraine, Italy, Bulgaria and the UK. Finished goods account for around 75% of the steel product mix.

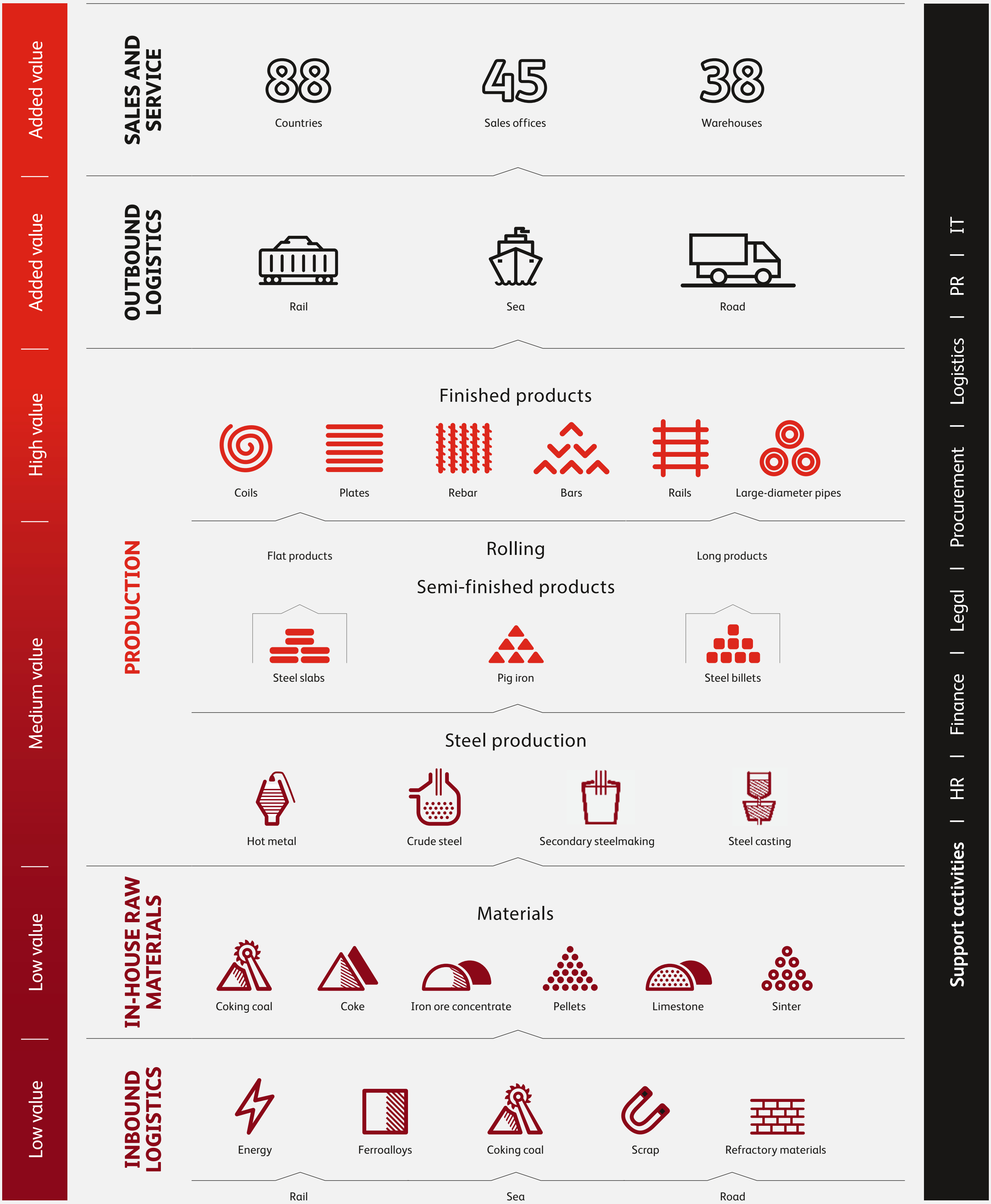
The proximity of assets to key railway lines and ports allows Metinvest to deliver surplus iron ore and metal products to customers worldwide. Its global sales and service network, covering more than 80 countries with 45 sales offices, provides more than 10,000 customers with high-quality service, including custom products to maximise value. We are now a truly global steel brand offering high quality at relatively low production costs.

1 Iron ore self-sufficiency is calculated as actual iron ore concentrate production divided by actual consumption of iron ore products to produce hot metal in the Metallurgical segment. This calculation includes iron ore consumption by Yenakiieve Steel, which was seized in March 2017. Without Yenakiieve Steel, iron ore self-sufficiency in 2016 would have been 349%.

2 Coal self-sufficiency is calculated as actual coal concentrate production divided by actual consumption of coal concentrate to produce coke required for production of hot metal in the Metallurgical segment. Coal consumption for PCI is included in the calculation. This calculation includes coal production by Krasnodon Coal and coke consumption by Yenakiieve Steel, both of which were seized in March 2017. Without Krasnodon Coal and Yenakiieve Steel, coal self-sufficiency in 2016 would have been 37%.

3 Coke self-sufficiency is calculated as actual coke production divided by actual consumption of coke to produce hot metal in the Metallurgical segment. This calculation includes coke consumption by Yenakiieve Steel, which was seized in March 2017. Without Yenakiieve Steel, coke self-sufficiency in 2016 would have been 121%.

OUR VALUE CHAIN



STREAMLINING THE PRODUCTION CHAIN

In September 2016, Metinvest established an operational directorate, based on the previously separate Mining and Metallurgical divisions. The main objective is to ensure closer cooperation between assets, centralise the management of all production processes and create a truly streamlined chain from raw materials to steel production. A new position of chief operating officer (COO) was created to replace the previous positions of the Metallurgical and Mining directors.

In the first year, the Group has already seen important results from these efforts, as the new structure facilitates the transfer of knowledge within and across segments and plants. With lower iron ore output, we now work carefully to match the product quality requirements needed for our markets. As a result of this cooperation, in 2016 and early 2017, Ingulets GOK and Northern GOK increased the Fe content of their iron ore concentrate and pellet production respectively. The Group also achieved savings of nearly US$200 million by rationalising operational costs during the reporting period.

MINING SEGMENT

Iron ore

Metinvest's main iron ore facilities are: Ingulets GOK, which produces concentrate (Fe content: 64.6% to 68.4%); Northern GOK, which makes concentrate (Fe content: 65.0% to 66.4%) and pellets (Fe content: 61.0% to 63.6%); and Central GOK, which produces concentrate (Fe content: 65.0% to 68.3%) and pellets (Fe content: 64.3% to 65.8%). In addition, in July 2014, we acquired 45.9% of Southern GOK, which produces iron ore concentrate and sinter and is classified as a joint venture.

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

As at 31 December 2016, Metinvest had long life proven and probable iron ore reserves in Ukraine of 1,318 million tonnes[4].

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

In 2016, the Group's overall iron ore concentrate production fell by 8% year-on-year to 29,640 thousand tonnes. This was primarily caused by the need to restore the rate and pace of overburden removal, which deteriorated amid the liquidity constraints in 2014 and the first half of 2016. By increasing overburden removal, we laid the foundations for future growth in iron ore output.

Last year, Metinvest's merchant concentrate output totalled 10,946 thousand tonnes[5], down 20% year-on-year. This was due to lower overall concentrate output and the redirection of iron ore concentrate for pellet production for intragroup consumption. Output of merchant pellets fell by 8% year-on-year to 6,147 thousand tonnes5, driven by greater intragroup consumption.

IN SEPTEMBER 2016, METINVEST ESTABLISHED AN OPERATIONAL DIRECTORATE, BASED ON THE PREVIOUSLY SEPARATE MINING AND METALLURGICAL DIVISIONS. THE MAIN OBJECTIVE IS TO ENSURE CLOSER COOPERATION BETWEEN ASSETS, CENTRALISE THE MANAGEMENT OF ALL PRODUCTION PROCESSES AND CREATE A TRULY STREAMLINED CHAIN FROM RAW MATERIALS TO STEEL PRODUCTION.

In 2016, the Southern GOK joint venture produced 11,282 thousand tonnes of iron ore concentrate, down 1% year-on-year. Output of merchant concentrate decreased by 6% year-on-year to 9,604 thousand tonnes amid a shift in production in favour of sinter. Output of sinter increased by 29% year-on-year to 2,084 thousand tonnes.

Coking coal

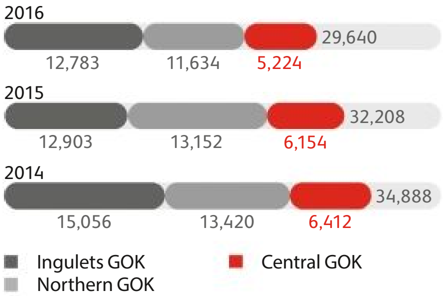
Metinvest's main coking coal facilities are Krasnodon Coal[6], in Ukraine, and United Coal, in the US. As at 31 December 2016, the Group's unaudited total coal reserves amounted to 565 million tonnes[7].

Metinvest's output of coking coal fell by 7% year-on-year to 3,051 thousand tonnes in 2016, primarily attributable to low global prices for coking coal in the first half of the year. Amid difficult geological conditions, mining at United Coal fell by 638 thousand tonnes. Meanwhile, mining at Krasnodon Coal, which has experienced disruptions since 2014, increased by 404 thousand tonnes due to intermittent opportunities to ship finished goods.

Iron ore concentrate production

29,640KT

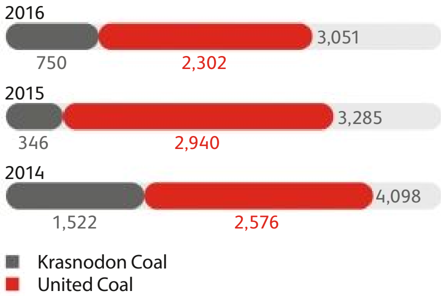
-8%



Coking coal production

3,051KT

-7%



4 According to JORC methodologies, as at 1 January 2010 and adjusted for production of 548 million tonnes of reserves between 1 January 2010 and 31 December 2016. Ore reserves refer to the economically mineable part of mineral resources.
5 Excluding intragroup sales and consumption.
6 Krasnodon Coal was seized in March 2017.
7 Including Krasnodon Coal's reserves of 443 million tonnes.

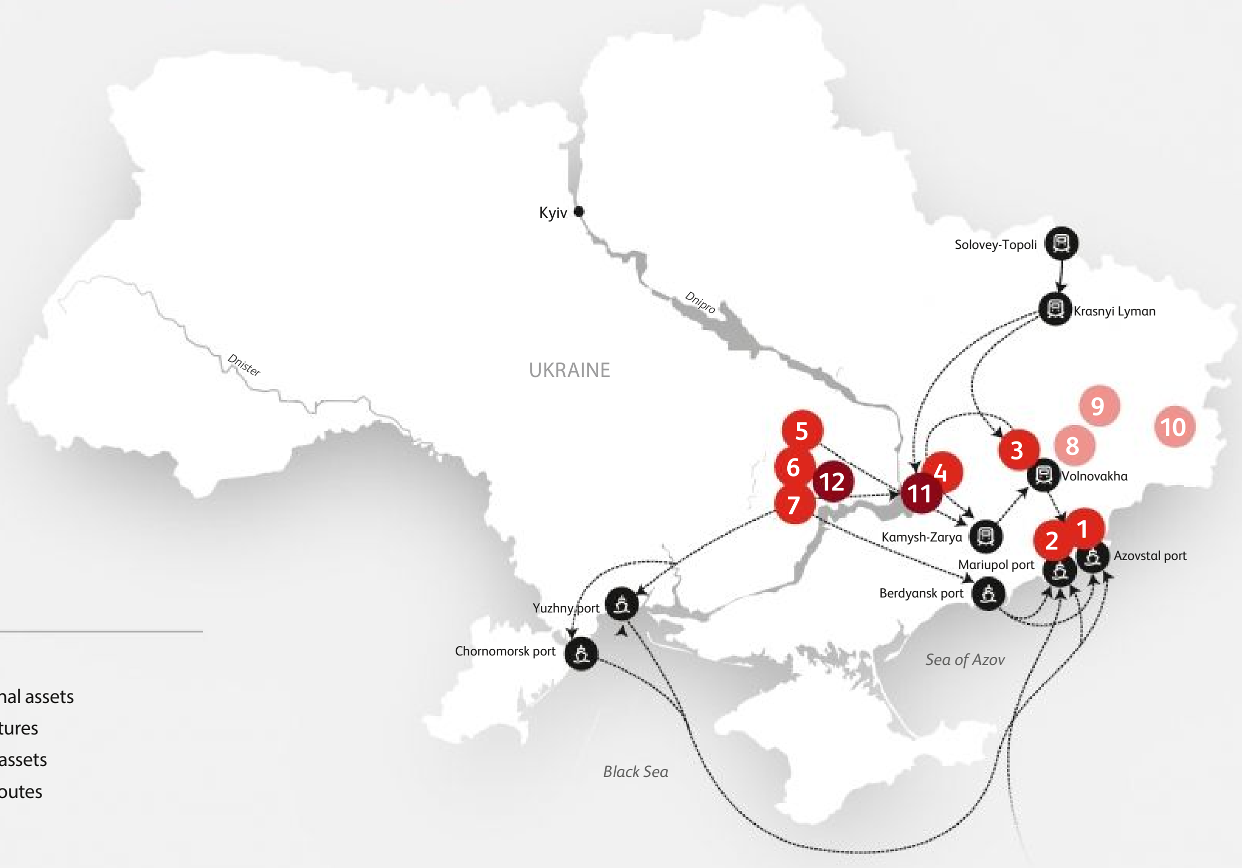
OUR PRODUCTION
ASSETS

Metinvest's Ukrainian operations (below)

1. Azovstal
2. Ilyich Steel
3. Avdiivka Coke
4. Zaporizhia Coke
5. Northern GOK
6. Central GOK
7. Ingulets GOK
8. Khartsyzk Pipe
9. Yenakiieve Steel
10. Krasnodon Coal
11. Zaporizhstal (JV)
12. Southern GOK (JV)

Metinvest's global operations (above)

13. Ukrainian operations
14. Ferriera Valsider (Italy)
15. Metinvest Trametal (Italy)
16. Spartan (UK)
17. Promet Steel (Bulgaria)
18. United Coal (US)



Map legend

- Operational assets
- Joint ventures
- Affected assets
- Logistic routes

METALLURGICAL SEGMENT

Steel

Metinvest's steelmaking assets comprise three hot metal facilities with rolling mills (Ilyich Steel, Azovstal and Yenakiieve Steel)[8] and a pipe plant (Khartsyzk Pipe)[8] in Ukraine; three rolling mills in continental Europe (Ferriera Valsider, Metinvest Trametal and Promet Steel); and a rolling mill in the UK (Spartan). In addition, we have a 49.9% stake in Zaporizhstal, one of Ukraine's largest steelmakers, which is classified as a joint venture. We maintain an ISO 9001:2008-certified quality management system at all major steelmaking and re-rolling facilities.

In 2016, the Group's crude steel production increased by 9% year-on-year to 8,393 thousand tonnes amid a rebound in output at its steel mills. This was driven by a recovery in global steel prices, increased output at Azovstal and Ilyich Steel after major blast furnace overhauls and more stable raw material supplies; a recovery from disruption at Yenakiieve Steel, which was completely shut down from 7 February to 16 March 2015; and greater demand in Ukraine.

As the steel market improved, Metinvest focused on higher-margin finished products increasing their output by 15% year-on-year to 6,485 thousand tonnes in 2016. As a result, the share of finished steel products in total steel products rose by 5 percentage points to around 75% in 2016.

Output of flat products increased by 375 thousand tonnes to 4,385 thousand tonnes, mainly due to a rise in plate production at Ilyich Steel and at Azovstal, along with greater plate and coil production at the European re-rolling mills.

Long product output increased by 443 thousand tonnes to 1,918 thousand tonnes, driven by the resumption of operations at Yenakiieve Steel, as well as higher production at Azovstal and Promet Steel, as deliveries of billets from Yenakiieve Steel for re-rolling at Promet Steel stabilised during the year.

Rail output climbed by 42 thousand tonnes to 73 thousand tonnes, driven by supplies to Ukrzaliznytsya and the fulfilment of orders from Uzbekistan. Tubular product output dropped by 19 thousand tonnes to 109 thousand tonnes, due to a decline in large-diameter pipe production at Khartsyzk Pipe, which had been idle amid a lack of orders from June 2015 to the middle of 2016.

The Group's steelmakers and rolling mills continue to innovate for customers. In 2016, we launched 47 new steel products, mainly heavy plates, hot-rolled and cold-rolled coils, as well as galvanised products used in construction, machine-building and pipe production. In Italy, we launched a new shot blasting and priming line at Trametal, as part of our strategy to shift sales to value-added segments in the European market and enhance customer service.

At the Zaporizhstal joint venture, production of crude steel marginally decreased by 2% to 3,891 thousand tonnes in 2016. Finished steel goods – which include coils, plates, joist web, strip and tin – accounted for 95% of the product mix and merchant pig iron for the remaining 5%.

Coke and chemicals

Metinvest's coking assets consist of Avdiivka Coke, Zaporizhia Coke, Donetsk Coke[9] and the facilities at Azovstal, as well as Inkor Chemicals, which makes chemical products. Overall coke production capacity is around 7 million tonnes a year.

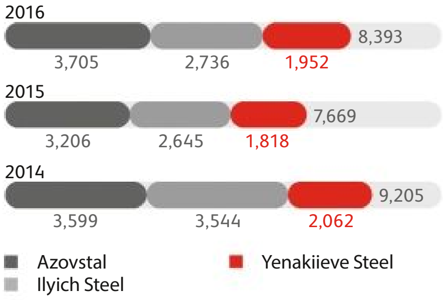
In 2016, the conflict in Eastern Ukraine continued to cause disruption at the Group's coke plants. In July, shelling hit Avdiivka Coke several times, taking out the electricity supply, which has been the key challenge to restoring production at the facility fully. In early 2017, there was renewed military action in and around the non-government-controlled territories of Eastern Ukraine. Bombing again hit the two lines that deliver power to Avdiivka Coke, which needs to keep its coke batteries warm constantly. In addition, given that most of the city's heat comes from the plant, this threatened to lead to a crisis situation for local residents, particularly in winter. We mobilised swiftly. Despite hot-mothballing two coke workshops, the plant was able to keep another two running, generating coke gas for heating coke batteries and the city. When this ran out, natural gas was sourced. Together with colleagues at power holding DTEK, a sister company, we managed to repair the electricity supply.

Metinvest's coke production increased by 6% year-on-year to 4,325 thousand tonnes in 2016. This was driven by a rise of 410 thousand tonnes at Avdiivka Coke, where operations were comparatively stable during the year, despite the incidents in July near the plant. In addition, Zaporizhia Coke increased its output by 50 thousand tonnes, as the coking chambers of coke oven no. 2 were commissioned. This compensated declines in coke output of 71 thousand tonnes at Azovstal and 151 thousand tonnes at Donetsk Coke.

Crude steel production

8,393KT

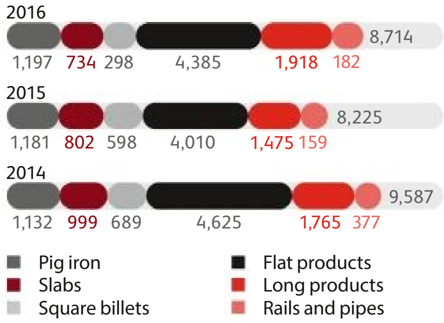
+9%



Steel product mix

8,714KT

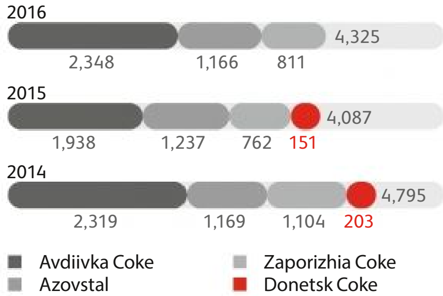
+6%



Coke production

4,325KT

+6%



8 Yenakiieve Steel and Khartsyzk Pipe were seized in March 2017.
9 Donetsk Coke was stopped for cold-mothballing in the fourth quarter of 2015. Its assets were seized in March 2017.

RESPONDING TO CONTINUED CHALLENGES AT HOME

Last year, the Group continued to face serious logistical challenges due to the conflict in parts of Eastern Ukraine, although conditions were better in many areas than in 2015. We proved able to adapt to the situation through logistical solutions, such as seaborne deliveries, importing coal to cover steel production needs and developing alternative sources.

The key ports for Metinvest's shipments of raw materials and products continue to be Mariupol Merchant Sea Port (through which steel products from Azovstal and Ilyich Steel go) and Yuzhny Sea Port and TIS (through which iron ore from the Group's facilities and coal imports for coke making are transported).

Rail transportation was a major issue. A strike by Donetsk Railways employees in June led to serious disruptions in railway shipments to and from Yenakiieve Steel, as well as coking coal supplies to and from Krasnodon Coal.

In April 2016, Metinvest resumed shipments of iron ore products to its Mariupol steel plants via seaports, due to the low throughput capacity of the Kamysh-Zaria-Volnovakha railway line, the only one connecting Mariupol to the rest of Ukraine. While work by the state railway operator Ukrzaliznytsya on the Kamysh-Zaria-Volnovakha increased its capacity to some extent in November 2016, it has proved insufficient for our production needs. Throughput should be increased and additional repair work on the link is needed, both as a priority.

After the reporting period, in February 2017, Yenakiieve Steel and Krasnodon Coal were forced to suspend production due to the blockade of all rail freight transportation to and from the conflict zone. Following an ultimatum from the unrecognised authorities to re-register certain assets, several of the Group's facilities were seized, including Yenakiieve Steel, Metalen, Khartsyzk Pipe, Krasnodon Coal and Donetsk Coke, as well as its affiliate Yenakiieve Coke. Metinvest will use all available national and international legal means to protect its rights regarding these assets.

CAPEX

Despite the substantial liquidity constraints faced in the beginning of 2016, Metinvest continued to implement key projects as part of its technological programme. We completed the PCI project at blast furnace no. 4 at Azovstal. As a result, all of the Group's steelmakers now have PCI technology, which is cheaper and more efficient, eliminating the need for natural gas. Our next steps are to install the technology at blast furnaces nos. 2 and 3 at Azovstal.

At Ilyich Steel, we completed the major overhaul of blast furnace no. 4 to maintain hot metal production capacity. The plant also launched a large-scale revamp project to build continuous casting machine no. 4. The new equipment will allow for greater productivity, significant cost reductions, steel product quality improvements and environmental benefits in Mariupol. The project is expected to involve overall investment of more than US$150 million.

Several environmental projects are ongoing at Ilyich Steel, including to rebuild the sinter plant. In 2016, Ilyich Steel completed the reconstruction of the existing dust-trapping facilities on basic oxygen furnace no. 2.

Last year, Northern GOK commissioned the first facility of the iron ore crusher and conveyor system at the Pervomaisky open pit mine. Ingulets GOK made further progress in building the Vostochny conveyor line of the crusher and conveyor system. Such systems are designed to move bulk materials to the surface for further processing. They enable capacity and production volumes to be maintained at current levels and reduce the cost of iron ore production and transportation.

Work also continued to replace the gas cleaning unit on the Lurgi 552-B pelletising machine, an important environmental investment. The project is due to be completed in 2017.

OUTLOOK FOR 2017

In early 2017, the situation in Eastern Ukraine has created fresh challenges due to the actions of the unrecognised authorities there. Around 20,000 employees were affected by the asset seizure, and responding to the needs of our people remains paramount. Immediately after this development, we offered alternate positions in Mariupol, Kryvyi Rih and Zaporizhia to all of those who would like to relocate. Metinvest will continue to monitor the situation involving its enterprises in the affected region.

Metinvest is committed to maintaining its output of steel, iron ore and coal, which is likely be affected by the seizure of some assets. The Group is evaluating all opportunities to maintain production volumes, from enhancing capacity utilisation to 100% to increasing capacity via both CAPEX expansion projects and asset acquisitions. We are working on adjusting the supply chain and buying additional coking coal and limestone from third parties. One task is to re-direct spare iron ore that would have gone to our assets and other steelmaking businesses seized in Eastern Ukraine to the export markets.

These challenges are considerable. Nonetheless, the Group believes that it can overcome them and success in pursuing its goals, as in previous years.

Among other objectives, Metinvest will continue to focus on improving the quality of its steel and iron ore products and streamlining production costs.

The Group is working on revising its Technological Strategy, which will involve both important new projects and the unfreezing of several initiatives delayed by financing limitations.

In addition, Metinvest will continue with key CAPEX projects already under way. These include the major overhaul of blast furnace no. 3 and installation of further two PCI units at additional furnaces at Azovstal, as well as the construction of a continuous casting machine no. 4 and the reconstruction of the sinter plant at Ilyich Steel. At the Zaporizhstal joint venture, we intend to work with our partners to complete the large-scale reconstruction of blast furnace no. 3.

At the mining facilities, the Group will work on completing the upgrade of open-pit mine machinery, including drilling rigs, excavators, dump trucks and bulldozers, as well as on boosting the capacity of tailing dumps. At Northern GOK and Ingulets GOK, the plan is to continue building crusher and conveyor systems.

As part of a "strategy of smaller-scale action", Metinvest has also identified and plans to implement several small non-strategic projects that offer a positive net present value at almost all assets.

NEW DARNYTSKIY BRIDGE
Kyiv, Ukraine

This major railway and automotive bridge spanning the Dnipro river in Ukraine's capital was built using steel structures welded from flat and long products supplied by Metinvest's Azovstal and Yenakiieve Steel. The bridge is 1,066 metres long and 43.8 metres wide. It is designed to carry 60,000 cars and 240 trains each day.

5,500T
Metinvest steel used

FINANCIAL REPORT

IN 2016, METINVEST DELIVERED COMMENDABLE RESULTS GIVEN THE PREVAILING BUSINESS ENVIRONMENT. WHILE REVENUES DECLINED AS EXPECTED, EBITDA MORE THAN DOUBLED TO US$1,153 MILLION. OVER ITS FIRST 10 YEARS, THE GROUP HAS HONED ITS ABILITY TO MAXIMISE PROFITABILITY ALONG THE WHOLE OF THE VALUE CHAIN.

IN THIS SECTION:

CAUTIOUS RECOVERY AFTER INITIAL LOW

IN 2016, GLOBAL PRICES OF STEEL, IRON ORE AND COAL PRODUCTS HIT A LOW INITIALLY, BUT STARTED TO REGAIN GROUND LATER, DRIVEN PRIMARILY BY ACTIONS OF CHINA, THE MAIN PLAYER ON THE GLOBAL STEEL MARKET. WHILE ENCOURAGED BY THE PRICE INCREASE IN THE SECOND HALF, METINVEST REMAINS CAUTIOUS ABOUT CALLING THE RECOVERY SUSTAINED.

GLOBAL PICTURE

In 2016, global crude steel production inched upwards by 0.9% to 1,630 million tonnes, while worldwide finished steel consumption rose by 1.0% to 1,515 million tonnes. The global average steel capacity utilisation rate decreased to 69.3% in 2016, from 69.7% a year earlier.

Global iron ore supply has been affected by a sustained price decline. In 2016, some large players reviewed their expansion plans and postponed some investment projects, while less efficient producers had to exit the market. This helped to ease the fundamental imbalance for a while. Nevertheless, international iron ore producers increased their output by around 45 million tonnes in 2016. The main driver of global iron ore demand was the Chinese steel industry.

CHINA IN FOCUS

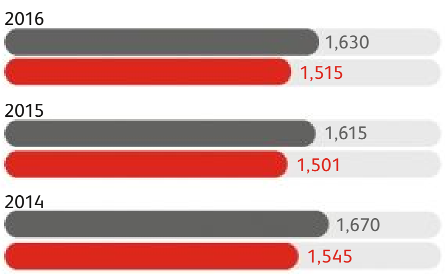
In 2016, there was significant turbulence in global steel, iron ore and coal prices. The dominant driver on both the demand and the supply sides was again China, which has accounted for around 50% of global steel production and demand and consumed around 70% of the world's seaborne iron ore supplies in recent years. The Chinese government has introduced monetary stimulus measures to accelerate domestic economic growth. Combined with other factors, this has resulted in greater domestic infrastructure spending and led to a partial recovery in local steel and iron ore prices already in the first half of 2016, which in turn triggered global price growth.

Spurred on by greater local demand, China boosted its crude steel output by 1.2% year-on-year to 808 million tonnes in 2016. This acted as an additional driver of demand for raw materials, namely iron ore and coal, and pushed their prices higher.

On the supply side, China is undertaking a long-awaited restructuring of its steel industry to cut excess capacity and increase efficiency. Similarly, the Chinese government has reduced the number of working hours at local coal mines, which resulted in lower domestic production and was a major contributor to the global coking coal price hike. Observers continue to see initiatives to increase efficiency, reduce debt, eliminate outdated capacity and tackle environmental issues as drivers of further change in China's steel, iron ore and coal markets.

In 2016, China's economy expanded by 6.7% year-on-year, according to the country's National Bureau of Statistics. This was the slowest growth in more than 20 years, although it was within official projections and plans. The International Monetary Fund (IMF) forecasts a similar figure, 6.6%, for 2017. By all accounts, China's economy has seemingly adjusted to "a new normal" rate of lower growth, one that will affect global steel and raw material markets for several years to come.

