METINVEST®

EMBRACING THE NEW REALITY

Annual Report and Accounts 2015

We are Metinvest, an international, vertically integrated steel and mining group with assets in Ukraine, Europe and the US. We manage each link of the production chain: from mining iron ore and coal and producing coke to manufacturing value-added steel products.

WWW.METINVESTHOLDING.COM

2015 Highlights

In 2015, Eastern Ukraine experienced further turbulence, while global benchmark prices for steel and iron ore reached lows not seen in 10 years. Metinvest reconfirmed its ability to navigate rapidly changing situations proactively, as it moved to embrace the new business reality.

Revenues

US$6,832M

-35%

Revenues declined year-on-year in 2015, driven by the operational challenges in Eastern Ukraine and the bearish demand and prices on global markets for key products.

Operational highlights

ALL STEELMAKERS ARE OPERATIONAL

In 2015, many of Metinvest's enterprises in the Donetsk and Luhansk regions experienced further operational and logistical disruptions due to direct damage, including damage to facilities and key railway supply routes, particularly in the first half of the year. Our people worked tirelessly to resolve these quickly and as of the year-end, all of our steelmaking facilities were producing again.

EXTENSIVE RESTORATION AND HUMANITARIAN WORK IS UNDER WAY

As the conflict continued in 2015, several of the key towns and cities in Eastern Ukraine where the Group operates were also seriously affected, with damage to residential buildings, social facilities, transport links, utilities and other infrastructure. We, our employees and local residents have redoubled our efforts to return life back to normal for our communities, including through targeted social partnership programmes.

TECHNOLOGICAL STRATEGY CONTINUES

Despite the considerable operational and liquidity issues presented by the new reality, Metinvest underscored its commitment to its long-term plans in 2015, investing US$76 million in strategic projects as part of its Technological Strategy. The main priorities were initiatives that decrease cost and reduce our environmental footprint, while there was an additional focus on vital maintenance work.

NEW SALES OFFICES ARE OPEN

Given the prevailing conditions on global markets for steel and iron ore, Metinvest considers it more important than ever to be able to seize sales opportunities as they arise. As part of this, in 2015, we opened representative sales offices in Spain and Poland to extend our reach in Europe, which accounts for around 39% of sales from the Metallurgical division.

RESTRUCTURING TALKS ARE ONGOING

In 2015, as capital markets effectively remained closed to most Ukrainian companies, Metinvest embarked on a necessary debt restructuring process with its creditors. We serviced interest and coupon payments on our bank loans and bonds in full in 2015 and have been doing so partly in 2016. At the time of writing, restructuring talks are ongoing with a view to reaching a satisfactory settlement for all stakeholders, based on the non-binding heads of terms agreed with the ad hoc committee of bondholders and the coordinating committee of PXF lenders on 24 May 2016.

SHAREHOLDER STRUCTURE CHANGES

As of 31 December 2015, 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 one share, and the ultimate interest of SMART in Metinvest B.V. shall be 25% plus one share, thus SCM remaining as the controlling shareholder.

Adjusted EBITDA

US$513M

-81%

In 2015, EBITDA slumped year-on-year, mainly due to lower revenues (effect of US$3,732 million) and impairment of trade receivables of some key customers in the Mining division (effect of US$255 million). In response, Metinvest tightened cost control and scrutinised all expenses.

Crude steel production

7,669KT

-17%

Crude steel production fell year-on-year in 2015, amid weak demand in key markets, damage to some facilities and logistical disruptions in the eastern regions of Ukraine, although all of our steelmakers were operational again by the year-end.

Iron ore concentrate production

32,208KT

-8%

In 2015, iron ore concentrate production dropped year-on-year due to high inventories in the first quarter, amid logistical constraints, equipment issues at Ingulets GOK and lower intragroup consumption.

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

IN THIS SECTION:

STRATEGIC REPORT

As the new reality began to crystallise in 2015, Metinvest moved to embrace it proactively, analysing the external challenges that the business faces and devising internal initiatives to address each one directly.

EXTERNAL BUSINESS ENVIRONMENT REMAINS TESTING

GLOBAL STEEL MARKET

In 2015, prices on the global steel market hit multi-year lows amid excess capacity and factors such as decreasing steel demand in China. This is prompting Chinese producers to boost exports, bringing down prices, pressuring margins and making many steel players focus on production costs.