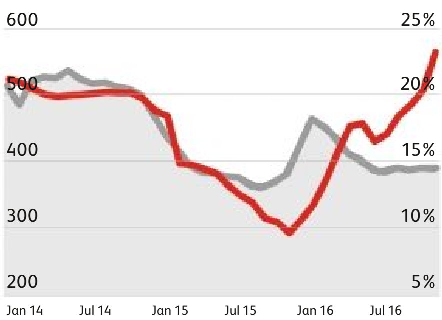
Global steel industry (MT)



■ Crude steel production
■ Finished steel consumption

Source: World Steel Association

China construction investments vs domestic HRC price



— HRC, Domestic China, US$/tonne (LHS)
— Investments in new construction, year-on-year change (RHS)

Source: Bloomberg

RISING PROTECTIONISM

Years of low steel prices have led to charges of dumping around the world, as countries and trade blocs seek to protect domestic steelmakers and target lower-cost producers. Markets are becoming more protectionist by launching anti-dumping investigations and imposing anti-dumping duties. China has been the main subject of unfair trade cases in more than 20 countries. As a result, its steel exports started to decline in 2016, falling by 29% between June and December.

ERRATIC PRICES

Entering 2016, steel, coking coal and iron ore prices had experienced both volatility and an overall decline in the previous two years, and they plumbed the lowest levels in a decade in late 2015 and early 2016. From March 2016, prices for steel, coking coal and iron ore increased notably throughout the year and into the first quarter of 2017. At the same time, they were erratic and remained below pre-2014 levels.

According to Metal Expert, the benchmark price for hot-rolled coil (HRC CIS export, FOB Black Sea) soared by 82% between December 2015 and December 2016, reaching US$492 a tonne. Amid considerable volatility, the average HRC price increased by 12% year-on-year to US$387 a tonne in 2016. In the first quarter of 2017, it stood at around US$500 a tonne.

Similarly, the benchmark iron ore price (62% Fe, CFR China) jumped from US$40 a dry tonne in December 2015 to US$80 a dry tonne in December 2016. While the average remained higher than in 2015, it was far below those of previous years, at US$58 a dry tonne in 2016, compared with US$97 a dry tonne in 2014.

The contract coking coal price (HCC quarterly contract, FOB Australia) soared from US$81 a tonne in the first quarter of 2016 to US$200 a tonne in the fourth quarter. In addition to the above mentioned actions of the Chinese government, which led to lower domestic production, the rally was supported by reduced supply from the US and Canada, as well as supply disruptions from Australia.

OUTLOOK

Key market players concur that fundamental indicators are not supporting the rebound in prices for steel and iron ore and that the outlook is highly unclear. Uncertainty about growth prospects in China and the world, excess capacity and protectionism suggest further pressure on steel prices, while additional supplies of iron ore coming from Australia and Brazil will create pressure on prices of the raw material.

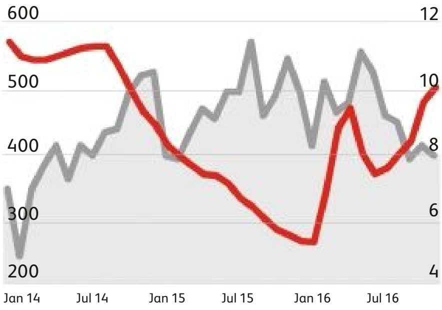
Most analysts believe that “peak steel” has already been reached in China, by far the main driver of the steel, iron ore and coking coal markets. Its steel consumption is expected to decrease in the future. Consolidation appears inevitable, amid continuing overcapacity and the initiatives in China to reduce pollution and decommission inefficient operations.

As for the iron ore market, few observers see firm grounds for longer-term price growth, mainly due to increasing supply. As such, the fundamental surplus of iron ore on the global market will persist.

The coking coal market is better balanced. At the same time, administrative regulations in China and unpredictable weather conditions are making coking coal one of the most volatile commodities. After hitting US$300 a tonne at the end of 2016, the spot price had dropped to US$165 a tonne in February 2017 and rebounded above US$300 a tonne again in mid-April 2017, due to tropical cyclone Debbie, which hit Australia in spring.

Given such conditions, as one of the leading global steelmakers with a vertically integrated model, Metinvest is positioned comparatively well. The Group will continue to respond to swings in steel and iron ore prices proactively, adjusting output accordingly with a view to maximising value along the production chain.

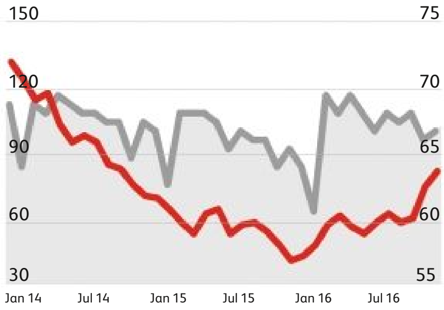
Steel product prices vs exports from China



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

Source: Bloomberg, Metal Expert

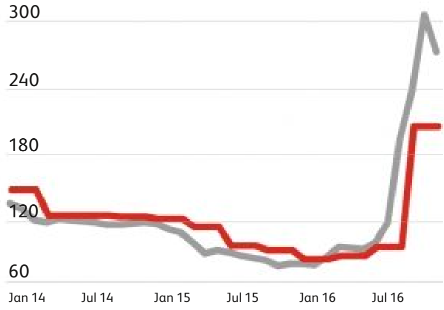
Iron ore price vs steel production in China



- Iron ore price, 62% Fe iron ore fines CFR China, US$/tonne (LHS)
- China crude steel production, MT (RHS)

Source: World Steel Association, Metal Bulletin

Hard coking coal (HCC) price



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

Source: Metal Bulletin

RETURN TO GROWTH

IN 2016, THE UKRAINIAN ECONOMY RETURNED TO GROWTH FOR THE FIRST TIME SINCE 2012, STIMULATING A DOUBLE-DIGIT INCREASE IN APPARENT DOMESTIC STEEL CONSUMPTION. WHILE THE GEOPOLITICAL AND ECONOMIC SITUATION REMAINS CHALLENGING, THE GROUP CONTINUES TO BELIEVE IN THE MARKET'S LONG-TERM POTENTIAL.

SIGNS OF IMPROVEMENT

In 2016, the economy continued to face substantial challenges, above all the conflict in the eastern parts of the country. While the overall situation was relatively more stable in the reporting period, military action took place intermittently, causing disruption to the Group, other businesses and lives in the region, including by displacing people and limiting the movement of goods. At the time of writing, the situation has deteriorated and there is a blockade on railway traffic in and out of the non-government-controlled territory, while all of Metinvest's assets there have been seized.

At the same time, Ukraine's economy delivered its strongest performance in around half a decade in 2016, providing cautious indications of more sustained recovery. During the year, GDP grew for the first time since 2012, at an estimated 2.3% year-on-year, after sharp declines of 6.6% in 2014 and 9.8% in 2015, according to state statistics. The main reasons for this were the relatively calmer situation in Eastern Ukraine and greater overall macroeconomic stability, supported by a rise in domestic investment, a revival in household consumption and an increase in agricultural and industrial production, construction activity, as well as growth in export-oriented sectors amid an improved environment on external markets. GDP accelerated each quarter, rising from 0.1% in the first to 4.8% in the fourth, and there are forecasts of further growth in early 2017.

As expected, the hryvnia continued to depreciate against all benchmark international currencies, although the rate of decline was slower than in 2015. The exchange rate to the US dollar averaged 25.55 in 2016, compared with 21.84 in 2015. Inflation slowed markedly, from 48.7% in 2015 to 13.9% in 2016, reducing a source of pressure on the overall economy and consumers in particular. This comes after the National Bank of Ukraine changed its monetary policy, targeting inflation instead of supporting the local currency, a move that appears to be yielding results.

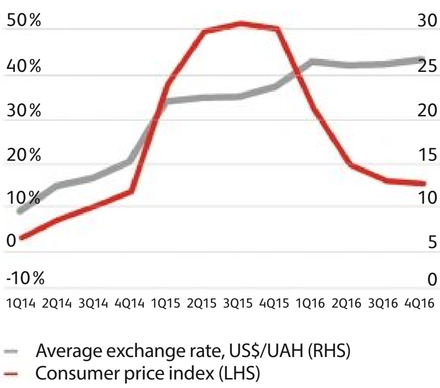
Since 2014, a drive has been under way to clean up Ukraine's banking system, and there has been decent progress. Some banks have been recapitalised, while the largest private one, Privatbank, was nationalised in late 2016. At the same time, the banking system is still fragile due to limited capital and weakening asset quality caused by the economic situation, currency depreciation and other factors.

The Ukrainian economy remains in need of substantial external financial assistance. The main source of this is the IMF, which continues to provide support under the four-year Extended Fund Facility Programme approved in March 2015. In September 2016, a third tranche of around US$1 billion was allocated, and in April 2017, after the reporting period, a fourth tranche of US$1 billion was transferred. Further disbursements of IMF funds will

Real GDP growth (%)[1]

Source: State Statistics Service of Ukraine

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



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

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

depend on the continued implementation of government reforms and other economic, legal and political factors.

In January 2016, the agreement on the free trade area between Ukraine and the EU came into force. Both parties have provisionally applied their Deep and Comprehensive Free Trade Agreement (DCFTA) since this date, pending ratification by EU member countries. After the deal is signed, Russia's government implemented a trade embargo on many key Ukrainian export products, which has affected Metinvest's sales to the country. In response, the Ukrainian government introduced similar measures against Russian products.

In early 2017, the conflict in Eastern Ukraine intensified, leading to an economic blockade. In addition, the self-proclaimed non-recognised authorities in the non-government-controlled territories demanded that companies in the zone make compulsory local registration and tax payments that would contravene Ukrainian legislation. In March 2017, all of Metinvest's assets in the disputed territory, including Yenakiieve Steel, Khartsyzk Pipe, Krasnodon Coal and Komsomolske Flux, were seized. Heightened tensions in the region underline the continued and open-ended economic and security threats posed by the situation there.

STEEL MARKET REBOUNDS

There was a rebound on the supply side of Ukraine's steel market in 2016, despite the ongoing operational difficulties faced by the country's steelmakers, including logistical bottlenecks in the conflict zone. Crude steel production in Ukraine rose by 5.4% year-on-year to 24.2 million tonnes in 2016, while Metinvest increased its output by 9.4% year-on-year to 8.4 million tonnes.

As for the demand side, steel consumption in Ukraine began to rise after a sharp contraction, supported by the recovery in the economy during 2016 and cautious hopes that growth can be sustained in 2017 and even accelerate. Apparent consumption of steel products (excluding pipes) jumped by 24.7% year-on-year to 5.1 million tonnes in 2016. Key factors driving the increase included inventory replenishment amid expectations of further growth in steel prices, as well as a rebound in real demand in primary steel-consuming industries.

Real demand for steel products spiked, driven by a rise in construction activity, as well as recoveries in other sectors. The construction index rose by 17.4% in 2016, compared with a decline of 12.3% in 2015. The machinery index climbed by 2.0% and the hardware production index advanced by 6.5%.

Ukraine's steel industry has traditionally been export-oriented. In 2016, overseas shipments of steel products, excluding pipes, rose by 1.8% year-on-year to 17.4 million tonnes, as the bulk of additional output went to the internal market.

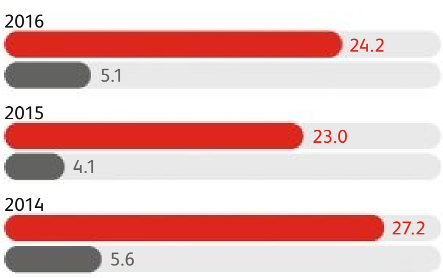
Supported by greater domestic steel production, Ukraine's iron ore consumption rose by 3.4% year-on-year to 34.5 million tonnes in 2016. Iron ore output fell by 7.3% year-on-year to 70.5 million tonnes as a result of the unfavourable market environment, as well as cost-cutting initiatives from 2014 through the first half of 2016, which prevented a prompt response when demand on external markets improved in the second half. Metinvest reduced iron ore concentrate production by 8.0% year-on-year to 29.6 million tonnes in the year.

The coking coal supply chain for Ukraine's steelmakers remains seriously affected by the conflict in the eastern regions. Coking coal mines there continue to face significant disruptions due to logistical bottlenecks, although they managed to partly restore output in 2016 amid intermittent opportunities to ship finished goods from the conflict zone. In the year, coking coal output in Ukraine increased by 2.7% year-on-year to 9.4 million tonnes, while Metinvest more than doubled coal production at its Ukrainian mines. Nevertheless, such volumes remain insufficient for local steelmakers, including the Group, who have to import the majority of their coal, which is costlier. As such, the share of coking coal imports in total coking coal consumption in Ukraine has been continuously increasing, from 45% in 2013 to 66% in 2016. In early 2017, tensions in the conflict zone heightened, which led to the seizure of certain coking coal producers by the non-recognised authorities, including Metinvest's Krasnodon Coal.

OUTLOOK

Even barring external shocks, the Group believes that the Ukrainian economy has great potential. According to a World Bank forecast in January 2017, Ukraine's real GDP is expected to grow at 2% for 2017 and 3% for both 2018 and 2019. At the same time, there are some considerable risks to this, including from the rail blockade and asset seizures in Eastern Ukraine.

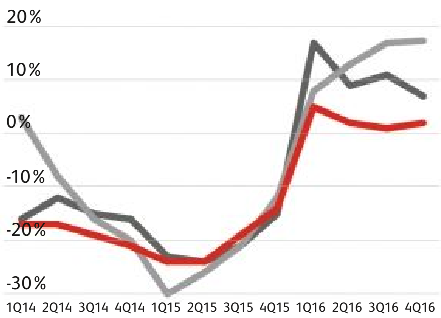
Steel industry in Ukraine (MT)



Crude steel production
Rolled steel consumption

Source: Metal Expert

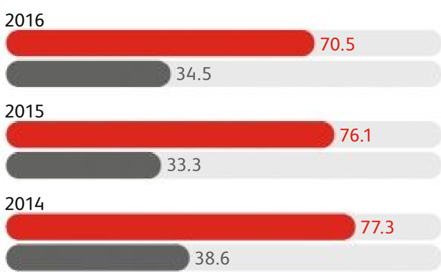
Key steel consuming sectors in Ukraine (%)[3]



Machinery production index
Hardware production index
Construction index

Source: State Statistics Service of Ukraine, Metal Expert

Iron ore market in Ukraine (MT)



Production
Consumption

Source: Ukrainian Industry Expertise

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

COMMENDABLE RESULTS

IN 2016, AMID HIGH VOLATILITY ON THE GLOBAL COMMODITY MARKETS AND CONTINUED OPERATIONAL ISSUES DUE TO THE CONFLICT IN EASTERN UKRAINE, MEINTVEST DELIVERED COMMENDABLE FINANCIAL RESULTS.

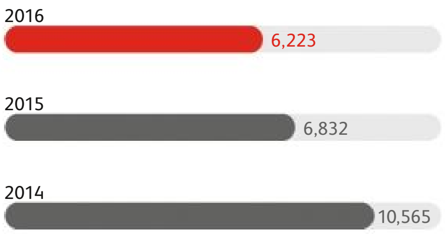
OVERVIEW

Overall, the situation on the global and domestic markets improved somewhat in 2016. At the same time, there was ongoing turbulence amid erratic product prices and ongoing challenges due to the situation in Eastern Ukraine. Global steel, iron ore and coal prices remained highly volatile. After hitting new multi-year lows in the first quarter of the year, steel prices rebounded. In Ukraine, there were the first indications of economic improvement since 2012. Against this backdrop, Metinvest delivered commendable financial results.

Revenues

US$6,223M

-9%



REVENUES

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

In 2016, consolidated revenues decreased by 9% year-on-year to US$6,223 million, falling by US$380 million year-on-year in the Metallurgical segment and US$229 million in the Mining segment. This was driven by lower average selling prices of steel, iron ore and coal products, which hit multi-year lows in the first quarter of 2016. Since then, prices have somewhat recovered but have remained highly volatile. In addition, iron ore sales volumes dropped amid lower overall production following underinvestment in CAPEX during liquidity constraints between 2014 and the first half of 2016, and higher intragroup consumption amid greater crude steel output. In 2016, the Metallurgical segment accounted for 81% of external sales (79% in 2015) and the Mining segment for 19% (21% in 2015).

In 2016, revenues in Ukraine amounted to US$1,606 million, almost unchanged year-on-year. Lower sales of coke and coking coal concentrate were offset by higher sales of flat, long and iron ore products amid greater local demand, as the Ukrainian economy started to recover. Regarding iron ore products, sales in Ukraine increased, as a couple of key customers managed to partly restore operations and boosted consumption, despite the ongoing conflict. As a result, the share of Ukraine in consolidated revenues climbed by 2 pp year-on-year to 26%.

International sales accounted for 74% of consolidated revenues in 2016. The share of Europe, Metinvest's largest market, reached 36%, up 3 pp year-on-year, amid higher sales volumes of finished steel (+208 thousand tonnes) and iron ore products (+1,474 thousand tonnes), as well as higher selling prices of iron ore concentrate and pellets. The proportion of sales to the Middle East and North Africa (MENA) decreased by 4 pp year-on-year to 15% amid a 27% year-on-year drop in sales to the region, caused by lower selling prices of key products, as well as lower sales volumes of semi-finished products (-553 thousand tonnes) and pellets (-484 thousand tonnes). The share of sales to Southeast Asia decreased by 4 pp year-on-year to 7% as a result of a 45% decline in sales to the region, due to lower sales volumes of iron ore (-4,379 thousand tonnes) and flat (-97 thousand tonnes) products amid lower selling prices for both. The share of North America increased by 2 pp year-on-year to 5% in 2016, mainly due to higher sales volumes of pig iron (+330 thousand tonnes) and finished steel products (+68 thousand tonnes). The shares of the CIS (ex-Ukraine) and other regions remained unchanged year-on-year at 9% and 1% respectively.

Metallurgical segment

The Metallurgical segment generates revenues from sales of pig iron, steel and coke products and services. In 2016, its revenues decreased by 7% year-on-year to US$5,027. In particular, sales of semi-finished products dropped by US$206 million, flat products by US$129 million, tubular products by US$58 million, coke by US$34 million and other products and services by US$66 million. This was partly compensated by an increase in sales of long products of US$113 million.

Pig iron

In 2016, sales of pig iron decreased by 8% year-on-year to US$350 million, of which 5 pp was attributable to lower sales volumes and 2 pp to a drop in the average selling price. Volumes decreased by 75 thousand tonnes year-on-year to 1,392 thousand tonnes due to a decline in re-sales of Zaporizhstal's pig iron of 175 thousand tonnes. This was partly compensated by higher overall production and destocking during the year. At the same time, sales volumes in Southeast Asia increased by 24 thousand tonnes due to shipments to a new client in Bangladesh. Sales volumes to North America rose by 330 thousand tonnes, as new long-term contracts with US customers were concluded. To fulfil its obligations under these contracts, Metinvest redirected volumes from other markets: 226 thousand tonnes from MENA, 98 thousand tonnes from Europe, 32 thousand tonnes from Ukraine and 74 thousand tonnes from other regions.

Slabs

In 2016, sales of slabs declined by 17% year-on-year to US$227 million, driven by a lower average selling price (-8 pp) and a decrease in sales volumes (-9 pp). Volumes dropped by 71 thousand tonnes year-on-year to 711 thousand tonnes due to higher flat product output. Sales to Europe declined by 81 thousand tonnes, mainly amid lower sales to Italy, Romania and Poland. Sales to MENA decreased by 41 thousand tonnes due to stronger competition in the region, mainly from Brazilian suppliers. Sales to Southeast Asia increased by 36 thousand tonnes amid greater demand in South Korea and Indonesia.

Square billets

In 2016, sales of square billets dropped by 57% year-on-year to US$98 million, caused by a slump in sales volumes (-49 pp) and a lower average selling price (-8 pp). Sales volumes decreased by 311 thousand tonnes year-on-year to 320 thousand tonnes following greater long product output. This resulted in a decline in sales to MENA of 286 thousand tonnes. Meanwhile, MENA remained the key market, accounting for 55% of total sales volumes, supported by regular sales to key clients.

Flat products

In 2016, sales of flat products decreased by 4% year-on-year to US$2,954 million, driven by a drop in the average selling price (-6 pp), which was partly offset by an increase in sales volumes (+2 pp). Volumes rose by 128 thousand tonnes year-on-year to 6,854 thousand tonnes amid greater production. Sales volumes in Ukraine increased by 91 thousand tonnes as a result of higher sales of galvanised and polymer-coated

(Continues on page 34)

DEBT RESTRUCTURING
SECURING THE LONG-TERM FUTURE OF THE BUSINESS

IN MARCH 2017, METINVEST SUCCESSFULLY CONCLUDED A DEBT RESTRUCTURING DEAL THAT EFFECTIVELY COVERED 94% OF ITS DEBT PORTFOLIO, TOTALLING US$2.8 BILLION. THIS WAS THE LARGEST SUCH EVENT AMONG UKRAINIAN CORPORATES TO DATE AND MARKED A WATERSHED IN THE GROUP'S RECENT HISTORY AND LONG-TERM FUTURE.

In early 2015, Metinvest was forced to begin a debt restructuring due to an unforeseeable combination of external factors. Global prices of steel and iron ore products had reached new historical lows, the conflict in Eastern Ukraine had impacted output volumes and the overall situation was affecting our ability to refinance.

From the outset, the Group sought to maintain a constructive dialogue with all creditors, which included banks, Eurobond holders, former owners of United Coal and shareholders. We were also committed to ensuring fair and equal treatment of all parties involved. Throughout the process, we always respected our obligations to creditors, continuing to service interest and coupon payments under our bank loans and bonds, and never demanding a write-off of any part of the debt. With their support, we found a mutually acceptable solution and resolved the defaults.

The equitable approach to all creditors allowed a UK court to sanction the restructuring of bonds and pre-export facilities (PFXs) in early 2017. Based on the agreement reached, three series of guaranteed bonds – due in 2016, 2017 and 2018 – have been cancelled and delisted and replaced with new listed senior secured bonds totalling US$1.2 billion, due in December 2021 and with new terms and conditions. In addition, four PXF syndicated loan agreements have been amended and restated. Their terms now provide for, among other things, combining them into one facility of US$1.1 billion due in June 2021.

The terms of Metinvest's new debt instruments provide for the maturities to be extended by five years, including two years of quasi-grace period. During this, the Group will be liable for only 30% of its interest charge in cash, the rest being subject to a capitalisation option, and no principal repayment. This development marks a fundamental positive change to the Group's overall credit profile, significantly improving its short and medium-term liquidity.

Following the restructuring deal, Metinvest again has the option of returning to global financial markets, which provides much-needed flexibility. We would like to thank all of our creditors for their continued support and confidence in our story.

METINVEST IS A GLOBAL COMPANY WITH 45 SALES OFFICES COVERING 88 COUNTRIES ON FOUR CONTINENTS. THIS HELPS TO DIVERSIFY THE REVENUE STREAM GEOGRAPHICALLY, ACROSS BOTH DEVELOPED AND EMERGING MARKETS.

OUR SALES PRESENCE

Map legend

- Regions with sales in 2016
- Regions with no sales in 2016

Metinvest's sales offices

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

REVENUE BY REGION

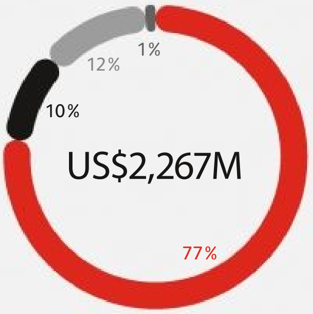
Chart legend

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

Europe revenues

36%

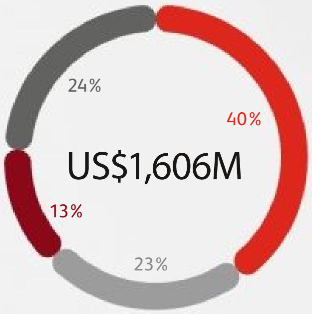
of Group total



Ukraine revenues

26%

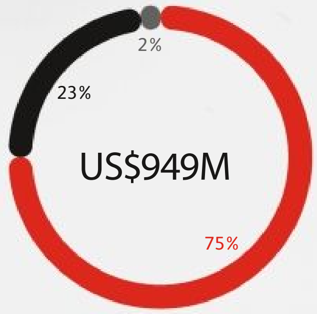
of Group total



MENA revenues

15%

of Group total



CIS revenues

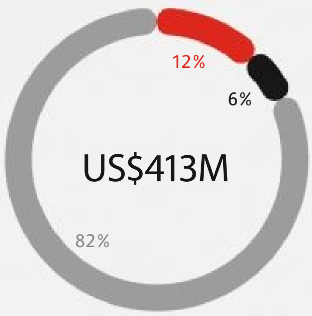
9%

of Group total

Southeast Asia revenues

7%

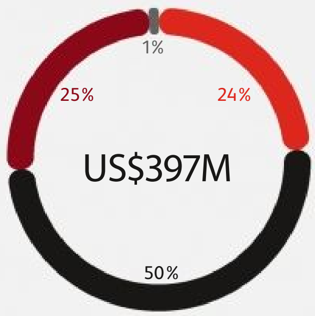
of Group total



Other revenues

7%

of Group total



sheets. Sales to the CIS rose by 42 thousand tonnes due to loyalty programmes for clients and lower sales in 2015, when the market was less attractive than others. Volumes to Europe increased by 41 thousand tonnes due to greater demand in the Netherlands, Czech Republic, Croatia and other countries of Central and Eastern Europe. Sales to other regions rose by 43 thousand tonnes due to sales of plates and coils to Mexico and Columbia. Sales to North America increased by 25 thousand tonnes. In contrast, volumes to Southeast Asia dropped by 97 thousand tonnes amid antidumping duties and protective measures imposed by the Indian government and the redirection of volumes to other markets. Volumes to MENA decreased by 16 thousand tonnes. At the same time, re-sales of Zaporizhstal's flat products dropped by 122 thousand tonnes to 2,537 thousand tonnes, reducing their share in total sales volumes to 37% in 2016 (40% in 2015).

Long products
In 2016, sales of long products increased by 16% year-on-year to US$824 million. This was caused by a hike in sales volumes (+24 pp), partly offset by a lower average selling price (-8 pp). Volumes rose by 374 thousand tonnes year-on-year to 1,937 thousand tonnes amid stronger demand and overall production. As such, sales climbed to all regions, except the CIS and MENA. The negative year-on-year price trend on all markets was due to weaker scrap and billet quotations.

Tubular products
In 2016, sales of tubular products (large-diameter pipes) decreased by 91% year-on-year to US$5 million, caused mainly by a slump in sales volumes amid a lack of orders.

Coke
In 2016, sales of coke decreased by US$34 million year-on-year to US$171 million. This was driven by a lower average selling price (-21 pp), partly offset by higher sales volumes (+4 pp). Volumes increased by 40 thousand tonnes year-on-year to 1,080 thousand tonnes, primarily due to higher sales to a key client in Ukraine.

Mining segment
The Mining segment generates revenues from sales of iron ore, coal and other products and services. In 2016, its revenues decreased by 16% year-on-year to US$1,196 million, mainly due to lower sales volumes amid a fall in overall output of iron ore products and coking coal. In addition, average selling prices dropped, following global benchmarks. As a result, external sales of iron ore concentrate decreased by US$85 million, pellets by US$76 million and coking coal concentrate by US$43 million. In addition, external sales of other products and services decreased by US$25 million year-on-year.

Iron ore concentrate
In 2016, sales of iron ore concentrate declined by 13% year-on-year to US$554 million, of which 11 pp was attributable to lower sales volumes and 3 pp to a lower average selling price. Volumes decreased by 1,390 thousand tonnes year-on-year to 11,769 thousand tonnes in 2016, due to a drop in overall output, partly compensated by destocking. Sales volumes in Europe increased by 681 thousand tonnes amid greater purchases by key clients. To fulfil the orders, volumes were redirected from Southeast Asia. Sales volumes in Ukraine fell by 149 thousand tonnes amid weaker demand from local clients. The average selling price decreased by 3% year-on-year due to greater volumes sold in the first half of 2016 (+37% in comparison with the second half of 2016) at prices lower than in the second half of 2016, when the benchmark rose by 24% half-on-half to an average of US$65 a tonne.

Pellets
In 2016, sales of pellets decreased by 15% year-on-year to US$424 million, driven mainly by lower sales volumes. Volumes fell by 962 thousand tonnes year-on-year to 5,963 thousand tonnes in 2016, due to lower production and an increase in stocks. Given the greater demand and market premiums in Ukraine and Europe, volumes in these regions rose by 1,185 and 793 thousand tonnes, respectively. This reduced the remaining available volume and resulted in lower sales to Southeast Asia (2,456 thousand tonnes) and MENA (484 thousand tonnes). The average selling price dropped by 1% year-on-year due to the low level of the benchmark in early 2016, when it hit a multi-year bottom.

Coking coal concentrate
In 2016, sales of coking coal concentrate decreased by 24% year-on-year to US$136 million, of which 13 pp was attributable to a lower average selling price and 11 pp to a fall in sales volumes. Volumes dropped by 216 thousand tonnes year-on-year to 1,716 thousand tonnes amid lower production, which resulted in lower sales in all markets. The average selling price in Ukraine declined by 9% year-on-year following a decrease in the share of more expensive coal in sales in that market. The average selling price for hard coking coal in North America fell by 14% year-on-year, mainly due to long-term contracts concluded in the beginning of the year at market prices then.

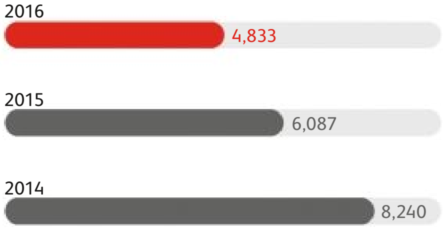
COST OF SALES
Metinvest's cost of sales consists primarily of the cost of raw materials; the cost of energy materials; payroll and related expenses for employees at its production facilities; depreciation and amortisation; impairment of property, plant and equipment; repair and maintenance expenses;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

In 2016, the cost of sales declined by 21% year-on-year to US$4,833 million. The decrease of US$1,254 million was primarily attributable to: (i) favourable movements in the US$/UAH exchange rate, which accounted for US$366 million or 29% of the total drop; (ii) a fall in the cost of goods and services for resale of US$337 million, mainly goods from Zaporizhstal; (iii) a decrease in impairment charges accrued during the reporting period of US$328 million; (iv) lower purchase prices of raw materials (US$94 million), primarily coal and coke; (v) a drop in natural gas costs of US$120 million amid lower prices

Cost of sales

US$4,833M

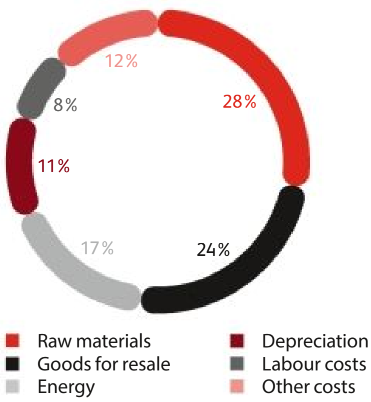
-21%



Cost of sales by nature

US$4,833M

-21%



(US$76 million) and consumption (US$44 million); and (vi) a decline in services and other costs of US$94 million, mainly driven by a net reversal of an inventory written-down in 2016 of US$45 million, created at the end of 2015 due to sales of respective inventories, an increase in steel prices and a recovery in gross margins. They were partly offset by higher purchases of raw materials of US$69 million and higher electricity costs of US$56 million amid increased electricity tariffs (US$40 million) and higher consumption (US$16 million).

As a percentage of consolidated revenues, the cost of sales dropped by 11 pp year-on-year to 78% in 2016.

DISTRIBUTION COSTS

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

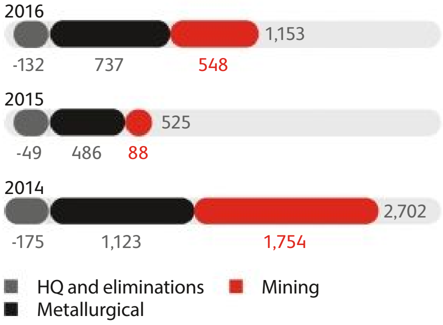
In 2016, distribution costs decreased by 28% y-o-y to US$660 mn. The decline was primarily attributable to a drop in sea freight costs due to lower shipment volumes (mainly iron ore products to Southeast Asia), driven by a change in the sales structure and lower sea freight tariffs amid decreased crude oil prices. Other transportation costs declined amid lower expenses on loading, unloading and storage in port. These factors were partly offset by an increase in railway costs following an upward indexation in tariffs of 15% by the Ukrainian state railway operator on 30 April 2016.

As a share of consolidated revenues, distribution costs decreased by 2 pp year-on-year to 11% in 2016.

EBITDA by division

US$1,153M

+120%



GENERAL AND ADMINISTRATIVE COSTS

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

In 2016, general and administrative expenses decreased by 8% year-on-year to US$183 million, driven by favourable movements in the US$/UAH exchange rate, which mainly impacted wages and salaries and lower service fees. In addition, in the reporting period, the Group changed the presentation of expenses related to the debt restructuring. These expenses, totalling US$9 million in 2016, were reclassified from general and administrative expenses to finance costs to better reflect the nature of such expenditures. This resulted in a change in comparative information for 2015 amounting to US$12 million. As a share of consolidated revenues, general and administrative costs remained flat year-on-year at 3% in 2016.

OTHER OPERATING INCOME/EXPENSES

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

In 2016, other operating expenses amounted to US$222 million, down 26% year-on-year, mainly due to an impairment of trade and other receivables recognised totalling US$227 million. During the year, following further delays in payments from some customers beyond the originally expected dates and certain operational and financial issues among them, Metinvest recognised a full impairment of trade receivables from those customers of US$220 million (2015: partial impairment of US$254 million). In addition, operating foreign-exchange gains decreased by 85% year-on-year to US$18 million, principally due to a lower gain from the revaluation of trade receivables and trade payables. At the same time, there was no impairment of goodwill accrued in 2016, compared with US$74 million charged in 2015.

As a share of consolidated revenues, other operating expenses remained flat year-on-year at 4% in 2016.

OPERATING PROFIT

In 2016, operating profit totalled US$325 million, compared with an operating loss of US$674 million in 2015. This primarily reflected a reduction in expenses of US$1,608 million, which was partly offset by a drop in consolidated revenues of US$609 million. In 2016, the operating margin amounted to positive 5%, compared with negative 10% in 2015.

EBITDA

EBITDA is calculated as earnings before income tax, finance income and costs, depreciation and amortisation, impairment and devaluation of property, plant and equipment, foreign-exchange gains and losses (starting from 1 January 2015), the share of results of associates and other expenses that the management considers non-core, plus the share of EBITDA of joint ventures.

In 2016, EBITDA soared by US$628 million year-on-year to US$1,153 million[4]. The contributions from both segments increased: by US$251 million from the Metallurgical segment and by US$460 million from the Mining segment. Meanwhile, corporate overheads and eliminations rose by US$83 million, mainly due to higher eliminations.

The year-on-year increase in consolidated EBITDA was primarily attributable to cost reductions amid:

- a positive effect from the hryvnia devaluation of US$341 million, as the US$/UAH exchange rate averaged 25.55 in 2016, compared with 21.84 in 2015;
- a drop in the cost of goods and services for resale amid a lower cost of Zaporizhstal's goods, a fall in fixed costs and lower impairment of trade and other accounts receivable;
- lower transportation expenses (US$281 million) amid lower freight costs and other logistical expenses, partly offset by higher railway expenses;
- lower natural gas costs (US$120 million), partly offset by higher spending on electricity (US$56 million) and fuel (US$12 million); and
- lower raw material market prices, mainly of coal, coke and scrap (US$94 million), partly offset by greater consumption driven by higher crude steel production (US$69 million).

4 In 2016, the Group changed the presentation of expenses related to the debt restructuring. Such expenses, totalling US$9 million in 2016, were reclassified from general and administrative expenses to finance costs to better reflect the nature of such expenditures. This resulted in a change in comparative information for 2015 amounting to US$12 million.

In addition, contributions from JVs increased, namely by US$61 million from Southern GOK and US$12 million from Zaporizhstal.

These factors were partly offset by lower revenues amid a decrease in average selling prices (US$434 million) and lower sales volumes in the Mining segment (US$175 million).

In 2016, the consolidated EBITDA margin increased by 11 pp year-on-year to 19%. The EBITDA margin of the Metallurgical segment rose by 5 pp year-on-year to 14% and that of the Mining segment by 21 pp year-on-year to 24%.

FINANCE INCOME

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

In 2016, Metinvest's finance income remained unchanged year-on-year at US$26 million. As a percentage of consolidated revenues, finance income remained flat year-on-year at 0%.

FINANCE COSTS

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

In 2016, finance costs dropped by 39% year-on-year to US$397 million mainly due to a decrease in foreign-exchange losses from financing activity, which arose on intragroup loans and dividends.

As a percentage of consolidated revenues, finance costs decreased by 3 pp year-on-year to 6% in 2016.

SHARE OF RESULT OF ASSOCIATES AND JOINT VENTURE

In 2016, the share of net income from associates and joint ventures increased by 56% year-on-year to US$205 million, mainly due to better results from Zaporizhstal (US$38 million) and Southern GOK (US$29 million).

INCOME TAX EXPENSE

Metinvest is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries. In 2016, corporate income tax rates were 18% in Ukraine, 10% in Switzerland, 10-34% in the EU and 35% in the US.

In 2016, the income tax expense amounted to US$41 million, compared with a benefit of US$161 million in 2015. This was principally driven by a decrease in deferred tax income of US$148 million, mainly due to lower taxable losses in 2016. In addition, current tax increased by US$54 million, as several entities reported higher profit before income tax during the reporting period. The effective interest rate amounted to 26% in 2016.

NET PROFIT

In 2016, net profit totalled US$118 million, compared with a net loss of US$1,003 million in 2015. This was principally due to a drop in operating expenses and finance costs amounting to US$1,858 million, as well as a higher share of results of associates and JVs of US$74 million. These factors were partly offset by lower revenues (US$609 million) and the higher income tax charge (US$202 million).

As a result, the net margin amounted to positive 2% in 2016, compared with negative 15% in 2015.

LIQUIDITY AND CAPITAL RESOURCES

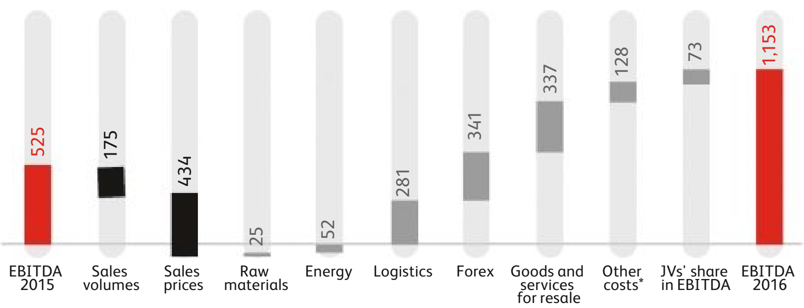
Net cash from operating activities

In 2016, Metinvest generated US$490 million of cash from operating activities, down 23% year-on-year. The principal reason for the decrease was a change in working capital, which had a negative impact on the net cash flow totalling US$438 million in 2016. It was mainly due to an increase in trade and other accounts receivable of US$442 million amid selling price growth since the beginning of the year, as well as higher cash blocked on bank accounts for the opened cash-covered letters of credit for coal purchases and other purposes. Inventories increased by US$195 million amid a rise in stocks of steel products and higher costs of production since the beginning of the year due to raw material price growth, which was offset by an increase in trade and other accounts payable of US$199 million. In comparison, in 2015, the change in working capital had a positive impact on the net cash flow of US$351 million.

EBITDA drivers

US$1,153M

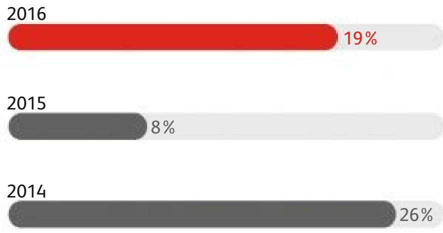
+US$628M



EBITDA Margin

19%

+11pp



* Other include fixed costs, change in WIP and FG, impairment of trade and other account receivable and other costs.

The negative impact of working capital was partly compensated by an increase in operating cash flow before working capital changes of US$501 million, driven by a rise in profit before income tax of US$1,323 million, partly offset by non-cash expenses. In addition, income tax paid and interest paid decreased by US$74 million and US$67 million, respectively. Income tax paid amounted to positive US$35 million in 2016, as US$71 million of a corporate income tax prepayment was reimbursed to some Ukrainian subsidiaries of Metinvest B.V. Moreover, a new tax collection system was introduced in Ukraine on 1 January 2016: tax prepayment requirements were lifted and tax is paid quarterly based on actual financial performance of an entity. Interest paid decreased, as in the first half of 2016, Metinvest paid only approximately 30% of accrued interest and capitalised the remaining 70% due to liquidity constraints and in line with the first and the second moratorium schemes under the bond and the standstill agreements in relation to the PXF facilities. In the second half of 2016, liquidity improved, allowing Metinvest to repay US$40 million of previously capitalised interest via a cash sweep.

Net cash used in investing activities
In 2016, net cash used in investing activities rose by 40% year-on-year to US$331 million. This increase was attributable to the need to compensate CAPEX underinvestment amid liquidity constraints in 2014 and the first half of 2016. Total cash used to purchase property, plant and equipment, as well as intangible assets, amounted to US$358 million, up 30% year-on-year. Proceeds received from sales of subsidiaries and associates amounted to US$6 million, as Metinvest sold its investment in Black Iron (Cyprus) Limited.

Net cash used in financing activities
In 2016, net cash used in financing activities decreased by 67% year-on-year to US$105 million. The drop was primarily driven by a decline in repayments of loans and borrowings, which fell by US$124 million year-on-year to US$10 million in 2016. This was due to the weak cash position, in the context of global debt restructuring discussions, as well as in line with the first and the second moratorium schemes under the bonds and the standstill agreements under the PXF facilities. In addition, net repayments of trade finance totalled US$67 million in 2016, compared with US$179 million in 2015. Meanwhile, cash used for other financing activities amounted to US$27 million in 2016, compared with US$12 million in 2015. No new proceeds were received in 2016, compared with US$4 million received under the final drawdown under the ECA facility a year earlier.

As a result of the above mentioned factors, total debt was up by US$23 million year-to-date to US$2,969 million as of 31 December 2016. Meanwhile, Metinvest's cash balance stood at US$226 million, compared with US$180 million as of 31 December 2015.

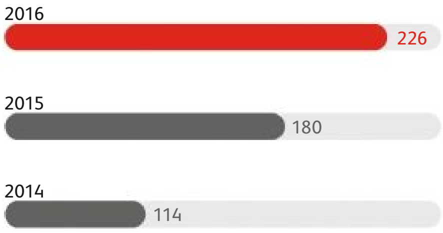
Capital expenditure
In 2016, Metinvest's capital expenditure increased by 31% year-on-year to US$374 million. Spending on maintenance projects amounted to 75% of total investments (73% in 2015) and that on expansion projects to 25% (27% in 2015). The Metallurgical segment accounted for 52% of capital expenditure (48% in 2015) and Mining for 46% (48% in 2015). Capital expenditure on corporate overheads decreased to US$4 million in 2016, from US$12 million in 2015.

Risk management
Like any business, Metinvest faces risks that could disrupt its activities. To identify, mitigate and, where possible, eliminate these, a dedicated in-house function maintains a rigorous risk management system that covers every part of the Group's work.

Year-end cash balance

US$226M

+26%



Total debt

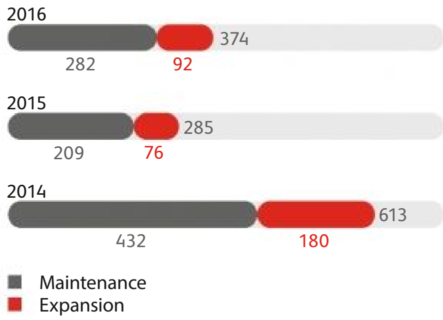
US$2,969M

+1%

CAPEX by purpose

US$374M

+31%



ASPHALT TANKERS
Turkey

The world's two largest asphalt tankers, the T. Esra and T. Aylin, were built by Turkish shipyard RMK Marine using Azovstal's hot-rolled plates. Each tanker is 156.5 metres long and 25 metres wide.

12,500T
Metinvest steel used

GOVERNANCE REPORT

OVER THE PAST DECADE, METINVEST HAS STREAMLINED ITS CORPORATE STRUCTURE AND MADE THE BUSINESS TRANSPARENT, DEVELOPED A SOLID GOVERNANCE SYSTEM AND SUCCESSFULLY ENTERED THE GLOBAL FINANCIAL MARKETS. TODAY, THE GROUP IS WELL RECOGNISED ON CAPITAL MARKETS AND COMMITTED TO INTERNATIONAL BEST PRACTICE IN GOVERNANCE.

IN THIS SECTION:

READYING FOR THE NEXT 10 YEARS

THE GROUP'S STRONG MANAGEMENT AND EFFECTIVE SUPERVISORY BOARD HAVE BEEN CRUCIAL CONTRIBUTORS TO ENSURING METINVEST'S SUCCESS IN ITS FIRST DECADE AND SETTING THE SCENE FOR MORE IN THE NEXT ONE.

CREATING A NEW TYPE OF BUSINESS

Ten years ago, SCM founded Metinvest to manage strategic steel and mining entities. In 2007, SCM and SMART began to merge their assets in the sector. Together, the shareholders had a clear vision to build a vertically integrated steelmaker with a sustainable business model and captive resource base, applying world-class management skills and investing in modern technology to expand production capacity, improve its environmental track record and develop a global sales network.

In 2016, I am pleased to report that Metinvest has progressed in every sense, from being a traditional local company to a global business operating in accordance with international best practices. We have significantly streamlined our ownership structure, making us transparent and more efficiently managed.

The Group has also created key institutions in line with international best practices, notably the Supervisory Board. Among other steps, we have instituted a code of ethics applicable to every employee and governing how we deal with suppliers and customers. We provide an anonymous feedback line for employees, suppliers or any other interested parties to report concerns without threat of retaliation.

Metinvest has succeeded in its goals to date because it has the right business model to navigate through the profound challenges of the past decade. In developing the model, while making certain assumptions, we knew that external factors could always materialise.

Along with enormous progress, the Group has remained consistent in important areas. There has been little management turnover, creating continuity that has been vital in implementing plans. This in turn has contributed to effective crisis management when dealing with the product price slump worldwide, debt restructuring and the military conflict in Eastern Ukraine, which has had a direct impact on our people and operations.

INVESTING IN OUR NATION AND PEOPLE

Ultimately, Metinvest believes that one of its greatest contributions to the nation is to be a successful business that creates decent jobs and pays much-needed tax revenues. The Group is one of the largest employers in Ukraine, with a workforce of more than 85,000 people as of the end of 2016, and they are our most important asset. Metinvest owes its success to its people. We operate in a competitive marketplace and our goal is to retain and motivate a skilled workforce. Over the last decade, we have invested in building a world-class HR function, designed to foster talent through training and provide competitive compensation.

In addition, Metinvest is one of the leading taxpayers, having contributed US$4.7 billion of corporate income tax over 2006-16, mainly in Ukraine, excluding other taxes and duties, such as mineral extraction and labour taxes.

EXTENDING A HAND

The situation in Eastern Ukraine remains fragile due to ongoing military action. Since 2014, the Group has worked with its largest shareholder to deliver humanitarian aid to Eastern Ukraine through the Rinat Akhmetov Humanitarian Centre. We have helped to repair key institutions, such as schools, hospitals, infrastructure and residential accommodation.

In early 2017, the city of Avdiivka sustained damage from intensive shelling, leading to civilian evacuations and the full loss of water and power supply. The city was on the edge of a humanitarian crisis and Metinvest and SCM, its controlling shareholder, stepped up quickly. Despite hot-mothballing two coke workshops, the plant was able to keep another two running, generating coke gas for heating coke batteries and the city. When this ran out, natural gas was sourced. To help people, we arranged urgent supplies from other assets, such as generators and food aid. Together with experts from power holding DTEK, also part of SCM, we managed to restore the power supply. Unfortunately, at the time of writing, there is continued fighting near the city.

In February 2017, following a blockade of all cargo railway transportation to and from the non-controlled territory of Ukraine, the Group was forced to halt operations at Yenakiieve Steel and Krasnodon Coal. In March 2017, we lost control over all production assets in the non-government-controlled territories of Ukraine, as we refused to re-register them to the unrecognised authorities there. This affected over 20,000 people. As part of our commitment to caring for employees, we have offered jobs in Mariupol, Kryvyi Rih and Zaporizhia to all of those who would like to move. We are monitoring the situation closely and will use all legal and available means to have our property returned.

Over the last decade, Metinvest developed sophisticated initiatives for improving life in the communities where it operates, and it has achieved lasting results. Alongside continuing to implement traditional social partnership programmes, in 2016, we entered into a social partnership with the Mariupol Development Fund to join forces with other donors to accomplish larger, long-term projects in the city. The fund quickly delivered results in pilot projects and we see this as a robust model for other cities. Over 2006-16, we invested around US$130 million in communities where our assets are located.

MAKING LIFE HEALTHIER, SAFER AND CLEANER

Through targeted investments, Metinvest has brought many of its facilities into compliance with the most exacting quality, safety and environmental standards, spending around US$6.7 billion on upgrading them over the decade. Today, some of the plants are among the most modern in the industry and this investment drive continues. We have also spent US$4.2 billion on health, safety and the environment, including US$3.3 billion on the environment and US$0.9 billion on health and safety. These investments have translated into cleaner and healthier communities, a safer workplace and greater efficiency overall. Safety in particular, remains the overriding priority and we are committed to reducing lost-time incidents and fatalities to zero. To achieve this target and prevent any potential incidents, we have implemented numerous measures, including 15 rigorous corporate health and safety standards, which are based on leading international practice.

In a relatively brief period, the Group has helped the Ukrainian steel and mining industries to transform, as well as the country to turn the corner regarding the environment to reduce emissions meaningfully. We have launched one of the largest environmental projects in Ukraine in terms of both scale and environmental effect: the reconstruction of the sinter plant at Ilyich Steel. We have also closed all open-hearth furnaces at our steel plants in Mariupol, decommissioned an obsolete sinter plant at Azovstal and upgraded the pelletising machines at our iron ore producers in Kryvyi Rih.

THE DECADE AHEAD

As we take stock of Metinvest's first 10 years in existence, the far-reaching and widespread achievements have clearly laid solid foundations for further progress in this next decade and for those to come. Through the individual and collective efforts of our executives and employees, we have succeeded in uniting, integrating and transforming a group of steel and mining assets into one of the leading and most finely tuned businesses in its sector today. For someone who has been with the Group for many years, this is a source of great pride and a compelling reason to look forward with optimism.

I believe that Metinvest has a very exciting future ahead of it. The successful conclusion of our debt restructuring means that we have the option to return to international financial markets in the future. We have built the right team at all levels and have the right business model in place to deliver on our long-term strategy.

I have little doubt that the next 10 years will see both great challenges and major breakthroughs in Ukraine. The geopolitical situation remains unpredictable and the economy, although finally in recovery in 2016, has proved particularly fragile over the past five years. Global steel and raw material markets are likely to present fresh opportunities and new sources of volatility. No one can predict external shocks on the domestic or global markets. However, I do know that we have built a business capable of overcoming enormous challenges and emerging only stronger from every storm.

On behalf of the Supervisory Board, I would like to thank everyone who was a part of the Metinvest story from 2006 to 2016. I also thank our shareholders, investors, employees, customers, partners and other stakeholders for their continued belief and support.

Igor Syry
Chairman of the Supervisory Board

DEDICATED TO THE HIGHEST STANDARDS

IN ITS FIRST 10 YEARS, METINVEST HAS MADE TREMENDOUS PROGRESS IN BUILDING A RIGOROUS SYSTEM OF CORPORATE GOVERNANCE. INITIALLY A TRADITIONAL LOCAL COMPANY, IT IS NOW A GLOBAL BUSINESS COMMITTED TO ADHERING TO INTERNATIONAL BEST PRACTICE IN THE AREA.

SYSTEM

Over the last decade, the Group's aim has been to build a corporate governance system that rivals those of the most transparent international companies and serves the interests of all stakeholders as well as possible. In addition, we have sought to establish a track record of proactive engagement with the investor community, information disclosure and sound financial oversight to strengthen our investment case.

As of 31 December 2016, Metinvest B.V. is owned 71.24% by SCM Cyprus and 23.76% by companies of the Smart Group. The remaining 5% interest in the form of Class C shares has been acquired from the previous owners of Ilyich Group for the benefit of SCM and SMART. It is the intention of SCM and SMART to dispose of the said 5% interest in due course (after the receipt of respective governmental approvals, if such will be necessary), and in such a manner that the ultimate interest of SCM in Metinvest B.V. shall be 75% minus 1 share, and the ultimate interest of SMART in Metinvest B.V. shall be 25% plus 1 share, thus SCM remaining as the controlling shareholder.

PRINCIPLES

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

Specialisation – We focus on the strategic management of the mining and steel businesses and strive to do so better than peers. This increases efficiency and enhances shareholder value and investment attractiveness.

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

Unified strategic management – We carry out unified and consistent strategic planning and management across all enterprises. This helps to maximise synergies among our businesses and enhances shareholder value.

Centralisation – We continue to streamline our centralised organisational structure and reduce layers of management. This helps to optimise management costs, unifies business processes and technology and enhances overall efficiency.

Growth and investments – We believe that making ongoing, targeted investments in our business enables us to prosper in international markets.

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

Tradition and innovation – We maintain the best traditions in steelmaking and mining, enriching them with modern knowledge and technologies. This ensures that our customers receive high-quality products.

Commitment to leadership – We aim for excellence and foster leadership among our people. This stimulates long-term growth and maintains a pool of talented leaders.

Personal commitment – We promote a corporate culture based on personal commitment to work. This means that employees take responsibility for their actions and care for others.

CORPORATE GOVERNANCE STRUCTURE

Metinvest has an effective corporate governance structure that comprises of the General Meeting of Shareholders, Supervisory Board and Management Board.

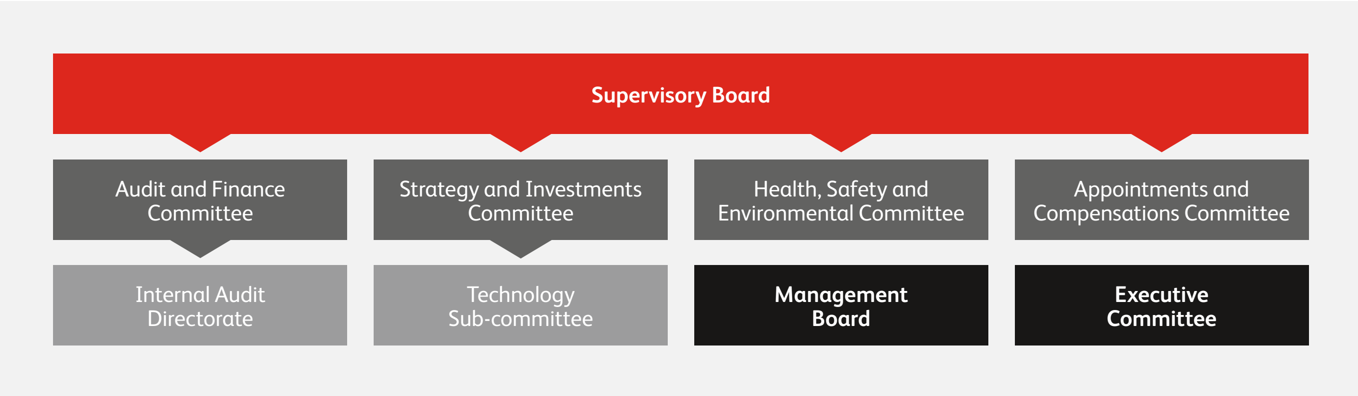
POLICIES

Our corporate governance policies are overseen by our Supervisory Board, which is responsible for strategic management, and the Executive Committee, which monitors operations.

SUPERVISORY BOARD

The Supervisory Board consists of 10 members, seven representing SCM (Class A members) and three representing SMART (Class B members). It is responsible for key decisions related to Metinvest's activities, including:

- devising strategies, goals and business plans;
- comparing results with objectives;
- approving appointments of senior managers, setting their key performance indicators (KPIs) and approving their compensation plans and bonuses;
- appointing the external independent auditor;
- approving annual reports and financial statements;
- providing recommendations to general meetings of shareholders on mergers and acquisitions;



- approving investment projects with budgets over US$20 million (up to US$500 million);
- approving material transactions of over US$100 million (up to US$500 million);
- endorsing external financing of over US$30 million if included in the annual financing programme approved by the Supervisory Board and approving any financing transaction regardless of the amount if they are not included; and
- adopting the annual plan for Supervisory Board and Committees.

BOARD COMMITTEES

Four committees assist the Supervisory Board in its work:

- Strategy and Investments Committee;
- Audit and Finance Committee;
- Health, Safety and Environmental Committee; and
- Appointments and Compensations Committee.

STRATEGY AND INVESTMENTS COMMITTEE

The Strategy and Investments Committee's main responsibility is to conduct reviews and provide recommendations to the Supervisory Board regarding:

- strategic objectives, including new and existing businesses;
- mergers and acquisitions; and
- investment projects exceeding US$20 million.

TECHNOLOGY SUB-COMMITTEE

The Strategy and Investments Committee is assisted by the Technology Sub-committee, which was established in May 2015. It is responsible for advising and assisting the executive management in developing and implementing the Technological Strategy, including:

- defining and optimising the product mix;
- ensuring the quality of input materials and finished products;
- conducting CAPEX initiatives and projects;
- maximising the effectiveness of operating assets by streamlining processes and operating practices;
- maintaining operating assets; and
- building design engineering and process technology capabilities.

AUDIT AND FINANCE COMMITTEE

The Audit and Finance Committee's main objective is to ensure the ongoing supervision of all aspects of the Group's financial and audit activities in the interests of the shareholders and on behalf of the Supervisory Board. Its main responsibilities include overseeing the:

- budget and budget system;
- preparation, approval, audit, filing and publication of the financial statements;
- systems of internal accounting and financial control and reporting, including any relevant IT solutions;
- integrity of internal management accounts prepared by the Executive Committee;
- policy and system of risk management and internal control, and the risk monitoring and assessment system;
- development, supervision and control of the internal audit function and audit system and practice;
- financing of the Group's activities and businesses; and
- assessment of the auditor's competence and independence, as well as the auditor's remuneration and terms of engagement.

The Audit and Finance Committee is assisted by the Internal Audit Directorate.

INTERNAL AUDIT DIRECTORATE

The Internal Audit Directorate consists of professional managers with expertise in internal control, audit and accounting. It reports to the Audit and Finance Committee and senior management regularly. Its main functions include independently evaluating the risk management, control and governance systems and providing reasonable assurance that they are functioning as intended. It reports any shortcomings directly to the Audit and Finance Committee and makes recommendations about how to improve operations. In addition, with consultation from the Chief Legal Officer, it evaluates the Group's compliance with regulatory and legal requirements, both internal and external.