Worldwide apparent consumption of finished steel products equalled 1,500 million tonnes in 2015, down 3.0% year-on-year, while global crude steel production totalled 1,621 million tonnes, down 2.9% year-on-year. Excess global steelmaking capacity continues to exert pressure on prices. In 2015, the surplus capacity stood at around 700 million tonnes per year, implying a utilisation rate of 70.0%, compared with 73.6% in 2014 and 70.0% in 2013[1].

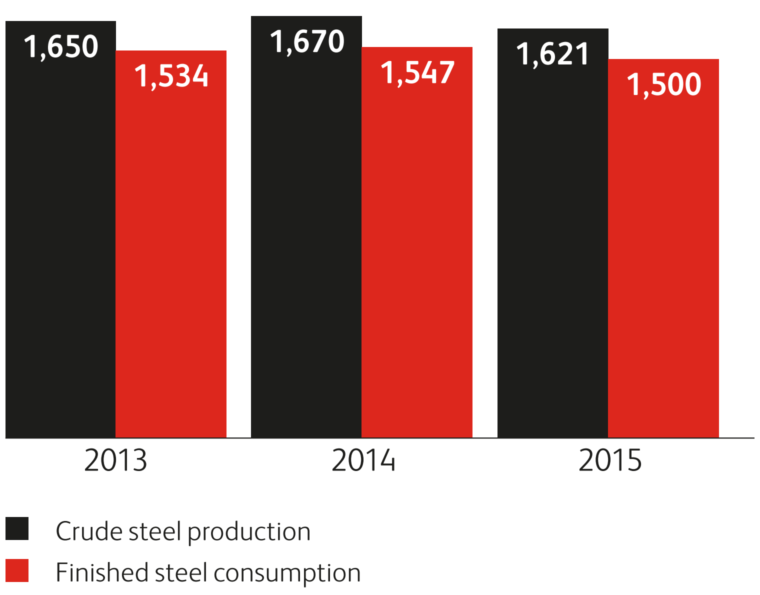
In 2015, steel prices reached lows not seen for more than a decade. The average benchmark price for hot-rolled coil decreased by 34.7% year-on-year to US$346 per tonne in 2015, hitting US$265 per tonne in December, its lowest for the last 12 years.

The key driver of the global steel market is China, which has accounted for nearly half of global steel consumption in recent years, according to the World Steel Association. In 2015, amid a crisis in the country's construction and property sectors, China's consumption of finished steel products declined by 5.4% year-on-year, while its crude steel output fell by 2.3% year-on-year, the first decrease in more than three decades.

As a result, the country's steelmakers are turning to overseas markets. Chinese steel exports have grown sharply since early 2014 and rose by 19.9% year-on-year in 2015. Notably, due to their sheer volume, there is a clear inverse relationship between them and the declining global prices for the metal. At the same time, in the fourth quarter of the year, China's steel product exports declined by 4.6% quarter-on-quarter. This was due to trade barriers, weak global demand and export prices for key products below the variable cost of production for the country's steelmakers.

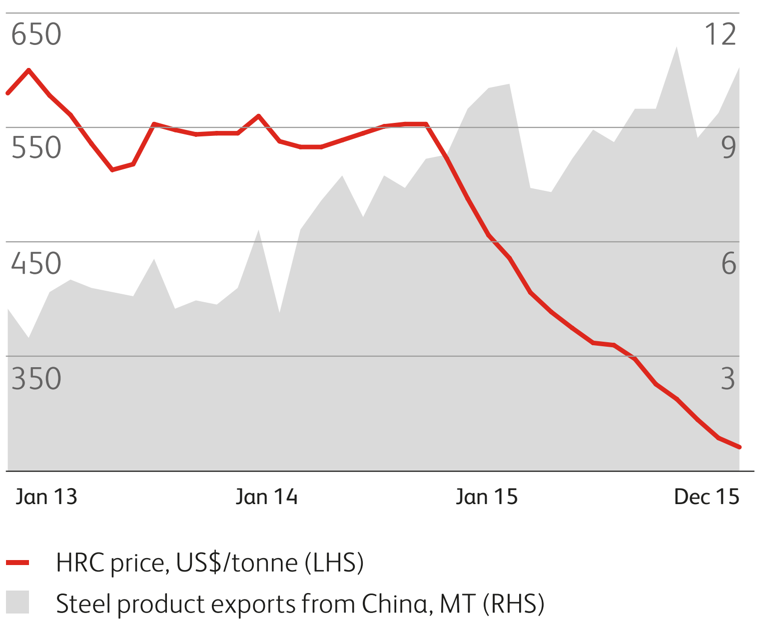
1 The global steel capacity utilisation ratio is calculated based on monthly figures from the WSA for 66 countries producing more than 98% of the world's crude steel