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

The Health, Safety and Environmental Committee's objective is to maintain the highest international HSE standards. Its main responsibilities include:

- developing and implementing the HSE strategy;
- participating in key HSE projects, including analysing and approving plans and budgets;
- maintaining a world-class HSE managerial reporting system;
- reviewing investigations and preliminary conclusions regarding fatal and other serious on-site and off-site incidents involving harm to health and/or the environment;
- uncovering the underlying causes of fatal and other serious incidents and developing plans to minimise future risks;
- identifying, assessing and reducing environmental risks in investment projects and operations; and
- conducting both scheduled and ad hoc site visits to check HSE practices at facilities.

APPOINTMENTS AND COMPENSATIONS COMMITTEE

The Appointments and Compensations Committee oversees the appointment and terms of employment of senior executives and Directors. Its responsibilities include:

- defining the framework for remunerating top managers, heads of key enterprises and other senior executives;
- making recommendations regarding KPIs and annual bonuses for senior managers;
- establishing the Group's succession policy; and
- maintaining the system for motivation, assessment and compensation.

MANAGEMENT BOARD

The Management Board consists of two Directors: Director A and the Chief Executive Officer (CEO), who is appointed by SCM, and Director B, who is appointed by SMART.

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

BRINGING TOGETHER A WEALTH OF EXPERTISE GAINED IN THE INDUSTRY, BUSINESS AND MANAGEMENT, THE SUPERVISORY BOARD SEEKS TO OVERSEE METINVEST'S ACTIVITIES IN ACCORDANCE WITH THE MOST RIGOROUS STANDARDS OF INTERNATIONAL BEST PRACTICE.

Igor Syry

Chairman and Class A Member of the Supervisory Board

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

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

Alexey Pertin

Deputy Chairman and Class B Member of the Supervisory Board

Alexey Pertin was appointed as a Class B Member of the Supervisory Board on 14 July 2014. He is responsible for the following areas: strategic development, production efficiency, sales and investment projects. He is also Chairman of the Strategy and Investments Committee. Since October 2015, he has been Chief Operating Officer of Smart Holding. Before that, he was the Chairman of the Supervisory Board of Smart Holding from 2014 to 2015 and served as its CEO from 2008 to 2014. His career started in 1995 at Cherepovets Iron and Steel Works. He later continued working at Severstal Group in different positions, including General Director of Izhora Pipe Plant and Deputy General Director of the Group. Alexey Pertin graduated from Cherepovets State University in 1994 and from St Petersburg State Technical University with a qualification in financial management in 2001. He has an MBA from Northumbria University (UK) and is a member of the Association of Chartered Certified Accountants (ACCA).

Gregory Mason

Class B Member of the Supervisory Board

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

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

Frank Rieger

Class B Member of the Supervisory Board

Frank Rieger was appointed as a Class B Member of the Supervisory Board on 14 July 2014. Since 2014, he has been the Chairman of the Advisory Board of Smart Energy. Before that, he was a member of the Supervisory Board of Smart Holding from 2014 to 2015. In 1993-2000, he worked at the consulting company Roland Berger and Partners, where he was the leading consultant across various industrial areas with a focus on finance, strategic and investment planning and controls. In 1987-93, he was Finance Director and Deputy Finance Director at Hengst Filterwerke. He previously occupied managerial positions at Yukos from 2000 to 2006, including Chief Financial Officer from 2005 to 2006.

Frank Rieger graduated from Kharkiv Engineering and Economic Institute (Ukraine) with an honours degree in Engineering and Economics in Machine-Building.

Damir Akhmetov

Class A Member of the Supervisory Board

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

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

Amir Aisautov

Class A Member of the Supervisory Board

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

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

Christiaan Norval

Class A Member of the Supervisory Board

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

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

Oleg Popov

Class A Member of the Supervisory Board

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

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

Stewart Pettifor

Class A Member of the Supervisory Board

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

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

Yaroslav Simonov

Class A Member of the Supervisory Board

Yaroslav Simonov was appointed Class A Member of the Supervisory Board on 14 July 2014. He oversees legal matters, compliance and corporate governance. Yaroslav's specialisation includes corporate law, mergers and acquisitions, venture capital, banking and finance and securities. He had previously worked at The Silecky Firm (affiliated with Squire Sanders and Dempsey, LLP). He was also Head of Legal & Compliance of Renaissance Capital Ukraine in 2005-07, and its Chief Operating Officer in 2008. He is currently Deputy Director of Voropayev and Partners Law Firm, LLC.

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

EXECUTIVE COMMITTEE

CONSISTING OF HIGH-CALIBRE PROFESSIONALS WITH A COMPREHENSIVE RANGE OF MANAGERIAL SKILLS, THE EXECUTIVE COMMITTEE POSSESSES THE REQUISITE EXPERIENCE TO STEER THE GROUP'S DAY-TO-DAY ACTIVITIES PRUDENTLY.

Yuriy Ryzhenkov

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

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

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

Alexander Pogozhev

Chief Operations Officer

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

Svetlana Romanova

Chief Legal Officer

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

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

Sergiy Detyuk

Chief Information Officer

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

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

Olga Ovchinnikova

Logistics and Purchasing Director

Olga Ovchinnikova became Logistics and Purchasing Director in 2014, having been Logistics Director of the Group since 2013 and the Supply Chain Directorate from 2012. Before that, from 2006 to 2012, she headed the Logistics department of Severstal Resource, the raw materials division of the Russian steelmaker. From 2002 to 2006, she headed the operations department at Alyanstransoil, part of Alliance Oil.

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

Dmitry Nikolayenko

Sales Director

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

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

Yuliya Dankova

Chief Financial Officer

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

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

Nataliya Strelkova

Director of Human Resources and Social Policy

Nataliya Strelkova has been Director of Human Resources and Social Policy since June 2010. Before that, she held the position of Human Resources Director at MTS (Russia) from 2006 to 2010 and was Director of HR Policy at MTS from 2004 to 2006. She was a Senior Specialist in the HR Policy department at Yukos (Russia) from 2001 to 2004 and Director of HR at the ESN Group (Russia) from 1997 to 2001.

Nataliya obtained a diploma in Physics from the Moscow Institute of Engineering and Physics in 1992 and graduated with a diploma in Organisational Psychology from Moscow State University in 1996. She obtained an MBA from IMD (Lausanne, Switzerland) in 2010.

Aleksey Komlyk

PR and Regional Development Director

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

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

WIND POWER PLANTS
Europe

Renewable energy is becoming an increasingly important part of the world's sustainable future. Metinvest has supplied flat products to leading wind turbine manufacturers in numerous European countries. In 2015-16 alone, it supplied over 86,500 tonnes of steel to build wind towers in Germany, Italy, Spain and Portugal.

86,500T
Metinvest steel used

SUSTAINABILITY REPORT

FROM THE OUTSET, METINVEST HAS BEEN DEDICATED TO LOOKING AFTER ITS PEOPLE, HELPING ITS LOCAL COMMUNITIES AND MITIGATING ITS ENVIRONMENTAL FOOTPRINT. SUSTAINABILITY HAS BEEN CENTRAL TO THE BUSINESS IN THE FIRST 10 YEARS AND WILL REMAIN SO BEYOND.

IN THIS SECTION:

RECIPROCATING THE EFFORT OF METINVEST'S PEOPLE

METINVEST HAS BEEN BUILT THROUGH THE EFFORTS OF ITS EMPLOYEES, BOTH INDIVIDUAL AND COLLECTIVE. THE GROUP SEEKS TO RECIPROCATE THIS BY INVESTING IN AND TAKING CARE OF ITS PEOPLE, INCLUDING HELPING THOSE AFFECTED BY THE CONFLICT IN EASTERN UKRAINE.

COMMITTED TO PEOPLE

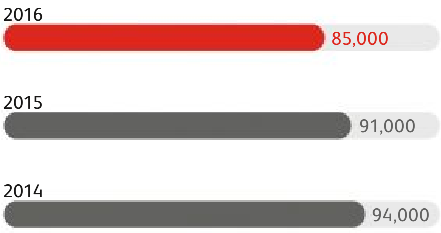
Metinvest is one of the largest employers in Ukraine, with more than 85,000 people in the country and internationally at the end of 2016. Many of our people have been working for generations at our facilities, which are a proud part of our collective history. Over the past decade, we have sought to recognise their efforts and allow them to maximise their potential.

Over the years, the Group has built a dedicated human resources (HR) system, one focused on dealing with both present and future requirements of employees and the organisation. A unified HR system has led to fair and transparent methods of assessment and compensation, replacing multiple systems in place at different facilities. Now, as our business evolves further, we are working to make our HR function more responsive to the Group's needs and in line with international best practice.

Employee headcount

85,000 employees

-7%



As economic and geopolitical instability in Ukraine continues, Metinvest's primary HR priority has been to support employees and their families in the eastern regions. In early 2017, after the reporting period, we lost control over several enterprises located in non-government-controlled territories. As a result, we have offered affected employees positions at our plants in the areas controlled by Ukraine: Zaporizhya, Kryvyi Rih and Mariupol.

In 2016, HR identified and engaged in three priority areas: recruitment and retention of employee; headcount and incentive system management; and staff training.

RECRUITMENT AND RETENTION OF EMPLOYEES

To attract and retain the best employees, Metinvest has built a fair and transparent talent management system, which includes a career promotion policy, open competitions for positions and job rotation principles. A career management policy was adopted in 2016 and establishes the key career principles and pathways for all functional groups. This provides a model for vertical career growth.

In addition, the Group has introduced an open competition system to improve the transparency and quality of appointments. Some 271 people participated in competitions for management positions in 2016. Another key principle of the talent management system is job rotation, which enables priority appointments of internal candidates from other enterprises for management positions. Last year, some 30 management positions were filled in accordance with this.

Metinvest is aware of the challenges of recruiting and retaining young people. In part, we see fewer people graduating with relevant qualifications and a high rate of turnover. As such, we have taken steps to attract the best and brightest young people. In 2016, we carried out a youth values survey in the cities where we operate, reaching nearly 2,000 people. The results were revealing and will be used as basis to adjust our youth recruitment methods. We plan to audit our management and HR practices and begin developing a revised employment value proposition for further communication with young people.

At the corporate level, the Group launched a revised "Young Leaders at Metinvest" programme. The main changes were to the approach to engaging participants: we focused on events that would interest young people and encourage their involvement. In particular, we introduced events dedicated to communication via social media, team building and training and sharing experiences with colleagues from other enterprises.

We also opened a common career centre for four enterprises in Kryvyi Rih, for people wanting to find out about careers at the Group. In addition, in partnership with international student organisation AIESEC, we organised a Language Club for staff at Northern GOK and a Summer Camp project, during which international trainees gave classes on science and machinery for employees' children.

Metinvest is committed to improving employee loyalty. In 2016, we instituted a common corporate standard on voluntary medical insurance and moved to a centralised system for purchasing services to improve costs and provide a consistent service.

HEADCOUNT AND INCENTIVE SYSTEM MANAGEMENT

In 2016, the Group focused on developing the headcount and incentive management system. We implemented best practice to identify the required by production needs headcount by job category and function, namely a zero base budgeting (ZBB) system. This methodology "of planning from clean sheet" was used for all categories of employees.

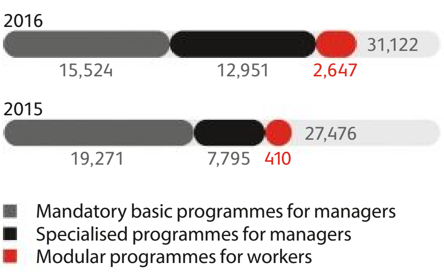
To reach the target for each function, Metinvest launched optimisation programmes focusing on organisational structures, increasing the efficiency of business processes. We carried out an initiative to centralise the maintenance and repair and auxiliary functions at the Group level. We continued to outsource more non-core enterprise-level functions. In addition, we concentrated on reducing the number of management levels.

At the end of 2016, the headcount was down by around 6,000 employees compared with a year earlier.

Training for management and workers

31,122 employees

+13%



During the year, we managed payroll expenses through overall headcount reductions, as well as a raft of other initiatives.

Last year, market volatility and disruptions caused by logistical bottlenecks affected output at some enterprises. To reduce costs and retain employees amid fluctuating production capacity utilisation, Metinvest developed a scalable system to predict and manage changes in workload by giving people holidays or reduced working days. As a result, we saved more than US$3 million in 2016.

To retain the best professionals, one HR objective is to ensure that salaries are competitive in the current labour market. In 2015 and 2016, there were significant changes in the Ukrainian market. Competitors' salaries increased. While outflow from our enterprises decreased year-on-year, it remained rather high among qualified specialists aged 30-45. In response, we raised salaries by 10.6% across the Group on average in June 2016 and awarded a further 5% increase for production personnel in October 2016.

The Group also accelerated the programme to dispose non-core social assets, as part of a long-term plan to consolidate and remove them from the balance sheet while ensuring their continued viability. Last year, we transferred 64 such facilities, leading to a saving of over US$3 million.

STAFF TRAINING

Another central focus last year was improving the skills of management and employees. The Group implemented training programmes for top, middle and junior management, as well as workers. In addition, we put in place a new system for selecting, training and assessing instructors and internal trainers.

Last year, Metinvest introduced new modular programmes for workers in 22 occupations at nine plants, including mini-ones aimed at acquiring specific skills needed in modern manufacturing. To standardise terminology among students, modules were supplemented by e-books and video content. In total, 2,647 employees were trained under such programmes, compared with 410 in 2015.

The Group also expanded problem-oriented training for engineers and technical staff, such as "Schools for Experts", where workshops dedicated to learning from specific production incidents are devised and implemented. Some 13 schools designed to handle 104 incidents across 18 shops were introduced at five enterprises. We also unveiled additional programmes to improve the skills and qualifications of our trainers.

METINVEST HAS INTRODUCED AN OPEN COMPETITION SYSTEM TO IMPROVE THE TRANSPARENCY AND QUALITY OF APPOINTMENTS. ANOTHER KEY PRINCIPLE OF THE TALENT MANAGEMENT SYSTEM IS JOB ROTATION, WHICH ENABLES PRIORITY APPOINTMENTS OF INTERNAL CANDIDATES FOR MANAGEMENT POSITIONS.

Regarding the Corporate University, in 2016, as the Management DNA course came to an end, the number of personnel trained on mandatory basic programmes amounted to 15,524, down 19% year-on-year. At the same time, Metinvest developed four new programmes for senior executives and four for the lower and middle tiers. Overall, the focus was on specialised training, such as workshops dedicated to performance management systems, indirect influencing and thinking out-of-the-box. As a result, the number of employees trained on them increased by 66% year-on-year to 12,951.

In 2016, we continued to run the Strategic Leadership Development course in collaboration with INSEAD. We also ran the Transformational Leadership Programme for the top management together with IMD Business School.

OUTLOOK FOR 2017

Metinvest intends to build further on its achievements in the three key HR areas identified in 2016. Regarding recruitment and retention of employees, we will work to ensure fair and transparent job appointments, attract and retain young talent more effectively and reinforce employee engagement. Our key goals also include enhancing the overall efficiency of the HR function, further developing employee motivation and ensuring prudent payroll costs. Finally, we are committed to making the management and professional training system more efficient.

A DECADE OF DEDICATION

SINCE THE OUTSET, METINVEST HAS BEEN FIRMLY COMMITTED TO SUSTAINABLY INVESTING IN HEALTH AND SAFETY AT ALL OF ITS FACILITIES AND ACHIEVING ZERO INJURIES AND FATALITIES EVERY YEAR. IN 2016, IT CONTINUED TO MAKE IMPORTANT PROGRESS AND FULFIL ITS FIVE-YEAR STRATEGY.

SAFETY CULTURE

From the beginning, one overriding priority for Metinvest has been to look after the health and safety of its employees and prevent injuries and fatalities. While its enterprises have a proud history, improvements in health and safety systems were required at many. As such, we have invested in modern safety equipment and processes and developed world-class training programmes based on international best practice. Over the past 10 years, we have spent around US$900 million overall in this area.

At the Supervisory Board level, the Group maintains a dedicated Health, Safety and Environment Committee that oversees safety systems and ensures compliance with local regulations and, where possible, global standards. If we identify unsafe working conditions or an injury occurs, it is our policy to conduct a root-cause analysis to establish the reason and prevent any repeat in the future. We notify the CEO within two hours of any fatal incident and within 24 hours of any lost-time incident.

As part of its commitment to reinforcing a safety-first culture at facilities, Metinvest has introduced standards to cover every type of activity. At the year-end, 12 of its key plants were certified as being compliant with the OHSAS 18001 international occupational health and safety standards. In addition, we continue to implement the five-year HSE programme approved in 2014.

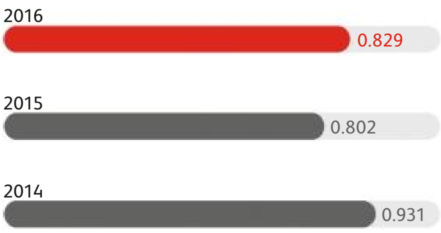
Based on leading international guidelines, Metinvest has instituted 15 corporate health and safety standards. We have introduced a Group-wide corporate standards training system involving instruction by internal retired trainers. In 2011, it won the top prize in the World Steel Association competition. To date, over 96,000 people have received health and safety training according to corporate standards.

Metinvest has also set up a risk assessment system covering all aspects of the business, from production processes to investment projects. This employs hazard identification (HAZID), environmental impact identification (ENVID) and hazard and operability studies (HAZOP), job safety and work safety analysis procedures and lock-out, tag-out (LOTO) and permit-to-work methods across the Group[3]. Between 2006 and 2016, within the framework of the operating risk assessment system, more than 300 hazard identification-based risk assessments were conducted, resulting in the development and application of over 7,000 actions.

The Group has a robust internal audit system in place and has conducted more than 300 audits, identified around 5,500 inconsistencies and

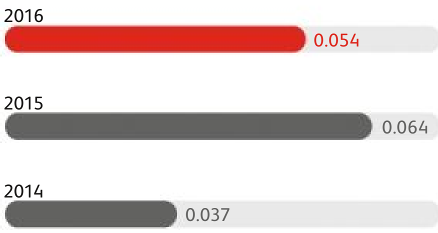
Lost-time injury frequency rate[1]

0.829



Fatality frequency rate[2]

0.054



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

developed over 6,000 actions over the last 10 years. In addition, we regularly evaluate the effectiveness of our safety management systems at each facility, making initial assessments and recommendations for improvement. Each year, we conduct over 130,000 safety audits at our enterprises to identify areas bearing the greatest risk to our people.

Since 2014, the Group's health and safety function has worked to respond to the situation in Eastern Ukraine. Tragically, the conflict has led to injuries and even some fatalities. We have turned to face this unprecedented challenge, focusing on security at enterprises. We have ensured that emergency shelters are fit for use and ready and conduct emergency training and drill for personnel. Amid the conflict, we continuously work on improving the HSE management system. The health and safety requirements at operations in and near to flashpoint areas are as stringent as they are for all other enterprises. Overall, we have sought to ensure that our people have the resources needed to react to emergencies.

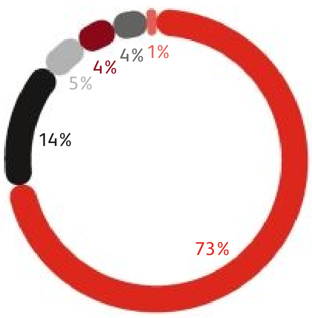
RESULTS IN 2016

Last year, Metinvest continued to invest in facilities and training in line with its five-year HSE strategy, spending U$66 million on health and safety. The overall priorities remained unchanged, occupational health accounting for 73% of the total and workplace safety for 14%. Other areas included: safety of buildings, facilities and transportation (5% of the total); medical expenses (4%); emergencies and fire safety (4%); and corporate standards.

Spending on health and safety in 2016

US$66M

+9%



The Group measures its progress in improving health and safety conditions in terms of internationally recognised standards for workplace safety. These are primarily the lost-time injury frequency rate (LTIFR) and fatality frequency rate (FFR), measured in terms of incidents per million man hours worked.

Both indicators have declined dramatically since 2006. Between 2012 and 2016 alone, the LTIFR fell by around two thirds, while the FFR more than halved. In 2016, the LTIFR and FFR stood at 0.829 and 0.054, respectively. The priority remains to reduce these to zero and increase transparency in safety reporting, both internally and for all external stakeholders.

In 2016, Metinvest conducted 114 HAZIDs at subsidiaries, and developed 7,759 recommendations to reduce risks to an acceptable level. The first HAZOP assessments were conducted on some production processes, namely in the blast furnace shop at Ilyich Steel and the ore beneficiation plant at Northern GOK, under the supervision of an external consultant. Some 43 employees attended HAZOP training sessions.

HEALTHCARE DEVELOPMENT

Metinvest has implemented a healthcare development strategy, designed to improve employee health, provide effective first-aid care and prevent on-the-job incidents related to personal medical issues. It covers three main areas: providing emergency medical care; reducing temporary illnesses causing disability; and preventing cardiovascular disease.

For first aid and acute care, a new pre-hospital and emergency care standard has been introduced at all facilities. In addition, Metinvest is working to ensure that plants and offices have all of the equipment needed to provide emergency medical care. To this end, we are also training our people in pre-hospital care, and around 25% of the workforce had undergone this by the year-end.

The Group works to identify the type and dynamic of temporary illnesses causing disabilities at plants, allowing it to take steps to minimise the rate. All enterprises now keep track of and report temporary disability incidents. We have put in place actions that can be taken to help employees experiencing chronic illnesses. Moreover, we are studying injury-related issues, including non-work ones.

METINVEST HAS INSTITUTED 15 CORPORATE HEALTH AND SAFETY STANDARDS. WE HAVE INTRODUCED A GROUP-WIDE CORPORATE STANDARDS TRAINING SYSTEM, INVOLVING INSTRUCTION BY INTERNAL RETIRED TRAINERS. TO DATE, OVER 96,000 PEOPLE HAVE RECEIVED HEALTH AND SAFETY TRAINING.

Promoting cardiovascular care and a healthy lifestyle is central to the Group's strategy and has been a consistent focus for several years. Last year, we introduced a regulation requiring comprehensive medical examinations at all facilities. Each year, around 25,000 employees in jobs with heightened safety risks are subject to such checks and some 1,500 workers have examinations daily. Last year, based on such checks, around 130 employees in critical jobs were re-assigned to other positions to mitigate risk. One sign of progress on this front has been the sharp reduction in sudden deaths at our facilities, from 32 in 2014 to 14 in 2016.

Last year, Metinvest completed two pilot projects aimed at preventing illnesses from progressing. The "Strong Heart" programme is designed to reduce cardiovascular disease by limiting and removing risk factors. A second programme aims to prevent temporary disability among people experiencing musculoskeletal diseases such as tendinitis and osteoarthritis, among others.

OUTLOOK FOR 2017

In 2017, the Group's overall priorities remain the same as in 2016 and in line with its strategy. Safeguarding the health and safety of all employees remains the overriding focus and objective of all actions. We remain committed to achieving continued reductions in lost-time and fatality indicators. We will also work tirelessly to ensure the safety of all of our people in Eastern Ukraine, a concern heightened by the events of early 2017.

As for applying standards at plants, Metinvest intends to continue making progress on all fronts. We have a programme to improve the availability of personal protective equipment. We are developing a system for consolidating health, safety and environmental risks and communicating them to investment decision makers. We also plan to bring LOTO systems at every facility into compliance with corporate standard requirements and to implement a non-work-related injuries control system.

CONTRIBUTING TO A SUSTAINABLE FUTURE

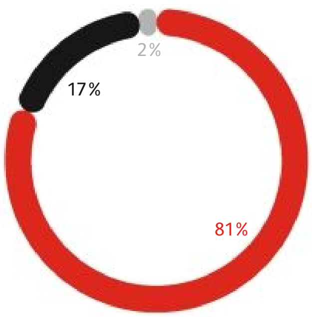
METINVEST HAS BEEN COMMITTED TO CONTRIBUTING TO A SUSTAINABLE FUTURE IN UKRAINE AND THE OTHER COUNTRIES WHERE IT OPERATES BY SUPPORTING ENVIRONMENTAL AND COMMUNITY INITIATIVES FROM THE OUTSET, AND THIS DRIVE CONTINUED APACE IN 2016.

A LEADING ENVIRONMENTAL INVESTOR

While the majority of its assets are in Ukraine, Metinvest also has operations in continental Europe, the UK and the US, as well as sales and marketing offices worldwide. The Group is proud to be an active environmental investor and one of the largest in Ukraine. In our first decade of existence, we spent more than US$3 billion in the area. One particular milestone was the development of the environmental component of the Technological Strategy. Having implemented several of its programmes, we have reduced both our carbon footprint and pollution in our local communities. We also have an ambitious agenda for the next 10 years.

Spending on environment

US$179M



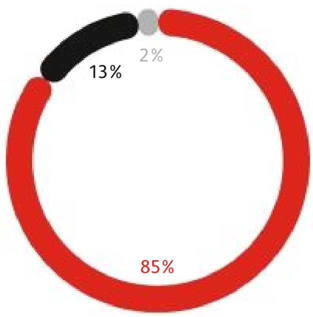
- Operating expenses
- CAPEX
- Environmental measures

In 2016, despite limited liquidity and the challenging operating environment, the Group made environmental investments totalling US$179 million, including capital and operational improvements.

Key initiatives included further upgrading the sinter plant at Ilyich Steel. This is the one of the largest environmental projects undertaken since Ukraine's independence. Metinvest began the work in 2012 and is due to complete it in around 2020. Last year, we installed new gas-cleaning units on two sintering machines. In 2017, we plan to replace six more units and to install four additional bag filters.

Spending on communities

US$6M



- Social partnership programme
- Green Centre
- Help to restore infrastructure in the conflict zone

In 2016, the Group completed the reconstruction of the existing gas-cleaning facilities in Ilyich Steel's basic oxygen furnace no. 2. In addition, we continued the work to replace filters on the Lurgi 552-B pelletising machine at Northern GOK and carried out maintenance on coke oven batteries at Zaporizhia Coke.

At the Zaporizhstal joint venture, Metinvest worked with its partners to reconstruct the gas cleaning filters for sinter machines nos. 3-6 in 2016. The ongoing major overhaul of blast furnace no. 3 will ensure that this furnace complies with international best practices. In particular, among other equipment, it will feature a modern aspiration system.

The Group has continued to ensure compliance with international environmental management standards. In 2016, an ISO 14000 certification audit was conducted at Metinvest Holding, which was found to be in full compliance. At the year-end, 11 plants had ISO 14001 certification and eight had successfully undergone an audit in the previous 12 months. As part of our long-term strategy, we intend to bring the remaining assets into compliance in the next few years.

Last year, at Avdiivka Coke, Metinvest faced challenging conditions due to military action and subsequent risks to water pollution. Despite major issues linked to power cuts and other factors, prompt action by the plant's employees prevented any major environmental incidents.

COMMUNITY ANCHOR

Metinvest takes its role as a corporate citizen of Ukraine and all countries where it operates extremely seriously. Over the past decade, we have consistently invested in local communities, which we consider a priority; between 2006 and 2016, we spent around US$130 million overall. In many cases, our plants are the key employer and economic anchor for their communities. We have reacted to economic and political uncertainty promptly and effectively, particularly the conflict in Eastern Ukraine, where we have responded to the urgent needs of communities affected by military action.

Last year, the Group spent US$6 million on communities, carefully targeting priority initiatives. We completed two important projects begun in 2015 to restore infrastructure and residential accommodation in Avdiivka and Sartana near Mariupol.

In early 2017, military action near Avdiivka took out the power supply to Avdiivka Coke, which provides the majority of the city's heat. Understanding that suspension of operations would have created a crisis for the local community, the Group reacted to this as a priority. Despite hot-mothballing two coke workshops, we managed to keep another two running, generating coke gas for heating coke batteries and the city. When this ran out, natural gas was sourced. We also erected tents to keep residents warm and arranged urgent humanitarian help from our other assets. Supplies included power generators, fuel, warm clothes and drinking water, among other necessities. Employees showed tremendous courage and dedication in the face of serious adversity.

Alongside responding to urgent needs, Metinvest continued to implement its traditional social partnership programmes in 2016. In Mariupol, the Group decided to enter into social partnership with the Mariupol Development Fund, a non-governmental organisation. We believe that this new approach to working with the local community represents an important breakthrough. The fund acts as an urban development agency. The projects are strategic in nature and aim at solving long-term issues, such as utilities, roads and transportation. Importantly, the initiative also allows for several strategic partners to engage jointly in funding larger, longer-term projects in the city.

Pilot projects with the Mariupol Development Fund brought rapid results in 2016, and we believe that this could be a promising model for other cities. One high-profile project was the restoration of the Administrative Services Centre, which involved USAID and whose inauguration ceremony was attended by the president of Ukraine. In the four months after its doors opened, the centre received 72,000 requests for 150 types of services.

Another initiative involved the relocation of Donetsk National Medical University to Mariupol. As part of this, the administration building has been rebuilt, while furniture and IT equipment have been bought. Construction of a new educational building is due to begin in 2017. This long-term project is part of a programme to move higher educational institutions from Donetsk Region to Mariupol.

In Avdiivka, the Group carried out repairs of the infectious disease ward of the central municipal hospital. We continued to invest in childcare facilities, renovating the meeting hall of municipal school no. 6, repairing the gym at school no. 7, upgrading the canteen in school no. 4 and refurbishing pre-school educational facilities. We also carried out work to promote healthy lifestyles in the city, including by developing a bicycle infrastructure.

In Kryvyi Rih, Metinvest allocated funds to upgrade hospital no. 17. We also continued to landscape and upgrade existing parkland in the city, including Ternosky Park and Mazepa Street square, and carried out repairs of city roads.

In the main cities and towns where it is present, Metinvest also held the "We Improve the City" contest, in which residents submit ideas for social initiatives. Overall, 375 proposals were received, and we chose 53 winners, who each received grants and their projects were implemented.

The Group also continued to implement its "Green Centre" campaign in Mariupol to landscape urban spaces and remove waste to improve the urban environment. During the year, we conducted some 504 activities. Metinvest worked with city residents to implement projects to clean up land, build children's areas and plant bushes and trees. Overall, we collected and removed over 900 tonnes of litter, and improved four sources of spring water. The Group also continued to implement the "Green Seedlings" programme, which aims to raise environmental awareness among schoolchildren. As part of it, 13 clubs have been set up to provide educational and practical activities and 27 children completed the course in 2016.

IN MARIUPOL, THE GROUP DECIDED TO ENTER INTO SOCIAL PARTNERSHIP WITH THE MARIUPOL DEVELOPMENT FUND, A NON-GOVERNMENTAL ORGANISATION. WE BELIEVE THAT THIS NEW APPROACH TO WORKING WITH THE LOCAL COMMUNITY REPRESENTS AN IMPORTANT BREAKTHROUGH.

Regarding Kryvyi Rih, Metinvest expanded the "Green Centre" campaign to the city in September. In addition, 2016 saw the beginning of the "100 Yards" initiative, which aims to support individual and municipal efforts to improve areas around apartment buildings. Around 230 proposals for projects were submitted and 24 were chosen. The initiative will continue in 2017.

OUTLOOK IN 2017

Metinvest will continue to pursue its environmental initiatives in 2017. Planned environmental projects include, among others, the further reconstruction of the gas cleaning systems at Ilyich Steel's sinter plant, the exhaust gas ducts of Azovstal's basic oxygen furnaces and Northern GOK's pelletising machines. As we expect to launch an updated CAPEX programme in 2017, given more sustainable liquidity, we envisage an increase in environmental spending as part of this.

The Group will also continue to implement social partnership programmes in the cities where it is present. We look forward to expanding our cooperation with the Mariupol Development Fund and see it as holding great promise for our other communities. We also work hand-in-hand with our communities to manage the challenges in Eastern Ukraine.

HUDSON YARDS

New York, US

Italy's Trametal supplied hot-rolled plates for the construction of this multi-functional complex in Manhattan, which includes offices, apartments, shopping centre, restaurants and parks. Construction is ongoing. Hudson Yards is the largest development in New York City since the Rockefeller Centre.

7,000T

Metinvest steel used

FINANCIAL STATEMENTS

IN 2016, METINVEST MARKED 10 YEARS OF REPORTING CONSOLIDATED FINANCIAL RESULTS. THIS SECTION CONTAINS THE GROUP'S CONSOLIDATED SUMMARY FINANCIAL STATEMENTS FOR THE YEAR, PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS, THE INDEPENDENT AUDITOR'S REPORT AND ADDITIONAL INFORMATION REGARDING THE ANNUAL REPORT.

IN THIS SECTION:

ADDITIONAL INFORMATION

METINVEST B.V.
IFRS CONSOLIDATED SUMMARY FINANCIAL STATEMENTS

31 DECEMBER 2016

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INDEPENDENT AUDITOR'S REPORT

To: the Board of Directors of Metinvest B.V.

REPORT ON THE CONSOLIDATED SUMMARY FINANCIAL STATEMENTS 2016

Our opinion
In our opinion, the accompanying consolidated summary financial statements 2016 of Metinvest B.V. ("The Company") are consistent, in all material respects, with the audited statutory financial statements, in accordance with the basis described in note 1.

The consolidated summary financial statements
The Company's consolidated summary financial statements derived from the audited statutory financial statements for the year ended 31 December 2016 comprise:
- the consolidated summary statement of financial position as at 31 December 2016;
- the consolidated summary statement of comprehensive income for the year then ended;
- the consolidated summary statement of changes in equity for the year then ended;
- the consolidated summary statement of cash flows for the year then ended; and
- the related notes to the consolidated summary financial statements.

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

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

The audited statutory financial statements and our auditor's report thereon
We expressed an unmodified audit opinion on the audited statutory financial statements in our report dated 29 May 2017. The report also includes:
- A section 'Emphasis of matter – Uncertainties in the financial statements with respect to the political and economic uncertainties in Ukraine' that draws attention to Note 2 of the consolidated financial statements. As disclosed in Note 2, the operations of the Group have been affected, and may continue to be affected for the foreseeable future, by the continuing political and economic uncertainties in Ukraine, including the loss of control over the operations of the Group's assets located in the non-controlled territory in March 2017. These factors increase uncertainties regarding the Group's assessment of the carrying amounts of property, plant and equipment accounted for under revaluation model and the recoverable amounts of property, plant and equipment and goodwill under impairment testing.
- The communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the audited financial statements of the current period.

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

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

Amsterdam, 29 May 2017
PricewaterhouseCoopers Accountants N.V.

Originally has been signed by P.C. Dams RA

Metinvest B.V. – Ref.: e0402898

PricewaterhouseCoopers Accountants N.V., Thomas R. Malthusstraat 5, 1066 JR Amsterdam, P.O. Box 90357, 1006 BJ Amsterdam, the Netherlands
T: +31 (0) 88 792 00 20, F: +31 (0) 88 792 96 40, www.pwc.nl

CONSOLIDATED SUMMARY BALANCE SHEET
ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Goodwill	8	**543**	601
Other intangible assets	9	**125**	164
Property, plant and equipment	10	**4,724**	4,822
Investments in associates and joint ventures	11	**908**	779
Deferred tax asset	28	**96**	105
Income tax prepaid	12	**25**	105
Trade and other receivables	14	**137**	229
Total non-current assets		**6,558**	6,805
Current assets			
Inventories	13	**949**	766
Income tax prepaid	12	**18**	66
Trade and other receivables	14	**1,580**	1,365
Cash and cash equivalents	15	**226**	180
Total current assets		**2,773**	2,377
TOTAL ASSETS		**9,331**	9,182
EQUITY			
Share capital	16	**0**	0
Share premium	16	**6,225**	6,225
Other reserves	17	**(8,442)**	(8,013)
Retained earnings		**6,107**	5,674
Equity attributable to the owners of the Company		**3,890**	3,886
Non-controlling interest	18	**138**	138
TOTAL EQUITY		**4,028**	4,024
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations	21	**326**	335
Deferred tax liability	28	**368**	348
Other non-current liabilities	22	**92**	103
Total non-current liabilities		**786**	786
Current liabilities			
Loans and borrowings	19	**2,879**	2,858
Seller's notes	20	**90**	88
Trade and other payables	23	**1,548**	1,426
Total current liabilities		**4,517**	4,372
TOTAL LIABILITIES		**5,303**	5,158
TOTAL LIABILITIES AND EQUITY		**9,331**	9,182

Signed and authorised for release on behalf of Metinvest B.V. on 29 May 2017:

Originally signed by Managing Director A, Yuriy Ryzhenkov.

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

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

CONSOLIDATED SUMMARY INCOME STATEMENT
ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Note	**Year ended 31 December 2016**	Year ended 31 December 2015
Revenue		**6,223**	6,832
Cost of sales	24	**(4,833)**	(6,087)
Gross profit		**1,390**	745
Distribution costs	24	**(660)**	(920)
General and administrative expenses	24	**(183)**	(199)
Other operating income/(expenses), net	25	**(222)**	(300)
Operating profit/(loss)		**325**	(674)
Finance income	26	**26**	26
Finance costs	27	**(397)**	(647)
Share of result of associates and joint ventures	11	**205**	131
Profit/(Loss) before income tax		**159**	(1,164)
Income tax (expense)/benefit	28	**(41)**	161
Profit/(Loss) for the year		**118**	(1,003)
Profit/(Loss) is attributable to:			
Owners of the Company		**106**	(988)
Non-controlling interests		**12**	(15)
Profit/(Loss) for the year		**118**	(1,003)

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

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

	Note	**Year ended 31 December 2016**	Year ended 31 December 2015
Profit/(Loss) for the year		**118**	(1,003)
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss:			
Remeasurement of retirement benefit obligation		**(6)**	(7)
Revaluation and impairment of property, plant and equipment	10, 24	**629**	886
Share in other comprehensive income of joint ventures		**35**	72
Income tax relating to items that will not be reclassified subsequently to profit or loss	28	**(105)**	(161)
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		**(666)**	(2,525)
Total other comprehensive income/(loss)		**(113)**	(1,735)
Total comprehensive income/(loss) for the period		**5**	(2,738)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**(3)**	(2,680)
Non-controlling interest		**8**	(58)
Total comprehensive income/(loss) for the period		**5**	(2,738)

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

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

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Profit/(Loss) before income tax		**159**	(1,164)
Adjustments for:			
Depreciation of property, plant and equipment ('PPE') and amortisation of intangible assets	24	**529**	615
Impairment and devaluation of PPE and other intangible assets	24	**34**	364
Impairment of goodwill		**–**	74
Impairment of associates and joint ventures		**–**	4
Gain on disposal of property, plant and equipment	25	**(3)**	(8)
Finance income	26	**(26)**	(26)
Finance costs	27	**397**	647
Unrealised operating foreign exchange differences		**(18)**	(115)
Net change in retirement benefit obligations, except for interest costs and remeasurements		**(21)**	(34)
Impairment of trade and other accounts receivable	25	**227**	292
Share of result of associates and joint ventures	11	**(205)**	(131)
Inventory write down, net	13	**(45)**	21
Other non-cash operating gains		**(2)**	(14)
Operating cash flows before working capital changes		**1,026**	525
(Increase)/Decrease in inventories		**(195)**	123
(Increase)/Decrease in trade and other accounts receivable		**(442)**	13
Increase in trade and other accounts payable		**199**	215
Cash generated from operations		**588**	876
Income taxes received/(paid)		**35**	(39)
Interest paid		**(133)**	(200)
Net cash from operating activities		**490**	637
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		**(358)**	(275)
Proceeds from sale of property, plant and equipment		**3**	21
Proceeds from sale of Black Iron (Cyprus) Limited		**6**	–
Proceeds from repayments of loans issued	14	**–**	3
Interest received		**18**	14
Net cash used in investing activities		**(331)**	(237)
Cash flows from financing activities			
Proceeds from loans and borrowings	19	**–**	4
Repayment of loans and borrowings	19	**(10)**	(134)
Net trade financing repayment	19	**(67)**	(179)
Purchase of non-controlling interest		**(1)**	–
Other finance costs		**(27)**	(12)
Net cash used in financing activities		**(105)**	(321)
Effect of exchange rate changes on cash and cash equivalents		**(8)**	(13)
Net increase in cash and cash equivalents		**46**	66
Cash and cash equivalents at the beginning of the year		**180**	114
Cash and cash equivalents at the end of the year	15	**226**	180

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

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

	Attributable to owners of the Company					Non-controlling interest (NCI)	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2015	0	6,225	(6,034)	6,372	6,563	199	6,762
Revaluation and impairment of property, plant and equipment (Notes 10, 24)	–	–	859	–	859	27	886
Share in other comprehensive income of joint venture (Note 11)	–	–	72	–	72	–	72
Remeasurement of retirement benefit obligation	–	–	–	(6)	(6)	(1)	(7)
Income tax relating to components of other comprehensive income (Note 28)	–	–	(157)	1	(156)	(5)	(161)
Currency translation differences	–	–	(2,461)	–	(2,461)	(64)	(2,525)
Other comprehensive loss for the period	–	–	(1,687)	(5)	(1,692)	(43)	(1,735)
Loss for the period	–	–	–	(988)	(988)	(15)	(1,003)
Total comprehensive loss for the period	–	–	(1,687)	(993)	(2,680)	(58)	(2,738)
Realised revaluation reserve, net of tax	–	–	(292)	292	–	–	–
Acquisition of non-controlling interest in subsidiaries	–	–	–	3	3	(3)	–
Balance at 31 December 2015	0	6,225	(8,013)	5,674	3,886	138	4,024
Revaluation and impairment of property, plant and equipment (Notes 10, 24)	**–**	**–**	**618**	**–**	**618**	**11**	**629**
Share in other comprehensive income of joint venture (Note 11)	**–**	**–**	**36**	**(1)**	**35**	**–**	**35**
Remeasurement of retirement benefit obligation	**–**	**–**	**–**	**(7)**	**(7)**	**1**	**(6)**
Income tax relating to components of other comprehensive income (Note 28)	**–**	**–**	**(104)**	**1**	**(103)**	**(2)**	**(105)**
Currency translation differences	**–**	**–**	**(652)**	**–**	**(652)**	**(14)**	**(666)**
Other comprehensive loss for the period	**–**	**–**	**(102)**	**(7)**	**(109)**	**(4)**	**(113)**
Profit for the period	**–**	**–**	**–**	**106**	**106**	**12**	**118**
Total comprehensive income/(loss) for the period	**–**	**–**	**(102)**	**99**	**(3)**	**8**	**5**
Realised revaluation reserve, net of tax	**–**	**–**	**(327)**	**327**	**–**	**–**	**–**
Acquisition of non-controlling interest in subsidiaries	**–**	**–**	**–**	**7**	**7**	**(8)**	**(1)**
Balance at 31 December 2016	**0**	**6,225**	**(8,442)**	**6,107**	**3,890**	**138**	**4,028**

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

NOTES TO THE IFRS CONSOLIDATED SUMMARY FINANCIAL STATEMENTS – 31 DECEMBER 2016

1 METINVEST B.V. AND ITS OPERATIONS

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

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

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

In November 2007, the Company acquired from parties known as the Smart Group 82% of PrJSC Ingulets Iron Ore Enrichment Works in exchange for the transfer to SMART of 25% of the Company. Following the November 2007 transaction, Metinvest B.V. was owned 75% by SCM Cyprus and 25% by SMART. SCM Cyprus and SMART additionally agreed that both would sell/contribute to the Group their remaining equity interests in certain metals and mining assets owned by SCM and SMART. In exchange SMART would acquire certain additional rights over the management of the Company and the Group. Due to the complexity of the transaction, it was executed in several stages during 2007 through 2014; and was completed in July 2014.

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

As of 31 December 2016 and throughout the periods presented in these consolidated financial statements, Metinvest B.V. is owned 71.24% by SCM Cyprus and 23.76% by companies of the Smart Group. The remaining 5% interest in the Company in the form of Class C shares has been acquired from the previous owners of Ilyich Group for the benefit of SCM and SMART. It is the intention of SCM and SMART to dispose of the said 5% interest in due course (after receipt of respective governmental approvals, if such will be necessary), and in such manner that the ultimate interest of SCM in the Company shall be 75% minus 1 share, and the ultimate interest of SMART in the Company shall be 25% plus 1 share, thus SCM remaining as the controlling shareholder.

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

	Effective % interest as at 31 December			
Name	2016	2015	Segment	Country of incorporation
Metinvest Holding LLC	**100.0%**	100.0%	Corporate	Ukraine
Metinvest Management B.V.	**100.0%**	–	Corporate	Netherlands
PrJSC Azovstal Iron and Steel Works	**96.7%**	96.2%	Metallurgical	Ukraine
PrJSC Yenakiieve Iron and Steel Works	**92.2%**	91.5%	Metallurgical	Ukraine
JV Metalen LLC	**100.0%**	100.0%	Metallurgical	Ukraine
PrJSC Khartsyzk Pipe Plant	**98.5%**	98.5%	Metallurgical	Ukraine
Ferriera Valsider S.p.A.	**70.0%**	70.0%	Metallurgical	Italy
Metinvest Trametal S.p.A.	**100.0%**	100.0%	Metallurgical	Italy
Spartan UK Limited	**100.0%**	100.0%	Metallurgical	UK
Metinvest International SA	**100.0%**	100.0%	Metallurgical	Switzerland
Metinvest Eurasia LLC	**100.0%**	100.0%	Metallurgical	Russia
Metinvest Service Metal Centres LLC	**100.0%**	100.0%	Metallurgical	Ukraine
JSC Promet Steel	**100.0%**	100.0%	Metallurgical	Bulgaria
PrJSC Makiivka Iron and Steel Works	**90.2%**	90.2%	Metallurgical	Ukraine
PrJSC Ilyich Iron and Steel Works	**99.3%**	99.2%	Metallurgical	Ukraine
PrJSC Avdiivka Coke Plant	**94.6%**	93.0%	Metallurgical	Ukraine
PrJSC Zaporozhkoks	**52.2%**	52.2%	Metallurgical	Ukraine
PrJSC Donetskcoke	**93.7%**	93.6%	Metallurgical	Ukraine
PrJSC Northern Iron Ore Enrichment Works	**96.4%**	96.4%	Mining	Ukraine
PrJSC Central Iron Ore Enrichment Works	**99.8%**	99.8%	Mining	Ukraine
PrJSC Ingulets Iron Ore Enrichment Works	**99.8%**	99.8%	Mining	Ukraine
PrJSC Komsomolske Flux Plant	**99.7%**	99.7%	Mining	Ukraine
United Coal Company LLC ("UCC")	**100.0%**	100.0%	Mining	US
PrJSC Krasnodon Coal Company	**92.9%**	92.9%	Mining	Ukraine

As at 31 December 2016, the Group employed approximately 85 thousand people (31 December 2015: 91 thousand).

The consolidated financial statements of Metinvest B.V. for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 4 April 2017.

For better understanding of Metinvest's financial position and the results of operations, these summary financial statements should be read in conjunction with the Metinvest's audited financial statements as of and for the year ended 31 December 2016, which include all disclosures required by International Financial Reporting Standards as adopted by European Union and the statutory provisions of Part 9, Book 2, of the Dutch Civil Code.

2 OPERATING ENVIRONMENT OF THE GROUP

The complete set of financial statements together with the auditor's report is available on request at Nassaulaan 2A, 2514 JS, The Hague.

The ongoing political and economic instability in Ukraine has led to a deterioration of State finances, volatility of financial markets, illiquidity on capital markets, higher inflation and a depreciation of the national currency against major foreign currencies. It has continued in 2016, though to a lesser extent as compared to 2014–15.

The inflation rate in Ukraine during 2016 reduced to 12% (as compared to 43% in 2015), while GDP returned to growth of 2% (after 10% decline in 2015).

Devaluation of national currency during 2016 has been moderate. As at the date of this report the official exchange rate of hryvnia against US dollar was UAH 26.35 per US$1, compared to UAH27.19 per US$1 as at 31 December 2016 (31 December 2015: UAH24.00 per US$1). In 2016 the National Bank of Ukraine ('NBU') has made certain steps to ease the currency control restrictions introduced in 2014–15. In particular, the required share of foreign currency proceeds subject to mandatory sale on the interbank market was decreased from 75% to 65% starting from 9 June 2016 and further to 50% starting from 5 April 2017, the settlement period for export-import transactions in foreign currency was increased from 90 to 120 days starting from 28 July 2016. Also starting from 13 June 2016, the NBU allowed Ukrainian companies to pay dividends to non-residents with a limit of US$5 million per month. Current restrictions are effective until 16 June 2017. As of 31 December 2016, the amount of undistributed retained earnings of the Group's Ukrainian subsidiaries was approximately US$1,658 million.

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

The conflict in the parts of Eastern Ukraine which started in spring 2014 has not been resolved to date. However, there was no substantial sustained escalation of the conflict since the signing of ceasefire agreements in September 2014 until January 2017. The relationships between Ukraine and the Russian Federation remained strained.

On 1 January 2016, the agreement on the free trade area between Ukraine and the EU came into force. Just after that the Russian government implemented a trading embargo on many key Ukrainian export products. In response, the Ukrainian government implemented similar measures against Russian products. This had some but not a significant impact on Group's trading.

The majority of the Group's Metallurgical segment and some of the Mining segment is located in, or near to, the parts of the Donetsk and Lugansk regions where there has been armed conflict. This includes the city of Mariupol (where the Group's two largest steel plants, PrJSC Ilyich Iron and Steel Works and PrJSC Azovstal Iron and Steel Works, are located), which is approximately 20 kilometres from the line of contact of conflicting parties. Production at these plants has been negatively impacted by the situation starting from the second half of 2014. Despite the challenges management still controlled these assets and oversaw their operations as of 31 December 2016.

The negative impact on production volumes has been caused primarily by disruptions in infrastructure (rail transportation, road transport and electricity and gas supply). This has resulted in some temporary suspensions of operations or decrease of production at some plants during 2014–16. There has been no significant impact to the physical condition of the Group's assets as at 31 December 2016.

Further, in February-March 2017, there was an ,escalation of military confrontation near Avdiivka (where PrJSC Avdiivka Coke Plant is located), which led to temporary suspension of the production. Production on PrJSC Yenakiieve Iron and Steel Works (which includes two facilities located in Yenakiieve and Makiivka) and PrJCS Krasnodon Coal Company has been disrupted since February 2017 by a blockade of railway transportation between Ukraine and the uncontrolled territory.

Following these events, in February 2017, the self-proclaimed authorities in the non-controlled territory announced their intention to seize businesses located on the non-controlled territory and to require businesses to comply with various fiscal, regulatory and other requirements which contravene Ukrainian legislation. On 15 March 2017, the Group determined that it has lost control over the operations of entities located in the non-controlled territory, including: PrJSC Yenakiieve Iron and Steel Works; JV Metalen LLC; PrJSC Makiivka Iron and Steel Works; PrJCS Krasnodon Coal Company; PrJSC Khartsyzk Pipe Plant; and PrJSC Komsomolske Flux Plant; and PrJSC Donetskcoke. As of 31 December 2016, the aggregate consolidated tangible assets of these entities amount to US$511 million (5% of the Group's total consolidated assets). During 2016, these subsidiaries contributed US$563 million to the Group's external revenues (9% of consolidated revenues) and incurred an aggregate net loss of US$35 million. Management have concluded that these events do not impact the application of the going concern assumption for the preparation of these consolidated financial statements. The loss of control is considered to be a non-adjusting post-balance sheet event and, consequently, there has been no adjustment to the carrying values of the Group's assets or liabilities as of 31 December 2016.

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

The increase in the Group's steel production in 2016 (as compared to 2015) was 9%, while iron ore production decreased by 9% due to need to restore the rate and pace of overburden removal following cost-cutting measures undertaken in the second half of 2015 and first half of 2016. There was also a 7% reduction of production of coking coal due to unfavourable market environment during the first half of 2016.

2 OPERATING ENVIRONMENT OF THE GROUP CONTINUED

The prices of steel, coking coal and iron ore experienced both volatility and an overall decline during 2014–15 and reached the decade-lowest levels in the fourth quarter of 2015 and January–February 2016. Since March 2016, there was a notable increase in price levels. The benchmark price for hot-rolled coil (Metal Expert HRC CIS export FOB Black Sea) reached US$492 in December 2016 which is 84% higher compared to December 2015. Benchmark iron ore price (Platts 62% Fe CFR China) increased from US$39 per dry tonne in December 2015 to US$81 per dry tonne in December 2016 and increased further in first months of 2017. Coking coal prices (HCC LV, FOB Australia) increased from US$89 per tonne in December 2015 to US$200 per tonne in December 2016. These price dynamics had positive impact on the Group's gross margins and overall financial results in 2016 as compared to 2015.

As at 31 December 2016 and 2015, the Group had significant balances receivable from and prepayments made to the State including prepaid income taxes and VAT recoverable (Note 14). The timing of settlement of these balances is uncertain and is dependent upon the availability of State funds and amounts of future taxable profits of Group's subsidiaries. During 2016 and January and February 2017, the Group's Ukrainian subsidiaries have received the refunds of prepaid income taxes and VAT recoverable of US$71 million and US$434 million, respectively.

These events in Ukraine increase uncertainties, including the Group's assessment of the revaluation of property, plant and equipment and the recoverable amount of property, plant and equipment and goodwill under impairment testing for assets located in the above-mentioned eastern regions of Ukraine.

Despite certain improvements in 2016, the final resolution and the ongoing effects of the political and economic situation are difficult to predict but they may have further severe effects on the Ukrainian economy and the Group's business.

3 GOING CONCERN

In March 2015, the Group sought an agreement to defer principal payments from its pre-export financing (PXF) facilities due in March and April 2015. Whilst approval for the above deferral was obtained from the majority of PXF lenders under the facilities, the Group was unable to obtain the required consent of all PXF lenders. The Group initiated a broader restructuring, and consequently, did not make the necessary principal payments, triggering default and cross defaults under its bank and non-bank loans and borrowings, as well as bonds. This resulted in a reclassification of all non-current loans and borrowings to current loans and borrowings. The amount of liability to bondholders and PXF lenders is disclosed in Note 19.

The Group undertook a number of measures aimed at restructuring of its debt in the period from April 2015. Negotiations with bondholders were held based on which the High Court of Justice of England and Wales (the Court) sanctioned a moratorium of the Group on taking enforcement action or initiation of insolvency proceedings by bondholders until 27 May 2016; this moratorium was further extended by the Court until 30 November 2016. Further, the Group concluded and signed a standstill agreement with its PXF lenders initially until 27 May 2016 and later prolonged this until 30 November 2016.

On 23 December 2016, the Group agreed the principal finance documents with the majority of bondholders and PXF lenders for its debt restructuring as contemplated by the Heads of Terms (the Restructuring) and issued a practice statement letter (to formally bring the process to the attention of the creditors) in connection with a proposed scheme of arrangement under Part 26 of the Companies Act 2006 to implement the Restructuring (the Restructuring Scheme).

On 17 January 2017, the Court granted leave to the Company to convene scheme meetings of bondholders and PXF lenders to vote on the Restructuring Scheme on 6 February 2017. At the scheme meetings, the majority of bondholders and PXF lenders voted in favour the proposed Restructuring Scheme. On 8 February 2017, at the sanction hearing, the Court sanctioned the Restructuring Scheme.

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

Key features of the Restructuring are:

- Existing bonds and PXF facilities were reprofiled and their maturities were extended:
  - three series of bonds due in 2016, 2017 and 2018 were exchanged into a new US$1,225 million bond due 31 December 2021;
  - four syndicated PXF facilities were consolidated into a single US$1,100 million PXF facility due 30 June 2021, with a grace period on scheduled repayments of principal until 31 December 2018; and
  - all accrued and unpaid interest during the moratoriums under bonds and the standstill agreements under the PXF facilities was converted into the principal of the new instruments.
- New bond and PXF facility are treated as senior liabilities of the Group and rank pari passu between themselves. Relationships between bondholders and PXF lenders are governed by an Intercreditor Agreement.
- Interest rates increased for both debt instruments, but interest is payable in full to the extent there is available unrestricted cash (i.e. cash balance after deduction of cash in transit, amounts held in special accounts in Ukraine for the purpose of purchase of foreign currency, and certain other amounts). This provides a cash flow flexibility for the Group and makes it more resistant to the volatile external economic environment.
  - Interest rate increased for both debt instruments – for bonds to 10.875% per annum and for PXF to the aggregate of 4.16% per annum and LIBOR for US dollar with a 1% floor.
  - Until 31 December 2018, a minimum of approximately 30% of interest is to be paid in cash. The remaining interest is paid via a quarterly cash sweep with a condition of the average unrestricted cash balance being above US$180 million. All interest, except for catch-up interest, which is not paid in cash is to be capitalised. Catch-up interest under bonds is set at 1.5025% per annum and is payable to the extent of cash being available on the corresponding level of the cash sweep.
  - Starting 1 January 2019, all interest under both debt instruments is payable in cash in full amount.

3 GOING CONCERN CONTINUED

- In addition to recourse rights of bondholders and PXF lenders existing under debt instruments which were subject to the Restructuring, the creditors received rights over common security consisting of, inter alia, the following items. The common security is subject to release under certain
  circumstances:
  - share pledge over 100% of shares of Metinvest Management B.V. which is 100% owned by Metinvest B.V. and owns 99.8% of the share capital of PrJSC Ingulets Iron Ore Enrichment Works, 99.3% of the share capital of PrJSC Ilyich Iron and Steel Works and 50%+1 share of PrJSC Central Iron Ore Enrichment Works;
  - a guarantee from Metinvest Management B.V.;
  - share pledge over 50%+1 share of each of PJSC Ingulets Iron Ore Enrichment Works, PJSC Ilyich Iron and Steel Works and PJSC Central Iron Ore Enrichment Works;
  - pledge of certain equipment from PJSC Ingulets Iron Ore Enrichment Works, PJSC Ilyich Iron and Steel Works and PJSC Central Iron Ore Enrichment Works; and
  - pledge over certain bank accounts (including debt service account).
- Certain covenants are imposed on the Group, including limitations to pay dividends, make certain restricted payments, engage in certain transactions with related parties, make capital expenditures above certain levels, incur new debt on top of the permitted caps (unlimited trade finance, capital expenditure financing of US$175 million, debt for general corporate purposes of US$50 million), prepay or redeem subordinated debt before its maturity, as well as certain financial covenants (interest cover ratio, debt cover ratio, tangible net worth, gearing).
- Existing and future loans from SCM and SMART are to be subordinated in favour of the new bond and PXF facility.
- Additional reporting requirements are imposed on the Group.

Following completed debt restructuring, international agencies Moody's Investors Service and Fitch Ratings upgraded the Group's credit ratings. On 23 March 2017, Moody's Investors Service reviewed rating to Caa2 ("stable" outlook) from Caa3 constrained by Ukraine's country ceiling for foreign currency debt. According to a press release published on 6 April 2017, Fitch upgraded Group's Long-Term Foreign-Currency Issuer Default Rating to B ("stable" outlook) from RD, which is one notch above Ukraine's B- country ceiling.

In addition, on 4 January 2017, UCC Seller Notes were restructured (Note 20). Maturity was extended by five years to 31 December 2021. Interest rate was increased from 7% per annum to 9% per annum. The principal repayments are to be done through the cash sweep mechanism based on coal prices and to be calculated on a monthly basis. Until 31 December 2018, a minimum of 30% of interest is to be paid in cash. The remaining 70% of interest are to be paid in cash only if the average unrestricted cash (after repayment of 30% of interest and cash sweep) exceeds US$15 million, otherwise it must be capitalised. Starting 1 January 2019, 100% of interest is payable in cash.

Considering the fact that the restructuring agreement has been concluded and improvements in markets and Group's performance (as discussed in Note 2), uncertainty which might have casted significant doubt about the Group's ability to continue as going concern which existed prior to the restructuring has been substantially reduced. Further, loss of control in 2017 over the operations of entities located in the non-controlled territory (Note 2) did not impact the application of the going concern assumption. As such, management have concluded that the application of going concern assumption for the preparation of these consolidated financial statements is appropriate.

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation and statement of compliance. These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by European Union.

The consolidated financial statements have been prepared under the historical cost convention unless stated otherwise. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. New and revised standards and interpretations adopted by the Group are disclosed in Note 6.

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

Critical accounting estimates and judgements in applying accounting policies. The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the IFRS consolidated financial statements are disclosed in Note 5.

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

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint ventures.

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

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

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

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

	31 December 2016	31 December 2015
US$/UAH	**27.19**	24.00
EUR/UAH	**28.42**	26.22

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

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

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

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

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

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

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

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

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

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

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

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

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

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

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

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

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

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

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

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

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

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

(b) Interest income

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

(c) Sale of services

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

(d) Dividend income

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

(e) Commission income

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

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

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

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

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to changes in the presentation in the current year. In particular, in 2016 the Group changed presentation of legal and consulting expenses related to debt restructuring. Such expenses were reclassified from general and administrative expenses to finance costs to better reflect the substance of such expenditures. This resulted in change in comparative information for the year ended 31 December 2015 amounting to US$12 million.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment of property, plant and equipment, goodwill and other intangible assets. The Group and its subsidiaries are required to perform impairment tests for their assets or cash-generating units when there is indication that an asset or a cash-generating unit ('CGU') may be impaired. One of the determining factors in identifying a CGU is the ability to measure independent cash flows for that unit. Within the Group's identified CGU a significant proportion of their output is input to another CGU. Therefore, judgement is needed in determining a CGU.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

Annually the Group assesses whether goodwill is impaired. This requires estimation of the value in use/fair value less costs of disposal of the CGU or groups of CGU to which goodwill is allocated. Allocation of goodwill to groups of CGU requires significant judgement related to expected synergies. Estimating value in use/fair value less costs of disposal requires the Group to make an estimate of expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Precision of future cash flows is dependent, inter alia, on quality of management's forecasts of benchmark price levels for key commodities, production volumes and production costs and necessary capital expenditure levels.

Changes in the above estimates and judgments could have a material effect on the results of the impairment tests. The estimates used to assess the impairments are impacted by the uncertainty caused by events in Eastern Ukraine, including importantly future planned production and expected market prices (see discussion of operating environment in Note 2). The impact of the uncertainties is discussed further in Notes 8 and 10.

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

As most of the Group's property, plant and equipment is of specialised nature, its fair value as at 31 December 2016 is determined using depreciated replacement cost (Level 3) or, where it is available, the market value (Level 2). For some assets the fair values as of reporting date were obtained using indexation of their carrying amounts for relevant cumulative price indices since the last revaluation date impacting the replacement cost used in measurement of depreciated replacement cost (Level 3).

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

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

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

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

The results of this revaluation of property, plant and equipment are disclosed further in Note 10.

Changes in the above estimates and judgments could have a material effect on the fair value of property, plant and equipment, which, however, is impracticable to quantify due to wide variety of assumptions and assets being valued. The estimates used to assess the fair value of property, plant and equipment are impacted by the uncertainty caused by events in Eastern Ukraine, including importantly future planned production (see discussion of operating environment in Note 2). The impact of the uncertainties is discussed further in Notes 8 and 10.

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

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

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

As discussed in Note 14, during the 2016 the Group has recognised full impairment of trade receivables from some of its key customers in the total amount of US$220 million (2015: partial impairment of US$254 million). Factors taken into consideration by management when estimating the future cash flow included an ageing analysis of trade and other accounts receivable, and the financial position and performance of and collection history with the customer. In the current environment there is significant judgement in estimating whether the impaired trade and other receivables and any related penalty interest will be collected.

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

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

Further, estimation of timing of settlement and recoverability of balances due from related parties requires judgement. Ability of shareholders and parties under their control to repay the amounts due to the Group is dependent to large extent on cash flows from the Group. Such cash flows in the current circumstances may be limited (Note 3). Herewith, the Group is in net payable position with major groups of its related parties (Note 29). No impairment was recognised in respect of balances due from related parties in these consolidated financial statements.

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

Further, management exercised significant judgement in their assessment whether deferred tax asset related to impaired trade receivables from certain key customers (Note 14) can be recognised as at 31 December 2016 and 31 December 2015. Management estimated that it is not probable that the Group's subsidiaries will be able to realise the tax benefit of the respective deductible temporary differences to the full extent. As a result, as of 31 December 2016 deferred tax asset of US$26 million (31 December 2015: US$14 million) was recognised and deferred tax asset of US$17 million (31 December 2015: US$19 million) was not recognised in the consolidated balance sheet. Recognition of deferred tax asset as at 31 December 2016 is supported by proper tax planning performed by management which conforms to the Ukrainian tax legislation. Changes in the estimates and judgements made could have a material effect on these consolidated financial statements.

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

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

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

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

Functional currency. Judgement was applied in determining the functional currency of Metinvest B.V., which is a holding company for operations of the Group in Ukraine, Italy, the US and other countries. The functional currency of Metinvest B.V. was determined on the basis that: (i) in management's opinion Metinvest B.V. is not an extension of and is not integral to the Ukrainian operations; (ii) the primary economic exposures are to a number of countries; and (iii) Metinvest B.V. retains cash and obtains financing in US dollars. Management therefore determined the US dollar as the functional currency of Metinvest B.V. Amount of net payables of Metinvest B.V. totalled US$2,111 million as at 31 December 2016 (31 December 2015: US$1,991 million) where potential foreign exchange gains/losses could arise should a different functional currency (UAH) be determined.

6 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new standards and amendments to the standards, which are relevant to the Group and have been adopted by the European Union are effective in the European Union for the annual periods beginning on or after 1 January 2016:

– Annual improvements to IFRSs 2012. The improvements consist of changes to seven standards, four of which are relevant to the Group.

  The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. The above amendments did not have any significant impact on the Group's financial statements.

  Additionally, IFRS 8 was amended to require disclosure of judgement made by management in aggregating segments, including a description of the segments which have been aggregated and the economic indicators, which have been assessed in determining that aggregated segments share similar economic characteristics and a reconciliation of segment assets to the entity's assets when segment asset are reported. Operating segments disclosure was extended according to revised requirements.

– Annual improvements to IFRSs 2014. The amendments impact four standards, one of which is relevant to the Group. The amendment to IAS 19 clarifies that for post-employment benefit obligation, the decision regarding discount rate, existence of deep market in high-quality corporate bonds, of which government bonds to use as a basis, should be based on currency, that the liabilities are denominated in, and not the country where they arise. The above amendments did not have any significant impact on the Group's financial statements.

– Amendment to IAS 1 – Disclosure Initiative. The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; be consistent from period to period; and not be displayed with more prominence than the subtotals and totals required by IFRS standards. The above amendments did not have any significant impact on the Group's financial statements.

The following new standards relevant to the Group have been adopted by the European Union, however not effective for the annual periods beginning on 1 January 2016 and not adopted earlier by the Group:

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

– IFRS 9, Financial Instruments. (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

  Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

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

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

  Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

6 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

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

– IFRS 16, Leases. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

– Amendments to IFRS 10 and IAS 28. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

– Amendments to IAS 7. The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

– Amendment to IAS 12. The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

The Group is assessing the possible impact of adoption of the above standards but it is not currently expected that it will be significant, except for IFRS 16. IFRS 16 will require the Group to recognise in the balance sheet assets taken in an operating lease and the related lease liabilities. Management has initiated an exercise to calculate the impact of this new standard. This is still ongoing and will be finalised by 1 January 2018. Management plans to apply IFRS 16 retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

Other new or revised standards or interpretations that will become effective for annual periods starting after 1 January 2017 will likely have no material impact to the Group.

7 SEGMENT INFORMATION

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

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

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

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

ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

7 SEGMENT INFORMATION CONTINUED

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

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

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

Segment information for the year ended 31 December 2015 was as follows:

	Metallurgical	Mining	Corporate	Eliminations	Total
2015					
Sales – external	5,407	1,425	–	–	6,832
Sales to other segments	109	1,436	–	(1,545)	–
Total of the reportable segments' revenue	5,516	2,861	–	(1,545)	6,832
Adjusted EBITDA	333	29	(95)	46	313
Share in EBITDA of joint ventures	153	59	–	–	212
Adjusted EBITDA including share in EBITDA of joint ventures	486	88	(95)	46	525
Reconciling items:					
Depreciation and amortisation					(615)
Impairment and revaluation of PPE and other intangible assets	(22)	(342)	–	–	(364)
Goodwill impairment	–	(74)	–	–	(74)
Share of result of associates and depreciation, amortisation, tax and finance income and costs in joint ventures					(81)
Finance income					26
Finance costs					(647)
Foreign exchange gains less losses, net					115
Other					(49)
Loss before income tax					(1,164)

	Metallurgical	Mining	Corporate	Total
Capital expenditure	137	136	12	285
Significant non-cash items included into adjusted EBITDA:				
– impairment of trade and other receivables	(45)	(247)	–	(292)

ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

7 SEGMENT INFORMATION CONTINUED

Analysis of revenue by category:

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

Analysis of revenue by category:

	Metallurgical	Mining	Total
2015			
Sales of own products	4,011	1,362	5,373
– steel products	3,532	–	3,532
– iron ore products	–	1,139	1,139
– coal and coke	291	136	427
– other	188	87	275
Resale of purchased goods	1,396	63	1,459
– steel products	1,206	–	1,206
– coal and coke	89	63	152
– other	101	–	101
Total	5,407	1,425	6,832

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

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

	Metallurgical	Mining	Total
2015			
Ukraine	1,151	468	1,619
Rest of Europe	2,090	165	2,255
Middle East and Northern Africa	1,266	39	1,305
South Eastern Asia	116	635	751
Commonwealth of Independent States ('CIS')	602	–	602
North America	111	118	229
Other countries	71	–	71
Total	5,407	1,425	6,832

As at 31 December 2016 and 31 December 2015, 94% of the Group's non-current assets, other than financial instruments and deferred tax assets, were located in Ukraine.

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8 GOODWILL

The movements of goodwill were as follows:

	2016	2015
As at 1 January		
Original amount	**1,303**	1,452
Accumulated impairment	**(702)**	(698)
Net carrying amount	**601**	754
Impairment	**–**	(74)
Currency translation differences	**(58)**	(79)
As at 31 December		
Original amount	**1,222**	1,303
Accumulated impairment	**(679)**	(702)
Net carrying amount	**543**	601

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

	31 December 2016	31 December 2015
Metallurgical	**493**	544
Mining	**50**	57
Total	**543**	601

After conducting the revaluation of property, plant and equipment and impairment testing of property, plant and equipment and other intangible assets (Notes 9 and 10), management has assessed the recoverable amount of goodwill. The recoverable amount has been determined based on fair value less cost to sell estimations.

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

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

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

	2016	2015
Metallurgical		
Post-tax discount rate (US$)	**11.67%**	13.1%
EBITDA margins (based on FCA prices)	**2017: 15%, 2018: 20%, further – from 14% to 20%**	2016: 14%, 2017: 18%, further – from 16% to 17%
Growth rate in perpetual period	**3%**	3%
Mining		
Post-tax discount rate (US$)	**12.07%**	13.7%
EBITDA margins (based on FCA prices)	**2017: 37%, 2018: 20%, further – from 27% to 35%**	2016: 15%, 2017: 22%, further – from 21% to 27%
Growth rate in perpetual period	**3%**	3%

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

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

Forecasted benchmark **iron ore prices** for Fe 62% fines (CFR North China) are US$60 per tonne in 2017, US$48 per tonne in 2018 and recover at 4% p.a. to US$64 per tonne in 2026 (31 December 2015: range from US$52 per tonne in 2016 to US$70 per tonne in 2025). Forecasted prices for other iron ore products and prices at other markets were determined based on respective discounts or premiums for Fe content, pelletising premiums, applicable transportation costs and historic discounts or premiums usual for those markets.

ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

8 GOODWILL CONTINUED

Forecasted **coal prices** used in the impairment test for all CGUs for low volatile hard coking coal (FOB Queensland) start from US$161 per tonne in 2017, US$124 per tonne in 2018 and grow at 2.25% p.a. on average thereafter (31 December 2015: start from US$89 per tonne in 2016 per tonne, US$108 per tonne in 2018 and grow at 1.3% on average thereafter). Forecasted prices for other types of coal and prices at other markets were determined based on respective historic discounts for differences in quality of each particular coal type and estimated transportation costs.

Forecasted prices for hot-rolled coils at Ukrainian ports used in the impairment test were estimated based on the benchmark (Metal Expert HRC CIS export FOB Black Sea). Forecasted prices are expected to reach US$476 per tonne in 2026 (31 December 2015: US$458 per tonne in 2025) from year-end levels. Forecasted prices for other steel products are based on historic discounts or premiums to prices for hot-rolled coils.

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

An exchange rate of 27 UAH for 1 US$ in 2017 with gradual increase to 31.7 UAH for 1 US$ in 2026 was used in the impairment test for all CGUs as of 31 December 2016 (31 December 2015: from 24 UAH for 1 US$ in 2016 to 27.8 UAH for 1 US$ in 2025).

Metallurgical segment. As at 31 December 2016, the Metallurgical segment's recoverable amount is US$5,283 million and exceeds its total carrying amount by US$1,096 million (31 December 2015: recoverable amount of US$5,223 million, exceeded carrying amount by US$671 million). The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill (and subsequently to property, plant and equipment and intangible assets) related to the Metallurgical segment:

	31 December 2016	31 December 2015
Volumes of production/sales		
Decrease in all the periods by 5.2%	**–**	Recoverable amount equals carrying amount
Decrease in all the periods by 7.4%	**Recoverable amount equals carrying amount**	–
Decrease in all the periods by 9.0%	**Impairment of US$229 million required**	Impairment of US$501 million required
Steel prices		
Decrease in all the periods by 1.4%	**–**	Recoverable amount equals carrying amount
Decrease in all the periods by 1.8%	**Recoverable amount equals carrying amount**	–
Decrease in all the periods by 2.6%	**Impairment of US$462 million required**	Impairment of US$603 million required
Decrease in all the periods by 4.0%	**Impairment of US$1,302 million required**	Impairment of US$1,227 million required
Iron ore prices		
Increase in all the periods by 7.5%	**–**	Recoverable amount equals carrying amount
Increase in all the periods by 10.0%	**–**	Impairment of US$226 million required
Increase in all the periods by 14.6%	**Recoverable amount equals carrying amount**	–
Increase in all the periods by 17.0%	**Impairment of US$183 million required**	–
Coal prices		
Increase in all the periods by 9.0%	**–**	Recoverable amount equals carrying amount
Increase in all the periods by 11.1%	**Recoverable amount equals carrying amount**	–
Increase in all the periods by 15.0%	**Impairment of US$382 million required**	Impairment of US$450 million required

	31 December 2016	31 December 2015
UAH/US$ exchange rates		
Increase in all the periods by UAH 1	**Recoverable amount increases by US$423 million**	Recoverable amount increases by US$696 million
Discount rates		
Increase in all the periods by 2.1 pp	**–**	Recoverable amount equals carrying amount
Increase in all the periods by 2.3 pp	**–**	Impairment of US$72 million required
Increase in all the periods by 5.3 pp	**Recoverable amount equals carrying amount**	–
Increase in all the periods by 7.0 pp	**Impairment of US$308 million required**	–
Growth rate in perpetual period	**No reasonable changes would lead to impairment**	No reasonable changes would lead to impairment

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8 GOODWILL CONTINUED

Mining segment. As at 31 December 2016, the recoverable amount of the Mining segment is US$2,036 million (31 December 2015: US$1,571 million) and exceeds its total carrying amount by US$453 million (31 December 2015: US$93 million). The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill related to this group of CGUs:

	31 December 2016	31 December 2015
Iron ore prices		
Decrease in all the periods by 0.8%	**–**	Recoverable amount equals carrying amount
Decrease in all the periods by 3.3%	**Recoverable amount equals carrying amount**	–
Decrease in all the periods by 5.0%	**Impairment of US$231 million required**	Impairment of US$480 million required
Decrease in all the periods by 10.0%	**Impairment of US$915 million required**	Impairment of US$1,053 million required
UAH/US$ exchange rates		
Increase in all the periods by UAH 1	**Recoverable amount increases by US$129 million**	Recoverable amount increases by US$190 million
Discount rates		
Increase in all the periods by 0.5 pp	**–**	Recoverable amount equals carrying amount
Increase in all the periods by 1.7 pp	**–**	Impairment of US$157 million required
Increase in all the periods by 2.2 pp	**Recoverable amount equals carrying amount**	–
Increase in all the periods by 5.0 pp	**Impairment of US$291 million required**	–
Growth rate in perpetual period	**No reasonable changes would lead to impairment**	No reasonable changes would lead to impairment

UCC. As at 31 December 2016, the recoverable amount of UCC is US$174 million (31 December 2015: US$180 million).

In 2015, total impairment loss of US$399 million was recorded for UCC, out of which US$74 million were recorded against goodwill, US$270 million – against coal reserves and mining permits of separate mines (Note 9), and US$55 million – against property, plant and equipment (Note 10). After impairment recognised in 2015, the goodwill balance related to UCC is nil.

The impairment losses resulted from the decline in coal prices in 2014 and further decline in 2015 (benchmark price of hard coking coal, FOB Queensland, decreased from US$130 per ton in December 2013 to US$110 in December 2014 and then further to US$75 in December 2015) which were not expected to recover in full in the near future. The decrease of coal prices in all forecasted periods by 5% with all other variables held constant would result in additional impairment charge of US$138 million.

In 2016, there was a significant increase in global coal prices which is expected to sustain in 2017. However, there was an offsetting increase in actual and forecasted average production cash costs per tonne (from 2015 actuals of US$71 and 2016 forecast of US$65 (2015 impairment test) to 2016 actual of US$86 and 2017 forecast of US$91 (2016 impairment test). Further, in 2016 there has been a change of sales geography which led to decrease in price premiums (volumes previously sold on local market were shipped to Group's Ukrainian plants). These factors cumulatively led to no net reversal in 2016 of the impairment recognised in previous years, while within UCC property, plant and equipment of some CGUs (mines) were additionally impaired and some CGUs had reversal of impairment by the same amount of US$36 million (Note 10). In 2016, the Group additionally recognised impairment of US$7 million of coal reserves of one of the mines due to significant uncertainty in respect of its future development (Note 9).

The decrease of coal prices in all forecasted periods by 5% with all other variables held constant would result in an impairment charge of US$158 million (31 December 2015: US$74 million). The increase of production cash costs in all forecasted periods by 5% with all other variables held constant would result in an impairment of US$123 million (31 December 2015: US$72 million). Further substantial increase in cash costs and decrease in sales prices will not result in further material impairment of UCC's non-current assets.

The discount rate used for the impairment testing of UCC was 10% (31 December 2015: 13.27%). Change of discount rate by 1 pp leads to change of the recoverable amount by US$5 million (31 December 2015: decrease of discount rate by 1 pp leads to decrease of impairment by US$23 million). No other reasonable changes to the key assumptions used would result in material change of the recoverable amounts of UCC as of 31 December 2016 and 31 December 2015.

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9 OTHER INTANGIBLE ASSETS

The movements of other intangible assets were as follows:

	Coal reserves	Licenses and mining permits	Other intangible assets	Total
As at 1 January 2015				
Cost	418	373	220	1,011
Accumulated amortisation and impairment	(143)	(163)	(171)	(477)
Net carrying amount	275	210	49	534
Additions	–	–	10	10
Impairment (Note 8)	(263)	(7)	–	(270)
Currency translation differences	–	(68)	(15)	(83)
Amortisation	(5)	(16)	(6)	(27)
As at 31 December 2015				
Cost	418	241	209	868
Accumulated amortisation and impairment	(411)	(122)	(171)	(704)
Net carrying amount	7	119	38	164
Impairment (Note 8)	(7)	–	–	(7)
Additions	–	–	5	5
Currency translation differences	–	(13)	(4)	(17)
Amortisation	–	(13)	(7)	(20)
As at 31 December 2016				
Cost	**418**	**213**	**208**	**839**
Accumulated amortisation and impairment	**(418)**	**(120)**	**(176)**	**(714)**
Net carrying amount	**–**	**93**	**32**	**125**

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

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

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10 PROPERTY, PLANT AND EQUIPMENT

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

	Land	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
Cost or valuation						
As at 1 January 2015	**72**	**2,418**	**4,256**	**89**	**682**	**7,517**
Additions	–	–	–	–	275	**275**
Transfers	–	94	135	9	(238)	**–**
Disposals	–	(4)	(36)	(3)	(8)	**(51)**
Reclassification to inventory	–	–	–	–	(13)	**(13)**
Elimination against gross carrying amount upon revaluation	(12)	(134)	(234)	(4)	–	**(384)**
Revaluation	–	297	584	5	–	**886**
Currency translation differences	(10)	(789)	(1,322)	(29)	(251)	**(2,401)**
As at 31 December 2015	**50**	**1,882**	**3,383**	**67**	**447**	**5,829**
Additions	–	–	–	–	369	**369**
Transfers	–	72	134	3	(209)	**–**
Disposals	–	(12)	(36)	(11)	(2)	**(61)**
Reclassification to inventory	–	–	–	–	(11)	**(11)**
Elimination against gross carrying amount upon revaluation	–	(135)	(452)	(2)	–	**(589)**
Revaluation surplus	–	336	615	–	40	**991**
Revaluation decreases that offset previous increases	–	(159)	(201)	–	(4)	**(364)**
Currency translation differences	(2)	(201)	(351)	(6)	(61)	**(623)**
As at 31 December 2016	**48**	**1,783**	**3,092**	**51**	**569**	**5,543**
Accumulated depreciation and impairment						
As at 1 January 2015	**–**	**(336)**	**(572)**	**(37)**	**(34)**	**(979)**
Charge for the year	–	(149)	(428)	(11)	–	**(588)**
Disposals	–	3	32	1	1	**37**
Transfers	–	–	–	–	–	**–**
Elimination against gross carrying amount upon revaluation	12	134	234	4	–	**384**
Impairment	(12)	(25)	(49)	(1)	(7)	**(94)**
Currency translation differences	–	103	104	13	13	**233**
As at 31 December 2015	**–**	**(270)**	**(679)**	**(31)**	**(27)**	**(1,007)**
Charge for the year	–	(132)	(371)	(9)	–	**(512)**
Disposals	–	9	34	8	–	**51**
Transfers	–	–	(1)	1	–	**–**
Elimination against gross carrying amount upon revaluation	–	135	452	2	–	**589**
Impairment	–	(10)	(5)	–	(10)	**(25)**
Currency translation differences	–	31	48	3	3	**85**
As at 31 December 2016	**–**	**(237)**	**(522)**	**(26)**	**(34)**	**(819)**
Net book value as at						
31 December 2015	**50**	**1,612**	**2,704**	**36**	**420**	**4,822**
31 December 2016	**48**	**1,546**	**2,570**	**25**	**535**	**4,724**

As at 31 December 2016 and 2015, construction in progress balance includes prepayments and letters of credit for property, plant and equipment of US$38 million and US$40 million, respectively.

During 2016 and 2015, management performed assessments of whether the carrying amounts of items of property, plant and equipment are materially different from their fair values. Where the material differences were identified as probable, the Group determined the fair value of its property, plant and equipment through a combination of independent appraisers and internal assessments. The Group aims to revalue a class of property, plant and equipment simultaneously; in case of revaluing a class on a rolling basis, the Group completes the revaluation within a short period, and keeps revaluations up to date. Substantially all the property, plant and equipment balance was either revalued or tested for impairment (whenever impairment indicators existed) during both 2016 and 2015.

Fair valuation of property, plant and equipment. As of 31 December 2016, due to further devaluation of UAH and accumulated inflation in Ukraine the Group decided to perform a revaluation of assets where fair value was expected to be significantly higher than their carrying amounts. These revalued assets represent 74% of total value of the Group's property, plant and equipment as of 31 December 2016.

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10 PROPERTY, PLANT AND EQUIPMENT CONTINUED

The revaluation and impairment as at and for the year ended 31 December 2016 are recorded as follows:

	Recognised in other comprehensive income	Recognised in profit and loss (Note 24)	Total
Revaluation surplus	**968**	**23**	**991**
Revaluation decreases that offset previous increases in the carrying amount	**(332)**	**(32)**	**(364)**
Net effect of revaluation	**636**	**(9)**	**627**
Assets written down during the year	**(7)**	**(18)**	**(25)**
Total	**629**	**(27)**	**602**

Included in the "Revaluation surplus" line above is the reversal of impairment losses related to PrJSC Central Iron Ore Enrichment Works, out of which US$126 million was recognised in other comprehensive income and US$22 million was recognised in profit or loss. This reversal was largely driven by market increase in pelletising premium and decrease in discount rate.

Included in the "Assets written down during the year" line above is US$36 million of reversal of prior year impairments related to some of UCC mines considered to be separate CGUs. These are offset by additional impairment of the same amount related to other UCC mines included in the same line.

Elimination of accumulated depreciation against cost or valuation was recognised only for revalued assets.

Assets located in or in close proximity to non-controlled territory. No uplift was recorded in respect of property, plant and equipment located in or in close proximity to the area not controlled by the government of Ukraine due to uncertainties as discussed in Note 2. These assets were subject to impairment testing. These assets represent 15% of the Group's property, plant and equipment as of 31 December 2016 and do not include plants located in Mariupol.

The specific risk of future severe physical damage or loss of control over assets located within or in close proximity to the areas not controlled by Ukrainian government was not taken into account when building cash flow projections nor was this included within the discount rate in either goodwill or CGU impairment testing. Factoring the impact of this risk into the impairment test would decrease the recoverable value of the related property,
plant and equipment. Management has estimated that if the probability that this risk crystallises is 20% with respect to the CGUs located within the territories not controlled by the Ukrainian government and 10% for CGUs in close proximity to it, all other factors remaining constant, then the recoverable value of related property, plant and equipment would not fall below their carrying value at 31 December 2016 (31 December 2015: additional impairment loss of US$18 million should be recognised). Although there would be certain headroom above the carrying value based on the impairment tests if the probability of the risk were considered to be 0%, in management's view it is not appropriate to recognise an uplift in fair value of these assets as at 31 December 2016 and 2015 in light of the uncertainties in the non-controlled area.

In March 2017, the Group lost control over the operations of the entities in the non-controlled territory (Note 2).

Considerations in respect of other assets. A revaluation exercise was considered unnecessary for other property, plant and equipment balances, mainly located outside of Ukraine, as management estimated that their fair value as of 31 December 2016 was not materially different from their cumulative carrying amount of US$387 million (8% of total value of the Group's property, plant and equipment as of 31 December 2016). No impairment indicators were noted in respect of these assets.

Also, UCC impairment test has been performed as at 31 December 2016 (Note 8). UCC represented 3% of total value of the Group's property, plant and equipment as of 31 December 2016.

Assumptions used in impairment testing (including the economic obsolescence test performed as part of fair valuation). The recoverable amount has been determined based on fair value less costs of disposal calculations. Assumptions used in impairment testing of property, plant and equipment and other intangible assets are consistent with those used in goodwill impairment test (Note 8), except for discount rates for individual CGUs which included incremental size risk premia (as compared to size risk premia applicable to the whole segment) and were, therefore higher than those used for impairment testing of goodwill by 0.4–0.69% pp for metallurgical CGUs (resulting discount rates for individual metallurgical CGUs being 12.07–12.36% (2015: 13.69–13.97%) and 0.29% pp for mining CGUs (resulting discount rates for individual mining CGUs being 12.36% (2015: 13.97%).

During 2016, US$27 million of borrowing costs were capitalised as part of property, plant and equipment, capitalisation rate was 8% (2015: US$28 million, capitalisation rate was 8%).

As at 31 December 2016 and 2015, no property, plant and equipment were pledged as collateral for loans and borrowings.

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11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's investment in joint ventures and associates were as follows as at 31 December 2016 and 2015:

			2016		2015	
Name	Type of relationship	Segment	% of ownership	Carrying value	% of ownership	Carrying value
Zaporozhstal Group	Joint venture	Metallurgical	**49.9%**	**491**	49.9%	458
PJSC Southern Iron Ore Enrichment Works	Joint venture	Mining	**45.9%**	**394**	45.9%	298
PrJSC Yenakievskiy Koksohimprom	Associate	Metallurgical	**50.0%**	**10**	50.0%	7
PrJSC Zaporozhogneupor	Associate	Metallurgical	**45.4%**	**2**	45.4%	2
IMU	Associate	Metallurgical	**49.9%**	**11**	49.9%	7
Black Iron (Cyprus) Limited	Associate	Mining	**–**	**–**	49.0%	6
Other	Associate	Mining	**n/a**	**–**	n/a	1
Total				**908**		779

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

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

PJSC Southern Iron Ore Enrichment Works

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

Zaporozhstal Group

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

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

As at 31 December 2016 and 2015, Metinvest's investments in Zaporozhstal Group and PJSC Southern Iron Ore Enrichment Works were classified as joint ventures due to the fact that decisions on the key relevant activities require participation of and unanimous consents both from Metinvest and from the other shareholders of the Zaporozhstal Group and PJSC Southern Iron Ore Enrichment Works.

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

	2016	2015
Carrying amount at 1 January	**779**	906
Share of after tax results of joint ventures and associates	**205**	131
Share of other comprehensive income of joint ventures and associates	**35**	72
Impairment of share in Black Iron (Cyprus) Limited	**–**	(4)
Sale of share in Black Iron (Cyprus) Limited	**(6)**	–
Currency translation difference	**(105)**	(326)
Carrying amount at 31 December	**908**	779

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

- PrJSC Yenakievskiy Koksohimprom, Ukrainian producer of coke which sources majority of its coal consumption from the Group and sells majority of its coke output to the Group's steel plants; PrJSC Yenakievskiy Koksohimprom had revenues of US$75 million and net profit of US$7 million in 2016 (2015: US$72 and US$7, respectively) and total assets of US$92 million as at 31 December 2016 (31 December 2015: US$76 million);
- PrJSC Zaporozhogneupor, Ukrainian producer of refractories, with revenue of US$49 million and net profit of US$1 million in 2016 (2015: revenue of US$46 million and net loss of US$1 million, respectively) and total assets of US$24 million as at 31 December 2016 (31 December 2015: US$24 million);
- Black Iron (Cyprus) Limited, entity which owns licences for development of two iron ore deposits nearby Kryvyi Rih, Ukraine. In January 2016, the Group sold its investment in Black Iron (Cyprus) Limited for consideration of US$6 million which equals the carrying amount of investment as at 31 December 2015; and
- Industrial-Metallurgical Union ('IMU'), entity which owns 4.5% interest in ArcelorMittal Kryvyi Rih, the largest integrated steel plant in Ukraine.

ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

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

	Zaporozhstal Group		PJSC Southern Iron Ore Enrichment Works	
	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
Balance sheet:				
Non-current assets	**796**	864	**363**	318
Cash and cash equivalents	**39**	17	**8**	9
Other current assets	**733**	459	**560**	396
Total current assets	**772**	476	**568**	405
Trade and other payables and provisions	**84**	108	**–**	–
Other non-current financial liabilities	**31**	33	**30**	35
Total non-current liabilities	**115**	141	**30**	35
Trade and other payables and provisions	**532**	366	**41**	21
Other current financial liabilities	**110**	113	**1**	18
Total current liabilities	**642**	479	**42**	39
Net assets	**811**	720	**859**	649

	Zaporozhstal Group		PJSC Southern Iron Ore Enrichment Works	
	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
Profit or loss for the year ended (selected items):				
Revenue	**1,321**	1,463	**569**	483
Depreciation and amortisation	**(71)**	(77)	**(29)**	(37)
Interest income	**1**	–	**1**	1
Interest expense	**(17)**	(32)	**(4)**	(5)
Income tax expense	**(37)**	(15)	**(50)**	(41)
Profit or loss	**201**	106	**228**	169
Statement of comprehensive income for the year ended:				
Other comprehensive income	**(8)**	145	**74**	3
Total comprehensive income	**193**	251	**302**	172
Dividends received by the Group during the year ended	**–**	–	**–**	–

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

As at 31 December 2016, Zaporozhstal had a contingent liability with potential maximum outflow of US$22 million (31 December 2015: US$13 million). This contingent liability represents default interest on a loan taken by then a Zaporozhstal's subsidiary (deconsolidated by Zaporozhstal in 2015) which defaulted on this loan. The loan is guaranteed by Zaporozhstal. The financial guarantee was recognised in full by Zaporozhstal, but the default interest has not been accrued as there is uncertainty as to this amount.

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

	Zaporozhstal Group		PJSC Southern Iron Ore Enrichment Works	
	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
Net assets	**811**	720	**859**	649
Group's ownership, %	**49.9%**	49.9%	**45.9%**	45.9%
Group's interest in net assets	**404**	359	**394**	298
Goodwill	**87**	99	**–**	–
Carrying value	**491**	458	**394**	298

ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

12 INCOME TAX PREPAID

	31 December 2016	31 December 2015
Non-current portion	**25**	105
Current portion	**18**	66
Total income tax prepaid	**43**	171

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

The classification of prepayments as of 31 December 2016 is based on Group management's assessment of taxable profits of subsidiaries and amounts of expected cash refunds from the State during 2017.

13 INVENTORIES

	31 December 2016	31 December 2015
Finished goods and work in progress	**475**	367
Raw materials	**329**	255
Ancillary materials, spare parts and consumables	**113**	114
Goods for resale	**32**	30
Total inventories	**949**	766

In 2016, the Group had net reversal of an inventory write-down of US$45 million due to sale of respective inventories, increase of steel prices and recovery of gross margins. In 2015, net inventory write down expense was US$21 million.

As at 31 December 2016, inventories totalling US$50 million (31 December 2015: US$69 million) have been pledged as collateral for borrowings (Note 19).

14 TRADE AND OTHER RECEIVABLES

	31 December 2016	31 December 2015
Non-current assets		
Trade receivables	**–**	201
Loans issued to SCM (US$ denominated, 9% effective interest rate)	**36**	11
Loans issued to SMART (US$ denominated, 9% effective interest rate)	**82**	–
Other non-current financial assets	**6**	7
Other non-current non-financial assets	**13**	10
Total non-current assets	**137**	229
Current financial assets		
Trade receivables and receivables on commission sales	**907**	757
Loans issued to joint venture (US$ denominated, 11% effective interest rate, mature in 2017, renegotiated in 2016)	**98**	101
Loans issued to SMART (US$ denominated, 9% effective interest rate)	**–**	75
Loans issued to SCM (US$ denominated, 9% effective interest rate)	**–**	22
Other receivables	**69**	56
Total current financial assets	**1,074**	1,011
Current non-financial assets		
Recoverable value added tax	**200**	148
Prepayments made	**177**	142
Covered letters of credit related to inventory purchases	**74**	5
Prepaid expenses and other non-financial receivables	**55**	59
Total current non-financial assets	**506**	354
Total current assets	**1,580**	1,365
Total trade and other receivables (including non-current assets)	**1,717**	1,594

As at 31 December 2016, 9% (31 December 2015: 10%) of receivables which were overdue but not impaired related to key customers and 71% (31 December 2015: 69%) – to SCM and other related parties. Following further delays in payments from some of the Group's key customers beyond the originally expected dates and their certain operational and financial issues, management has re-assessed the recoverable amounts of receivables from these entities. As a result, during 2016 the Group recognised impairment provision for the full amount of these receivables which led to increase of provision from US$315 million as of 31 December 2015 to US$535 million as of 31 December 2016 for these debtors.

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14 TRADE AND OTHER RECEIVABLES CONTINUED

The increased level of prepayments made is a reflection of requirements of non-Ukrainian suppliers of goods and services for the increased risks and uncertainties of doing business with Ukrainian counterparties.

Recoverable VAT mainly relates to Ukrainian subsidiaries of the Group. During 2016, VAT refunds of US$361 million were received by the Group (2015: US$479 million). Although there are certain delays with the refund of part of this balance amounting to US$35 million related to the subsidiaries located in the non-controlled territory, the Group has a proved right for the refund of this amount and considers this balance as fully recoverable.

During 2016, trade accounts receivable in the amount of US$707 million have been sold to a third party (2015: US$499 million). As at 31 December 2016 amount of such receivables which were still unsettled to a third party was US$115 million (31 December 2015: US$67 million). The carrying amount of the assets and liabilities that represent the entity's continuing involvement in the derecognised assets is US$2 million (31 December 2015: US$2 million). The maximum exposure to loss from such receivables relates to customer default only and is pre-agreed with the third party purchasing the receivables as the percentage of their nominal amount sold. Such percentage is determined with reference to the historical loss ratio and the statistical model of the respective markets the Group.

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

	31 December 2016		31 December 2015	
	Trade receivables	**Other financial receivables**	Trade receivables	Other financial receivables
Provision for impairment at 1 January	**329**	**49**	77	27
Net impairment during the year	**227**	**–**	263	29
Currency translation differences	**(7)**	**(4)**	(11)	(7)
Provision for impairment at 31 December	**549**	**45**	329	49

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

	31 December 2016		31 December 2015	
	Trade receivables and receivables on commission sales	**Other financial receivables**	Trade receivables and receivables on commission sales	Other financial receivables
Key customers	**47**	**–**	20	–
SCM and other related companies, including associates and joint ventures	**56**	**117**	54	145
Balances covered by bank letters of credit	**85**	**–**	77	–
Balances insured	**159**	**–**	121	–
Balances factored	**52**	**3**	26	–
Existing and new counterparties with no history of default	**82**	**32**	75	24
Balances renegotiated with SCM and other related companies, including associates and joint ventures	**185**	**24**	27	26
Balances renegotiated with key customers	**34**	**–**	46	–
Total fully performing (not past due)	**700**	**176**	446	195
Past due:				
– less than 30 days overdue	**80**	**–**	81	53
– 30 to 90 days overdue	**58**	**1**	54	12
– 90 to 180 days overdue	**18**	**16**	58	2
– 180 to 360 days overdue	**16**	**79**	64	3
– over 360 days overdue	**35**	**19**	34	8
Total past due, but not impaired	**207**	**115**	291	78
Total individually impaired	**549**	**45**	550	49
Less impairment provision	**(549)**	**(45)**	(329)	(49)
Total	**907**	**291**	958	273

As at 31 December 2016, trade and other receivables totalling US$123 million (31 December 2015: US$99 million) have been pledged as collateral for borrowings (Note 19).

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15 CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Current accounts	**198**	160
Cash in transit	**19**	16
Bank deposits up to three months	**9**	4
Total cash and cash equivalents	**226**	180

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

	31 December 2016	31 December 2015
As rated by Moody's:		
– Aa2	**19**	–
– A1	**61**	53
– A2	**–**	2
– A3	**14**	–
– Baa1	**4**	–
– Baa2	**–**	12
– Ba2	**37**	21
Not rated – FUIB	**60**	71
Not rated – US and European banks	**20**	20
Not rated – other Ukrainian banks	**11**	1
Total cash and cash equivalents	**226**	180

As at 31 December 2016 and 2015, amounts in category "Not rated – FUIB" relate to First Ukrainian International Bank (a related party which is under common control of SCM).

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

As at 31 December 2016, cash and cash equivalents totalling US$11 million (31 December 2015: US$0 million) have been pledged as collateral for borrowings (Note 19).

16 SHARE CAPITAL AND SHARE PREMIUM

	Number of outstanding shares			Total par value of shares	Share premium	Total
	Class A	Class B	Class C			
At 31 December 2015	6,750	2,251	474	0	6,225	6,225
At 31 December 2016	**6,750**	**2,251**	**474**	**0**	**6,225**	**6,225**

As at 31 December 2016 and 2015, the issued share capital comprised 6,750 ordinary Class A shares, 2,251 ordinary Class B shares and 474 ordinary Class C shares with a par value of EUR10. Each ordinary share carries one vote and is fully paid.

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

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

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17 OTHER RESERVES

	Revaluation of available-for-sale investments and share in OCI of associates	Revaluation of property, plant and equipment	Merger reserve	Cumulative currency translation reserve	Total
Balance as at 1 January 2015	(13)	4,394	(3,038)	(7,377)	(6,034)
Total comprehensive income/(loss) for the period	–	774	–	(2,461)	(1,687)
Depreciation transfer, net of tax	–	(292)	–	–	(292)
Balance as at 31 December 2015	(13)	4,876	(3,038)	(9,838)	(8,013)
Total comprehensive income/(loss) for the period	**4**	**546**	**–**	**(652)**	**(102)**
Depreciation transfer, net of tax	**–**	**(327)**	**–**	**–**	**(327)**
Balance as at 31 December 2016	**(9)**	**5,095**	**(3,038)**	**(10,490)**	**(8,442)**

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

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

The ability of the Group to pay dividends has been limited by the terms and conditions of the Group's agreements with its lenders and bondholders related to the debt restructuring process (Note 3).

18 MATERIAL NON-CONTROLLING INTERESTS IN SUBSIDIARIES

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

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

	Proportion of NCI (same as voting rights held by NCI)	Profit or loss attributable to NCI	OCI attributable to NCI	Amount of NCI in the subsidiary	Dividends paid to NCI during the year
As at 31 December 2016					
PrJSC Azovstal Iron and Steel Works	**3.3%**	**1**	**1**	**34**	**–**
PrJSC Avdiivka Coke Plant	**5.4%**	**2**	**(2)**	**15**	**–**
PrJSC Zaporozhkoks	**47.8%**	**7**	**(4)**	**29**	**–**
PrJSC Northern Iron Ore Enrichment Works	**3.6%**	**5**	**(1)**	**38**	**–**
Ferriera Valsider S.p.A.	**30.0%**	**–**	**(1)**	**23**	**–**
Other subsidiaries with NCI	**n/a**	**(3)**	**3**	**(1)**	**–**
Total		**12**	**(4)**	**138**	**–**
As at 31 December 2015					
PJSC Azovstal Iron and Steel Works	3.8%	(4)	(7)	37	–
PJSC Avdiivka Coke Plant	7.0%	2	(10)	21	–
JSC Zaporozhkoks	47.8%	6	(12)	26	–
PJSC Northern Iron Ore Enrichment Works	3.6%	(2)	(16)	36	–
Ferriera Valsider S.p.A.	30.0%	(8)	3	24	–
Other subsidiaries with NCI	n/a	(9)	(1)	(6)	–
Total		(15)	(43)	138	–

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18 MATERIAL NON-CONTROLLING INTERESTS IN SUBSIDIARIES CONTINUED

The summarised financial information of these subsidiaries (including the impact of consolidation fair value adjustments, but before intercompany eliminations), was as follows at 31 December 2016 and 2015:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Net assets
As at 31 December 2016					
PrJSC Azovstal Iron and Steel Works	**1,000**	**1,117**	**920**	**177**	**1,020**
PrJSC Avdiivka Coke Plant	**449**	**265**	**399**	**30**	**285**
PrJSC Zaporozhkoks	**98**	**38**	**69**	**7**	**60**
PrJSC Northern Iron Ore Enrichment Works	**694**	**710**	**217**	**80**	**1,107**
Ferriera Valsider S.p.A.	**221**	**92**	**233**	**4**	**76**
As at 31 December 2015					
PJSC Azovstal Iron and Steel Works	782	1,145	785	159	983
PJSC Avdiivka Coke Plant	390	314	357	52	295
JSC Zaporozhkoks	57	40	36	7	54
PJSC Northern Iron Ore Enrichment Works	490	745	156	81	998
Ferriera Valsider S.p.A.	179	123	210	11	81

	Revenue	Profit/ (Loss)	Total comprehensive (loss)/ income
Year ended 31 December 2016			
PrJSC Azovstal Iron and Steel Works	**1,498**	**26**	**37**
PrJSC Avdiivka Coke Plant	**588**	**31**	**(10)**
PrJSC Zaporozhkoks	**181**	**14**	**6**
PrJSC Northern Iron Ore Enrichment Works	**718**	**141**	**109**
Ferriera Valsider S.p.A.	**382**	**(1)**	**(5)**
Year ended 31 December 2015			
PJSC Azovstal Iron and Steel Works	1,532	(117)	(314)
PJSC Avdiivka Coke Plant	608	26	(123)
JSC Zaporozhkoks	209	12	(13)
PJSC Northern Iron Ore Enrichment Works	616	(49)	(492)
Ferriera Valsider S.p.A.	398	(26)	(16)

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

In 2011 and 2014, the Company issued guaranteed bonds with aggregate amount of US$1,183 million outstanding which were in default as at 31 December 2016 (Notes 3 and 19). The bonds are guaranteed on a joint and several basis by the Group's subsidiaries PrJSC Avdiivka Coke Plant, PrJSC Ingulets Iron Ore Enrichment Works, PrJSC Khartsyzk Pipe Plant, PrJSC Northern Iron Ore Enrichment Works, PrJSC Central Iron Ore Enrichment Works, PrJSC Azovstal Iron and Steel Works, PJrSC Yenakiieve Iron and Steel Works, PrJSC Ilyich Iron and Steel Works. The terms of bonds, subject to certain exceptions and qualifications, limit the ability of the Group to:

- undertake any amalgamation, merger, division, spin-off, transformation or other reorganisation or restructuring;
- incur additional indebtedness;
- pay dividends or distributions in respect of its share capital or redeem or repurchase capital stock or subordinated debt;
- create mortgages, pledges, security interests, encumbrances, liens or other charges;
- transfer or sell assets; and
- enter into transactions with affiliates.

Also, Metinvest entered into a number of PXF loans for an aggregate amount of US$1,093 million which were in default as at 31 December 2016 (Notes 3 and 19). These loans are guaranteed by PrJSC Ingulets Iron Ore Enrichment Works and PrJSC Ilyich Iron and Steel Works. Also, as a condition of these loans, certain subsidiaries of Metinvest (PrJSC Azovstal Iron and Steel Works, PrJSC Yenakiieve Iron and Steel Works, PrJSC Northern Iron Ore Enrichment Works, PrJSC Ingulets Iron Ore Enrichment Works, Metinvest International S.A., PrJSC Ilyich Iron and Steel Works) are jointly committed to perform sales of steel products to Metinvest International S.A. from the date when the funds are drawn down by Metinvest. The commitment to sell steel products mirrors the initial contractual (pre-default) repayment schedule of the loans balances and extends to loans' initial contractual (pre-default) maturity dates. The proceeds from such sales are transferred through special accounts of the lenders and banks will have rights to these proceeds only in case when Metinvest does not make a scheduled payment under the credit facilities. There are no other restrictions to these accounts. The amount of funds on such accounts as at 31 December 2016 is US$0 million (31 December 2015: US$0 million).

See also discussion in Note 3 about other restrictions introduced as a result of restructuring.

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19 LOANS AND BORROWINGS

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

	31 December 2016	31 December 2015
Current		
Bonds issued	**1,183**	1,146
Bank borrowings	**1,110**	1,091
Non-bank borrowings from related parties	**425**	393
Trade finance	**161**	228
Total loans and borrowings	**2,879**	2,858

As at 31 December 2016, the bank borrowings include PXF in the amount of US$1,093 million (31 December 2015: US$1,073 million).

As disclosed in Note 3, the Group breached its payment covenants, and consequently, as a result of this breach and the associated impact of cross default the vast majority of loans and borrowing were reclassified to current loans and borrowings.

The Group has undergone a major debt restructuring process which was finalised before the date of issuance of these consolidated financial statements. Details of the restructuring agreements reached are described in Note 3. As of 31 December 2016, US$19 million of fees and costs paid directly related to restructuring were capitalised in the amount of borrowings. Restructuring fees of approximately US$55 million are payable in January-May 2017
and they were not recorded in 2016 as restructuring had not been completed as of 31 December 2016.

As of 31 December 2016, the Group's 2018 bonds were traded on open markets with a discount of approximately 8% (31 December 2015: 57%) to their nominal value, 2017 bonds were traded on open markets with a discount of approximately 9% (31 December 2015: 55%) and 2016 bonds were traded on open markets with discount of approximately 8% (31 December 2015: 58%). As at 31 December 2016, the fair value of bonds was US$1,102 million (31 December 2015: US$514 million) as determined by reference to observable market quotations. Have these market quotations been used to determine the fair values of the bank borrowings as at 31 December 2016, those would be in the range of US$1,032 million to US$1,040 million (31 December 2015: US$462 million and US$495 million respectively). Despite these quotations, these amounts do not necessarily represent the fair value of the bonds and bank borrowings. These amounts reflect the situation as at 31 December 2016 and 31 December 2015 when the Company was in default and cross default on its bank and non-bank loans and borrowings.

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

	31 December 2016		31 December 2015	
In % per annum	**US$**	**EUR**	US$	EUR
Bank borrowings	**5%**	**3%**	6%	3%
Bonds issued	**10%**	**–**	10%	–
Non-bank borrowings from related parties	**10%**	**–**	10%	–
Trade finance	**4%**	**2%**	3%	2%
Reported amount	**2,802**	**77**	2,764	94

20 SELLER'S NOTES

	31 December 2016	31 December 2015
Current portion	**90**	88
Total seller's notes	**90**	88

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

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

As at 31 December 2016, seller's notes bear nominal interest rate of 7% p.a., and are recorded at an effective interest rate of 12.5% p.a. In January 2017, the Group renegotiated maturity, repayment schedule and interest rate of seller`s note (Note 3).

As of 31 December 2016 and 31 December 2015, the fair value of seller's notes approximated their carrying amount.

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21 RETIREMENT BENEFIT OBLIGATIONS

The Group's defined benefit obligations relate to:

	31 December 2016	31 December 2015
State-defined early pensions for employees working in hazardous and unhealthy working conditions	**300**	289
Long-term employee benefits under collective bargaining agreements	**26**	46
Total defined benefit obligations	**326**	335

Nature and the risks and uncertainties associated with the Group's defined benefit obligations are further disclosed in the Note 5.

Adoption of certain changes to the pension legislation in Ukraine during 2015, being an increase of the required overall service period for men and women and gradual increase of the early retirement age for women by five years resulted in the negative past service cost recognised in profit and loss for year ended 31 December 2015.

On 9 August 2016, the Decree of Cabinet of Ministers of Ukraine No. 461, regulating pension entitlement on preferential terms, came into force. Under the Decree, the list of positions and professions eligible to the early retirement pension was reduced. The effect of this reduction resulted in negative past services cost amounting to US$2 million.

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

	2016	2015
Defined benefit obligation as at 1 January	**335**	473
Current service cost	**10**	10
Remeasurements of the defined benefit liability resulting from:		
– changes in financial assumptions	**13**	(18)
– changes in demographic assumptions	**(1)**	(1)
– experience adjustments	**(6)**	26
Negative past service cost	**(2)**	(10)
Interest cost	**46**	49
Benefits paid	**(29)**	(34)
Currency translation difference	**(40)**	(160)
Defined benefit obligation as at 31 December	**326**	335

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

	2016	2015
Current service cost	**10**	10
Past service cost	**(2)**	(10)
Interest cost	**46**	49
Total	**54**	49

The principal actuarial assumptions used were as follows:

	31 December 2016	31 December 2015
Nominal discount rate	**14.40%**	16.04%
Nominal salary increase	**10%**	0% in 2016, 12.9% – later
Nominal pension entitlement increase (indexation)	**3.5%**	3.6%
Long-term inflation	**5.0%**	5.0%

Assumptions about mortality are based on the publicly available mortality tables for city population of the respective regions of Ukraine (depending on the location of the Group's subsidiaries) for 2016 and are consistent with the prior year.

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21 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

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

	2016	2015
Nominal discount rate increase/decrease by 1 pp	**(26)/30**	(23)/26
Nominal salary increase/decrease by 1 pp	**12/(13)**	8/(8)
Nominal pension entitlement (indexation) increase/decrease by 1 pp	**9/(8)**	7/(7)
Inflation increase/decrease by 1 pp	**4/(6)**	8/(9)

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

As at 31 December 2016, the weighted average maturity of the Group's defined benefit obligations is 8.3 years and it varies across different Group's subsidiaries from 7 to 9.6 years (31 December 2015: 7.9 years, varying from 6 to 9.5 years). Payments in respect of defined benefit obligations expected to be made during the year ending 31 December 2017 are US$27 million (2016: US$38 million).

22 OTHER NON-CURRENT LIABILITIES

	31 December 2016	31 December 2015
Asset retirement obligations	**66**	74
Long-term advances received from related parties (Note 29)	**13**	15
Tax liabilities under moratorium (Note 30)	**7**	8
Other non-current liabilities	**6**	6
Total other non-current liabilities	**92**	103

23 TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Trade payables and payables on sales made on commission	**1,081**	984
Dividends payable to shareholders of Metinvest B.V.	**88**	88
Dividends payable to non-controlling shareholders of Company's subsidiaries	**2**	2
Payables for acquired property, plant and equipment and other intangible assets	**38**	54
Other financial liabilities	**61**	46
Total financial liabilities	**1,270**	1,174
Prepayments received	**105**	101
Accruals for employees' unused vacations and other payments to employees	**54**	51
Income tax payable	**18**	19
Other taxes payable, including VAT	**61**	45
Wages and salaries payable	**17**	17
Other allowances and provisions	**23**	19
Total trade and other payables	**1,548**	1,426

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24 EXPENSES BY NATURE

	2016	2015
Raw materials including change in finished goods and work in progress	**1,391**	1,476
Goods and services for resale, including related transportation	**1,205**	1,574
Energy materials including gas, electricity and fuel	**875**	1,005
Wages and salaries	**470**	507
Transportation services	**612**	957
Repairs and maintenance expenses	**172**	200
Pension and social security costs	**79**	111
Pension costs – defined benefit obligations (Note 21)	**8**	–
Depreciation and amortisation	**529**	615
Impairment and devaluation of property, plant and equipment and other intangible assets (Notes 9 and 10)	**34**	364
Taxes and duties	**84**	84
Services and other costs	**217**	313
Total operating expenses	**5,676**	7,206
Classified in the consolidated income statement as:		
– cost of sales	**4,833**	6,087
– distribution costs	**660**	920
– general and administrative expenses	**183**	199
Total operating expenses	**5,676**	7,206

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

Unallocated fixed production costs incurred at the Group's subsidiaries during the months of operations at levels substantially below normal capacity are not included in the cost of inventories, are expensed in the profit or loss and presented within cost of sales according to their nature.

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

	2016	2015
Audit of the financial statements (including audit fee of the signing firm of US$0.1 million)	**2**	2
Total	**2**	2

25 OTHER OPERATING (EXPENSE)/INCOME, NET

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

	2016	2015
Impairment of trade and other receivables (Note 14)	**(227)**	(292)
Maintenance of social infrastructure	**(12)**	(12)
VAT on sales below cost and VAT write-off	**(9)**	(27)
Charity and social payments	**(6)**	(17)
Impairment of goodwill of UCC (Note 8)	**–**	(74)
Impairment of share in Black Iron (Cyprus) Limited (Note 11)	**–**	(4)
Operating foreign exchange gains less losses, net	**18**	124
Gain on disposal of property, plant and equipment, net	**3**	8
Other income/(expense), net	**11**	(6)
Total other operating expense, net	**(222)**	(300)

The decrease in foreign exchange gains less losses is a reflection of stabilisation of UAH against major foreign currencies in 2016, as described in Note 2.

26 FINANCE INCOME

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

	2016	2015
Interest income:		
– loans issued	**20**	20
– bank deposits	**3**	3
– imputed interest on other financial instruments	**3**	3
Total finance income	**26**	26

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27 FINANCE COSTS

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

	2016	2015
Net foreign exchange loss	**106**	372
Interest expense on:		
– borrowings	**95**	86
– bonds	**123**	113
– seller's notes	**6**	6
– imputed interest on seller's notes	**2**	3
Interest cost on retirement benefit obligations	**46**	49
Other finance costs	**19**	18
Total finance costs	**397**	647

Other finance costs include legal fees connected with debt restructuring and preceding negotiations, factoring fees and unwinding of discount on payables with deferred settlement date.

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

28 INCOME TAX

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

	2016	2015
Current tax	**82**	28
Deferred tax	**(41)**	(189)
Income tax expense/(benefit)	**41**	(161)

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries. In 2016 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2015: 18%). In 2016, the tax rate for Swiss operations was 10% (2015: 10%) and for European companies tax rate in 2016 varied from 10% to 32% (2015: varied from 10% to 34%). The tax rate for US operations was 35% (2015: 35%).

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

	2016	2015
IFRS profit/(loss) before tax	**159**	(1,164)
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(16)**	(340)
Tax effect of items not deductible or assessable for taxation purposes:		
– impairment of non-current assets at UCC (Notes 8 and 9)	**2**	144
– impairment of trade and other receivables	**11**	22
– other non-deductible expenses	**51**	49
– non-taxable income	**(22)**	(10)
Write-down/(Reversal of write-down) of deferred tax assets, net	**15**	(26)
Income tax expense/(benefit)	**41**	(161)

The weighted average applicable tax rate was (10%) in 2016 (2015: 29%). Variation in weighted average tax rate is mostly due to variation in profitability of the Group's subsidiaries in Ukraine some of which are profitable and some are loss making.

In 2016, certain amendment to Tax Code were adopted with effect from 1 January 2017, which include possibility to deduct expenses on receivables write-off in tax accounting, which was not allowed before. This, among other reasons, led to restoration of deferred tax assets on allowance for trade receivables (Note 5).

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28 INCOME TAX CONTINUED

Differences between IFRS and Ukrainian and other countries' statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

	1 January 2016	Credited/ (Charged) to income statement	Credited/ (Charged) to other compre-hensive income	Currency translation difference	31 December 2016
Tax effect of deductible temporary differences					
Property, plant and equipment and intangible assets	21	(15)	–	(2)	4
Long-term receivables	1	1	–	–	2
Inventory valuation	4	5	–	–	9
Trade and other accounts receivable	13	19	–	(2)	30
Accrued expenses	7	13	–	(1)	19
Tax losses carried forward	115	(54)	–	(9)	52
Retirement benefit obligations	46	9	1	(6)	50
Other	79	(21)	–	(6)	52
Gross deferred tax asset	286	(43)	1	(26)	218
Less offsetting with deferred tax liabilities	(181)	43	(1)	17	(122)
Recognised deferred tax asset	105	–	–	(9)	96
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	(508)	76	(106)	58	(480)
Inventory tax differences	(7)	4	–	–	(3)
Other	(14)	4	–	3	(7)
Gross deferred tax liability	(529)	84	(106)	61	(490)
Less offsetting with deferred tax assets	181	(43)	1	(17)	122
Recognised deferred tax liability	(348)	41	(105)	44	(368)

Deferred tax asset on unused tax losses not recognised as at 31 December 2016 comprised US$47 million (31 December 2015: US$48 million). There are no expiry dates on tax losses carried forward in Ukraine and Italy. Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable; future taxable profits are estimated using the cash flow forecasts used for impairment testing of non-current assets (Note 8).

	1 January 2015	Credited/ (Charged) to income statement	Credited/ (Charged) to other compre-hensive income	Currency translation difference	31 December 2015
Tax effect of deductible temporary differences					
Property, plant and equipment and intangible assets	105	(73)	–	(11)	21
Long-term receivables	–	1	–	–	1
Inventory valuation	18	(9)	–	(5)	4
Trade and other accounts receivable	–	13	–	–	13
Accrued expenses	35	(27)	–	(1)	7
Tax losses carried forward	103	48	–	(36)	115
Retirement benefit obligations	82	(9)	1	(28)	46
Other	3	70	–	6	79
Gross deferred tax asset	346	14	1	(75)	286
Less offsetting with deferred tax liabilities	(257)	28	(1)	49	(181)
Recognised deferred tax asset	89	42	–	(26)	105
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	(703)	142	(162)	215	(508)
Inventory tax differences	(8)	–	–	1	(7)
Borrowings and long-term payables	(2)	2	–	–	–
Other	(48)	31		3	(14)
Gross deferred tax liability	(761)	175	(162)	219	(529)
Less offsetting with deferred tax assets	257	(28)	1	(49)	181
Recognised deferred tax liability	(504)	147	(161)	170	(348)

ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

28 INCOME TAX CONTINUED

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

	2016			2015		
	Before tax	Deferred tax charge	After tax	Before tax	Deferred tax charge	After tax
Revaluation of property, plant and equipment	629	(106)	523	886	(162)	724
Remeasurement of retirement benefit obligation	(6)	1	(5)	(7)	1	(6)
Other comprehensive income	**623**	**(105)**	**518**	879	(161)	718

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As at 31 December 2016 and 2015 significant balances outstanding with related parties are detailed below:

	31 December 2016					31 December 2015				
	SCM Limited	Associates	Joint ventures	SCM and related entities	SMART Group	SCM Limited	Associates	Joint ventures	SCM and related entities	SMART Group
ASSETS										
Non-current trade and other receivables, including:	–	–	–	36	82	–	–	–	14	–
Long-term loans issued	–	–	–	36	82	–	–	–	13	–
Other non-current assets	–	–	–	–	–	–	–	–	1	–
Current trade and other receivables, including:	–	62	368	130	2	–	50	274	122	77
Trade receivables and receivables on commission sales	–	61	269	30	2	–	50	172	35	2
Prepayments made	–	–	–	69	–	–	–	–	30	–
Loans issued	–	–	98	–	–	–	–	101	22	75
Other financial receivables (short-term, non-interest bearing)	–	1	1	31	–	–	–	1	35	–
Cash and cash equivalents	–	–	–	60	–	–	–	–	71	–

	31 December 2016					31 December 2015				
	SCM Limited	Associates	Joint ventures	SCM and related entities	SMART Group	SCM Limited	Associates	Joint ventures	SCM and related entities	SMART Group
LIABILITIES										
Other non-current liabilities	–	–	–	11	–	–	–	–	15	–
Non-bank borrowings	–	–	–	315	110	–	–	–	292	101
Trade and other payables, including:	41	81	510	139	48	40	58	410	137	48
Dividends payable	40	–	–	–	48	40	–	–	–	48
Trade payables and payables on sales made on commission	–	62	510	87	–	–	41	402	99	–
Prepayments received	–	19	–	4	–	–	17	6	8	–
Other financial liabilities	1	–	–	48	–	–	–	2	30	–

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29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES CONTINUED

Significant transactions (excluding purchases) with related parties during 2016 and 2015 are detailed below:

2016	**Associates**	**Joint ventures**	**SCM and related entities**	**SMART Group**	**Total**
Sales, including:	**35**	**451**	**42**	**1**	**529**
Steel	**–**	**21**	**36**	**1**	**58**
Scrap metal	**–**	**32**	**3**	**–**	**35**
Coke and coking coal	**31**	**219**	**–**	**–**	**250**
Iron ore	**–**	**115**	**1**	**–**	**116**
Other	**4**	**64**	**2**	**–**	**70**
Finance income/(expenses), including:	**–**	**11**	**(23)**	**(4)**	**(16)**
Interest income – bank deposits	**–**	**–**	**2**	**–**	**2**
Interest income – loans issued	**–**	**11**	**3**	**5**	**19**
Interest expense – borrowings	**–**	**–**	**(28)**	**(9)**	**(37)**

2015	Associates	Joint ventures	SCM and related entities	SMART Group	Total
Sales, including:	28	646	59	1	734
Steel	–	23	44	1	68
Scrap metal	–	46	3	–	49
Coke and coking coal	23	326	–	–	349
Iron ore	–	162	1	–	163
Other	5	89	11	–	105
Other operating income/(expense) net	–	–	(7)	–	(7)
Charity and social payments	–	–	(11)	–	(11)
Other	–	–	4	–	4
Finance income/(expenses), including:	–	11	(24)	(3)	(16)
Interest income – bank deposits	–	–	1	–	1
Interest income – loans issued	–	11	3	6	20
Interest expense – borrowings	–	–	(28)	(9)	(37)

The following is a summary of purchases from related parties in 2016 and 2015:

2016	**Associates**	**Joint ventures**	**SCM and related entities**	**SMART Group**	**Total**
Purchases, including:	**84**	**985**	**1,090**	**–**	**2,159**
Metal products	**1**	**944**	**5**	**–**	**950**
Coke and coking coal	**66**	**2**	**39**	**–**	**107**
Raw materials and spare parts	**9**	**31**	**76**	**–**	**116**
Electricity	**–**	**–**	**439**	**–**	**439**
Gas	**4**	**4**	**174**	**–**	**182**
Fuel	**–**	**–**	**49**	**–**	**49**
Services	**2**	**–**	**298**	**–**	**300**
Other	**2**	**4**	**10**	**–**	**16**

2015	Associates	Joint ventures	SCM and related entities	SMART Group	Total
Purchases, including:	77	1,135	981	–	2,193
Metal products	1	1,119	7	–	1,127
Coke and coking coal	67	1	11	–	79
Raw materials and spare parts	6	12	51	–	69
Electricity	–	–	454	–	454
Gas	–	–	105	–	105
Fuel	–	–	13	–	13
Services	1	–	330	–	331
Other	2	3	10	–	15

Not included in the tables above are the Group's transactions on purchase and further re-sale of iron ore, coal and steel products from or to joint ventures where the Group is acting as an agent and not as principal. Income and costs related to such transactions are presented net within other operating income/(expense). The Group's net gain on such transactions was US$6 million in 2016 (2015: US$3 million).

29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES CONTINUED

In 2016, the remuneration of key management personnel of the Group comprised current salaries and related bonuses paid totalling US$11.5 million (in 2015: US$11.5 million).

As at 31 December 2016 and 2015, key management held the Group's bonds in the total amount of less than US$1 million. Rights of these bondholders are not different from the rights of other bondholders.

30 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. With effect from 1 January 2011, Ukraine adopted the new Tax Code of Ukraine which was further revised, including in 2015 and 2016. Applicable taxes include value-added tax, corporate income tax, customs duties and other taxes. As a result, there is significant uncertainty as to the implementation or interpretation of the new legislation and unclear or non-existent implementing regulations. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and State authorities. It is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group's operations are vertically integrated and a significant portion of the Group's iron ore, coke and coal production is used in the subsequent production operations. Because of non-explicit requirements of the applicable tax legislation, intercompany transactions may be assessed by Ukrainian tax authorities as non-market. Such transactions have not been challenged in the past by the tax authorities. However, it is possible with evolution of the interpretation of tax law in Ukraine and other jurisdictions plus changes in the approach of tax authorities, that such transactions could be challenged in the future.

The tax legislation had been expanded with the new transfer pricing rules effective from 1 September 2013 that are much more detailed than previous legislation and, to a certain extent, better aligned with the international transfer pricing principles. The new legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), if the transaction price is not arm's length and is not supported by relevant documentation. Since 1 January 2015, the transfer pricing rules were amended so that transactions between Ukrainian companies (irrespective whether they are related parties or not) ceased to be treated as controlled transactions.

Management believes it is taking appropriate measures to ensure compliance with the new transfer pricing legislation.

Bankruptcy proceedings. During 2006, bankruptcy proceedings were initiated against the Group's subsidiary PrJSC Krasnodonugol. The majority of the creditors' claims summarised by the external manager relate to the Group thus are eliminated on consolidation. As at 31 December 2016, the amount of financial and tax liabilities related to the bankruptcy proceedings recorded in these consolidated financial statements is US$11 million (31 December 2015: US$12 million), out of which US$7 million (31 December 2015: US$8 million) are presented as non-current tax liabilities under moratorium (Note 22).

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Environmental matters. The enforcement of environmental regulation in Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations (including asset retirement obligations) under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Capital expenditure commitments. As at 31 December 2016, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling US$135 million (31 December 2015: US$266 million). The Group has already allocated the necessary resources in respect of these commitments. Management of the Group believes that future net income and funding will be sufficient to cover this and any similar commitments.

Guarantees issued. As at 31 December 2016 and 2015, the Group has no outstanding guarantees to third parties.

Compliance with covenants. The Group breached its payment covenants, and consequently, as a result of this breach and the associated impact of cross default all non-current loans and borrowing have been classified as current as at 31 December 2016 and 2015 (Note 3).

Insurance. Metinvest maintains mandatory insurance policies against certain types of risk in accordance with Ukrainian law, including life and health insurance; third party liability insurance on hazardous industrial assets and in respect of cargo and motor vehicles; voluntary insurance cover for most of its production facilities and in respect of cargo and motor vehicles; "All Risk" insurance to cover property damage and provide business interruption coverage including "inter-dependency" coverage for its key production facilities in Ukraine; property damage and business interruption policies in respect of its European and US assets.

31 FINANCIAL RISK MANAGEMENT

The Group activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out jointly by the internal control and risk management department and the central treasury department. These departments identify, evaluate and mitigate financial risks in close co-operation with the Group's operating units.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed through: (i) borrowings denominated in the relevant foreign currencies; (ii) different treasury operations like forward, swap and other.

Foreign exchange risk is managed centrally by the Group's treasury. The Group's treasury has set up a policy to manage foreign exchange risk. The Group's treasury sets limits on the level of exposure by currency and maximum amount of exposure. The subsidiaries have not entered into transactions designed to hedge against these foreign currency risks without permission of the Group's treasury.

At 31 December 2016, if the UAH had strengthened/weakened by 25% against the US dollar with all other variables held constant, post-tax profit for the year would have been US$172 million higher/lower (2015: if the UAH strengthened/weakened by 50% against US$ dollar, post-tax profit for the year would have been US$275 million higher/lower), mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated trade receivables and foreign exchange gains/losses on translation of US dollar-denominated intragroup borrowings and dividends payable.

(ii) Price risk

The Group's revenue is exposed to the market risk from price fluctuations related to the sale of its steel and iron ore products. The prices of the steel and iron ore products sold both within Ukraine and abroad are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of raw material inputs) and global economic growth. The prices of the products that the Group sells to third parties are also affected by supply/demand and global/Ukrainian economic growth. Adverse changes in respect of any of these factors may reduce the revenue that the Group receives from the sale of its steel or mined products.

The Group's exposure to commodity price risk associated with the purchases is limited as the Group is vertically integrated and is self-sufficient for iron ore and certain portion of coking coal requirements.

No financial instruments are exposed to price risk.

(iii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are dependent on changes in market interest rates.

The Group's interest rate risk arises from long-term and short-term borrowings. Borrowings attracted at variable rates expose the Group to cash flow interest rate risk. Borrowings attracted at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a balanced borrowings portfolio of fixed and floating rate instruments. As at 31 December 2016, 56% of the total borrowings were provided to the Group at fixed rates (31 December 2015: 54%). During 2016 and 2015, the Group's borrowings at variable rate were denominated in US$ and EUR.

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of attracting new debt management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Refer to Notes 14, 19 and 31 for information about maturity dates and effective interest rates of financial instruments.

At 31 December 2016, if interest rates on US$ and EUR-denominated floating rate borrowings had been by 1 pp higher/lower (2015: 1 pp) with all other variables held constant, post-tax profit for the year would have been US$11 million lower/higher (2015: US$11 million).

(b) Credit risk

Credit risk is managed centrally by the Group management. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. When wholesale customers are independently rated, these ratings are used for credit quality assessment. Otherwise, if there is no independent rating, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

31 FINANCIAL RISK MANAGEMENT CONTINUED

Financial assets, which potentially subject the Group to credit risk, consist principally of cash, loans, trade and other accounts receivable.

Cash is placed with major Ukrainian and international reputable financial institutions, which are considered at time of deposit to have minimal risk of default.

The Group has policies in place to ensure that provision of loans and sales of products/services are made to customers with an appropriate credit history. The Group's credit risk exposure is monitored and analysed on a case-by-case basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The carrying amount of loans, trade and other accounts receivable, net of provision for impairment, represents the maximum amount exposed to credit risk. Concentration of credit risk mainly relates to CIS and European countries where the major customers are located.

The maximum exposure to credit risk as at 31 December 2016 is US$1,424 million (2015: US$1,410 million) being the carrying value of long and short-term loans issued and receivables and cash. In order to reduce credit risk on receivables, the Group uses letters of credit, guarantees and trade insurance.

The Group does not hold any collateral as security.

Management believes that credit risk is appropriately reflected in impairment allowances recognised against assets, and management does not expect any significant losses from non-performance by these counterparties.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Currently the Group has completed the restructuring of its debts to achieve healthy liquidity position and maintain its ability to continue operating on a going concern basis (Note 3).

The Group treasury analyses the ageing of Group's assets and the maturity of Group's liabilities and plans their liquidity depending on the expected repayment of various instruments. In case of insufficient or excessive liquidity in individual entities, the Group relocates resources and funds among the entities of the Group to achieve optimal financing of the business needs of each entity.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Cash flows from borrowings were calculated using spot rates.

At 31 December 2016	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Bank borrowings	**1,123**	**–**	**–**	**–**
Trade finance	**161**	**–**	**–**	**–**
Bonds	**1,196**	**–**	**–**	**–**
Non-bank borrowings	**425**	**–**	**–**	**–**
Seller's notes	**90**	**–**	**–**	**–**
Financial trade and other payables	**1,270**	**–**	**–**	**–**
Total	**4,265**	**–**	**–**	**–**

At 31 December 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings	1,099	–	–	–
Trade finance	228	–	–	–
Bonds	1,153	–	–	–
Non-bank borrowings	393	–	–	–
Seller's notes	93	–	–	–
Financial trade and other payables	1,174	–	–	–
Total	4,140	–	–	–

ALL TABULAR AMOUNTS IN MILLIONS OF US DOLLARS

32 CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and seller's notes (including current and non-current parts) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The Group has yet to determine its optimum gearing ratio. Presently, all of its debt is either in default or matures within one year, but the Group is actively pursuing mechanisms to restructure its debt (Note 3) in order to extend the credit terms to match its long-term investment strategy.

	31 December 2016	31 December 2015
Total borrowings (Note 19)	**2,879**	2,858
Seller's notes (Note 20)	**90**	88
Less: cash and cash equivalents (Note 15)	**(226)**	(180)
Net debt	**2,743**	2,766
Total equity	**4,028**	4,024
Total capital	**6,771**	6,790
Gearing ratio	**41%**	41%

33 FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date, which is Level 1 of fair valuation hierarchy. The quoted market price used for financial assets held by the Group is the current bid price. This valuation technique is used for fair value disclosures of bonds issued.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Estimated discounted cash flows, are used to determine fair value for seller's notes. Calculation is based on current interest rates for new instruments with similar credit risk, currency and remaining maturity; such estimation represents Level 3 of fair value hierarchy.

The carrying values less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is required to interpret market data to determine the estimated fair value. Ukraine continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of financial assets carried at amortised cost approximate their fair values.

Financial liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. Except as discussed in the Note 19, the estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid (Notes 19, 20 and 22).

34 RECONCILIATION OF CLASSES OF FINANCIAL INSTRUMENTS WITH MEASUREMENT CATEGORIES

All of the Group's financial assets and financial liabilities are carried at amortised cost, except for investments in associates and joint ventures which are accounted for by the equity method of accounting.

35 EVENTS AFTER THE BALANCE SHEET DATE

The developments after the balance sheet date which are related to the operating environment and the debt restructuring are disclosed in Notes 2 and 3, respectively.

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GLOSSARY

Bars
Long steel products that are rolled from billets. Merchant bar and reinforcing bar (rebar) are two common categories of bars. Merchant bar includes rounds, flats, angles, squares and channels that are used by fabricators to manufacture a wide variety of products, such as furniture, stair railings and farm equipment. Rebar is used to strengthen concrete in highways, bridges and buildings.

Blast furnace
A towering cylinder lined with heat-resistant (refractory) bricks, used by integrated steel mills to smelt iron from ore. Its name comes from the "blast" of hot air and gases forced up through the iron ore, coke and limestone that load the furnace. Under extreme heat, chemical reactions among the ingredients release liquid iron from the ore.

Coils
Hot, cold or coated flat-rolled products, supplied in regularly wound coils.

Coke
Coke is the residual solid product obtained from the dry distillation of coking coal. Depending on property, coke is known as hard coke, soft coke and metallurgical coke.

Coking coal
Coking coal is those varieties of coal that, on heating in the absence of air (a process known as carbonisation), undergo transformation into a plastic state, swell and then re-solidify to produce a cake. On quenching, the cake results in a strong and porous mass called coke. Coking coal for production of blast furnace coke (the right type of fuel/reductant needed for a blast furnace) is characterised by certain specific properties in terms of appropriate composition (low ash (10% max), volatile matter (20-26%), and low sulphur and phosphorous content, etc).

Cold-rolling
Plastic deformation of a metal at room temperature that might results in substantial increases in strength and hardness. The usual end product is characterised by improved surface, greater uniformity in thickness, and improved mechanical properties compared with hot-rolled steels. Cold-rolled products typically include sheets, coils, strips and rebars, among others.

Continuous improvement (CI)
An aspect of lean manufacturing, CI encompasses various changes in business processes that aim to improve operational results by taking a systematic approach to analysing problems and finding solutions throughout an organisation.

Crude steel
Liquid steel used to make steel castings. The term is also internationally used to mean the solid steel product obtained from the solidification of liquid steel (it includes ingots and semis).

Crusher and conveyor system
A transportation system used to move bulk materials from mine shafts to the surface for further processing.

Downstream
In manufacturing, this term refers to processes that happen later in a production sequence or production line.

Environmental Impact Identification (ENVID)
A systematic approach designed to identify and reduce the risk of incidents that can damage the surrounding environment, and to limit the environmental impact throughout the production process.

Enterprise Resource Planning (ERP)
An integrated system of software applications used by companies to monitor all core aspects of their business, such as purchasing to manufacturing to sales, facilitating information sharing and allowing managers to make decisions informed by a global view of what is happening across the supply chain.

Fe content
The chemical symbol for iron, Fe, comes from the Latin word "ferrum" Fe content refers to the iron content of an ore.

Ferroalloy
Alloys consisting of certain elements combined with iron and used to increase the amount of such elements in ferrous metals and alloys. In some cases, the ferroalloys may serve as deoxidisers.

Finished products
Products that emerge at the end of a manufacturing process. In metallurgy, these products are obtained from hot-rolling, cold-rolling, forging and other processing of semi-finished steel (blooms, billets and slabs). These cover two broad categories of products, namely long and flat.

Flat products
Finished steel flat products are produced from slabs or thin slabs in rolling mills using flat rolls. These are supplied in hot-rolled, cold-rolled or in coated condition, depending on the requirement. Flat products include plates, sheet and wide and narrow strips.

Galvanised steel
Steel coated with a thin layer of zinc to provide corrosion resistance. Flat steel normally must be cold-rolled before the galvanising stage.

Hard coking coal (HCC)
Hard coking coal is a type of coking coal with better coking properties than semi-soft coking coal.

Hazard and Operability Study (HAZOP)
A structured and systematic examination of a planned or existing process or operation, aiming
to identify and evaluate problems that may represent risks to personnel or equipment, or prevent efficient operation.

Hazard Identification (HAZID)
A systematic approach designed to identify andreduce the risk of dangerous incidents, and to ensure safety throughout the production process.

Heavy plate
Thick flat finished product with a width from 500 millimetres to 5 metres and a thickness of at least 4 millimetres. Plates are normally produced and supplied in hot-rolled condition with or without specific heat treatment. Heavy plate is mainly used for construction, machinery, shipbuilding or large-diameter pipe fabrication.

Hot-rolling
Rolling of steel at above the re-crystallisation temperature (normally above 1,000 C) to produce hot-rolled long and flat products from semis. Ingots are also hot-rolled to obtain semis. Rolling mills used for hot-rolling are known as hot-rolling mills.

Human resources (HR)
HR broadly refers to the people who make up the workforce of a company, while also frequently referring to the HR management function within the company responsible for ensuring the recruitment and retention of qualified employees, managing goal setting and assessments, overseeing the process of training and further education to meet company requirements and employee potential, as well as other processes required to maintain an effective workforce.

Integrated steelmaking plant
A producer that converts iron ore into semi-finished or finished steel products. Traditionally, this process required coke ovens, blast furnaces, steelmaking furnaces and rolling mills. A growing number of integrated mills use the direct reduction process to produce sponge iron without coke ovens and blast furnaces.

Iron ore
A naturally occurring mineral from which iron (Fe) is extracted in various forms, mainly for producing hot metal, direct-reduced iron and so on.

Iron ore concentrate
Iron ore containing the valuable minerals of an ore from which most of the waste material has been removed.

Lean manufacturing
An approach to manufacturing processes that focuses on creating value for the end user and eliminating waste that has no value.

Long products
Finished steel products produced normally by hot-rolling or forging blooms, billets and pencil ingots into useable shapes and sizes. They are normally supplied in straight or cut length, except wire rods, which are supplied in irregularly wound coils. Long products are used in all industrial sectors, particularly in the construction and engineering industries.

LOTO
Lock out, tag out: a standard that is used to isolate hazardous energy during repair and maintenance work.

Lost-time injury frequency rate (LTIFR)
An internationally recognised safety indicator, the LTIFR is the ratio of lost-time injuries per million hours worked. It is calculated using the total number of incidents leading to the loss of one day/shift or more from work.

Mineral
A natural inorganic substance that is both definite in chemical composition and physical characteristics, or any chemical element or compound occurring naturally as a product of inorganic processes.

Mineral resources
Natural resources in the form of minerals, the concentration of materials that are of economic interest in or on the earth's crust. Almost all minerals found on earth are used in one way or another for economic benefit. Some minerals, such as sand, clay and gravel, are unrefined and used as they are found. Most minerals, such as iron and aluminium, must be processed before they can be used.

Open-hearth furnace (OHF)
A furnace for melting metal, in which the bath is heated by the combustion of hot gases over the surface of the metal and by radiation from the roof. This furnace is used to refine pig iron and scrap into steel. The open-hearth process has been replaced by the basic oxygen process and electric arc method in most modern facilities.

Pelletising
Pelletising is the process of compressing or moulding a product into the shape of a pellet. Doing so with iron ore concentrate, spheres of typically 8-18 millimetres (0.31-0.71 inches) in diameter are produced. The process combines agglomeration and thermal treatment to convert the raw ore into pellets with characteristics appropriate for use in a blast furnace and DRI processes.

Pelletising machine
Specific equipment designed for production of pellets (see Pelletising).

Pellets
An enriched form of iron ore shaped into small balls or pellets, that are used as raw material in the iron making process.

Permit-to-work procedure
A process used to control work that is identified as possibly hazardous.

Pickling line
Specialised equipment for the chemical removal of surface oxides (scale) and other contaminants such as dirt from iron and steel by immersion in an aqueous acid solution. The most common pickling solutions are sulfuric and hydrochloric acids.

Pig iron
High-carbon (above 2.14%) iron alloy made by reducing iron ore in a blast furnace. A product in solid (lumpy) form obtained on solidification of hot metal in pig casting machine. It is called pig iron because of its typical humpy shape.

Pulverised coal injection (PCI)
Technologies whereby pulverised/granulated/dust coal is injected into the blast furnace through the tuyeres along with the blast to replace natural gas and a part of the coke requirement.

Public relations (PR)
Communications between an organisation and external stakeholders, in particular members of the general public, aimed at communicating both a positive impression of the organisation and its activities and identifying and addressing negative perceptions. PR uses mass and targeted media as well as public events and other outreach.

Reserves (proven, probable, recoverable)
Proven ore reserves are the economically mineable part of a measured mineral resource. They include diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments and studies have been carried out and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate that, at the time of reporting, extraction could reasonably be justified.

Probable ore reserves are the economically mineable part of an indicated mineral resource and, in some circumstances, a measured mineral resource. They include diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate that, at the time of reporting, extraction could reasonably be justified.

Recoverable reserves are an estimate of how much recoverable coal/ore is still left in already found deposits. It can only be an estimate since it is impossible to know exactly how much coal/ore is still in the ground. Because of this uncertainty, reserves are calculated with a certain probability. A reserve estimate followed with, for instance, "P90" indicates a 90% chance that there is at least as much recoverable coal/ore as the reserve estimate claims.

Roasting machine
One of the types of equipment used to purify the metal component(s) at elevated temperatures. Such machines usually have variable temperatures so that they can process different types of ore.

Rolled products
Products obtained from hot-rolling semi-finished steel (blooms, billets and slabs) or cold-rolling hot-rolled steel.

Scrap
Steel waste that is not usable in its existing form and is re-melted to produce crude steel or sold. Depending on its form and type, it is classified as heavy melting scrap, light melting scrap or turnings/borings etc.

Sections
Hot-rolled long products obtained by rolling blooms and billets. They include angles, channels, girders, joist, I-beams, H-beams, rails and so on. Sections can also be produced by welding together pieces of flat products. They can be used for a wide variety of purposes in the construction, machinery and transportation industries.

Semi-finished products
Intermediate solid steel products obtained by hot-rolling or forging ingots or by continuous casting liquid steel. They are intended for further rolling or forging to produce finished steel products.

Sinter
An aggregate that is normally produced from relatively coarse fine iron ore, mixed with coke breeze, limestone dolomite fines and various metallurgical return wastes used as an input/raw material in blast furnaces. Sinter improves blast furnace operation and productivity and reduces coke consumption.

Slab
A semi-finished rectangular wide steel product used to make finished hot-rolled flat products such as plates, sheets and strips.

Square billet
A semi-finished steel product with a square cross section of up to 200 millimetres x 200 millimetres. This product is used as input material to make finished long steel products such as bars, rods and light sections.

Wire
A broad range of products produced by cold reducing hot-rolled wire rod through a series of dies or through rolls to improve surface finish, dimensional accuracy and physical properties. Typical applications include nets, screws, rivets, upholstery springs, furniture wire, concrete wire, electrical conductors, rope wire and structural cables.

Wire rod
Hot-rolled coiled plain bar and rods of up to 18.5 millimetres in diameter. Wire rod is normally used to make steel wire.

Note: Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided and percentages may not precisely reflect absolute figures.

ABBREVIATIONS

COMPANY ABBREVIATIONS

Avdiivka Coke
PJSC Avdiivka Coke

Azovstal
PJSC Azovstal Iron & Steel Works

Central GOK
PJSC Central GOK

Donetsk Coke
PJSC Doncoke

Ferriera Valsider
Ferriera Valsider S.P.A.

Ilyich Steel
PJSC Ilyich Iron and Steel Works of Mariupol

Ingulets GOK
PJSC Ingulets GOK

Inkor Chemicals
SMA Inkor & Co LLC

Khartsyzk Pipe
PJSC Khartsyzk Pipe

Komsomolske Flux
PJSC Komsomolske Flux

Krasnodon Coal
PJSC Krasnodon Coal Company

Metalen
U-S JV LLC Metalen

Metinvest
Metinvest Group

Metinvest Distribution
LLC Metinvest Distributsiya

Metinvest Eurasia
LLC Metinvest Eurasia

Metinvest Holding
Metinvest Holding LLC

Metinvest International
Metinvest International S.A.

Metinvest-SMC
Metinvest-SMC LLC

Metinvest-Shipping
Metinvest-Shipping LLC

Metinvest Trametal
Metinvest Trametal S.P.A.

Northern GOK
PJSC Northern GOK
Promet Steel
JSC Promet Steel

SCM
A group of companies beneficially owned by Mr Rinat Akhmetov and commonly referred to as System Capital Management

SCM Cyprus
SCM (System Capital Management) Limited (Cyprus)

SMART, Smart Group or Smart Holding
A group of companies beneficially owned by Mr Vadim Novinsky

Southern GOK
PJSC Yuzhniy GOK

Spartan UK
Spartan UK Limited

United Coal
United Coal Company LLC

Yenakiieve Steel
PJSC Yenakiieve Steel, U-S JV LLC Metalen

Zaporizhia Coke
PJSC Zaporizhcoke

Zaporizhstal
PJSC Zaporizhstal

OTHER TERMS

ACCA
Association of Chartered Certified Accountants

CAPEX
Capital expenditure

CFA®
Chartered Financial Analyst

CIS
Commonwealth of Independent States

CSR
Corporate social responsibility

EBITDA
Earnings before income tax, depreciation and amortisation

ECA
Export credit agency

GRI
Global Reporting Initiative

HSE
Health, safety and the environment

IMF
International Monetary Fund

ISO
International Organisation for Standardisation

JSC
Joint-stock company

KPI
Key performance indicator

KT
One thousand metric tonnes

LTIFR
Lost-time injury frequency rate

LLC
Limited liability company

MENA
Middle East and North Africa

MT
One million metric tonnes

OHSAS
Occupational Health and Safety Advisory Services

PJSC
Public or private joint-stock company

S&OP
Sales and Operations Planning

WSA
World Steel Association

NOTES

NOTES

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