Global steel market (MT)



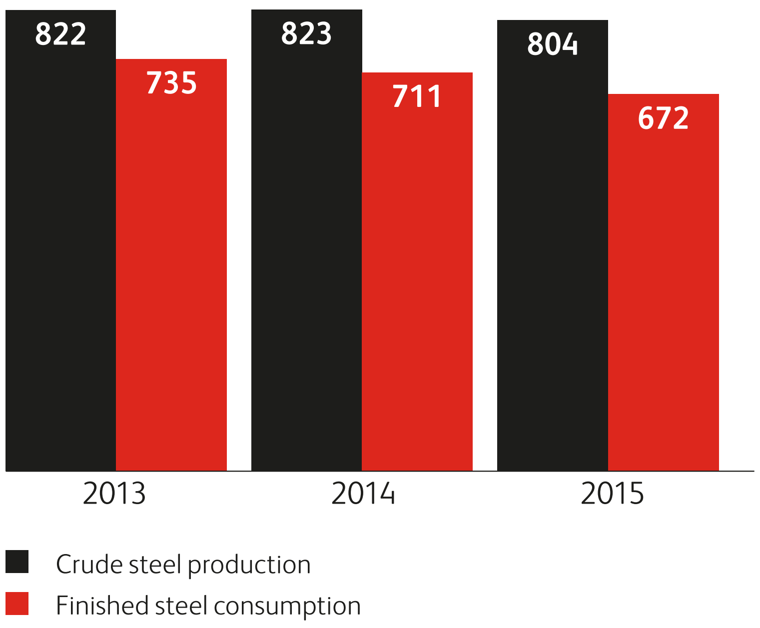
Source: World Steel Association

Steel price vs exports from China



Source: Metal Expert hot-rolled coil (HRC) FOB Black Sea, Bloomberg

Steel market in China (MT)



Source: World Steel Association

GLOBAL IRON ORE MARKET

In 2015, global benchmark prices for iron ore hit their lowest in a decade, as the share of low-cost products in seaborne exports increased and Chinese steel production dropped, exacerbating a glut in the world iron ore market.

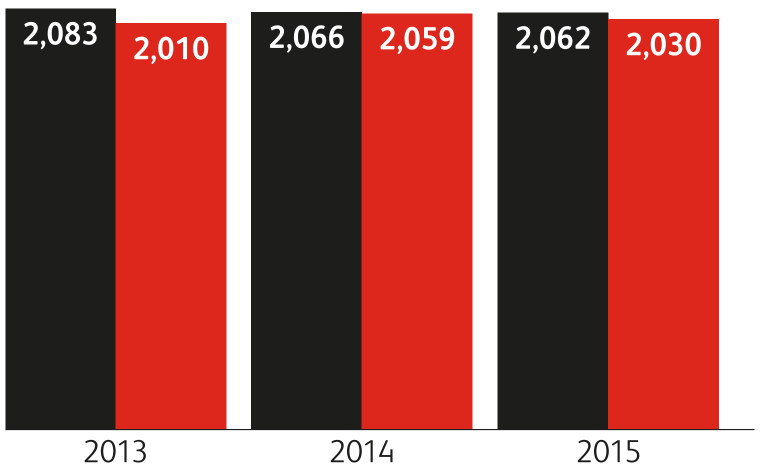
Global iron ore consumption, including pellets, lump and iron ore fines, decreased by 1.4% year-on-year to 2,030 million tonnes in 2015. Meanwhile, global output of iron ore remained broadly flat at 2,062 million tonnes in 2015. The world's largest producers of iron ore, particularly low-cost players, continue to pursue volume-driven rather than price-driven strategies, to win market share by pushing down prices and forcing marginal producers out of the market.

There are two key factors that are contributing to this. Australia and Brazil, two of the world's main iron ore producers, are bringing significant new projects on stream: their overall exports rose from 909 million tonnes in 2013 to 1,133 million tonnes in 2015. Alongside this, as China's steel production dropped overall in 2015, so did its iron ore consumption.

The trend in iron ore prices has been generally downwards for several years. The average annual benchmark price decreased from US$136 per dry tonne in 2013 to US$97 per dry tonne in 2014 and further declined to US$56 per dry tonne in 2015. In December 2015, the benchmark price bottomed at US$38 per dry tonne, the lowest in 10 years.

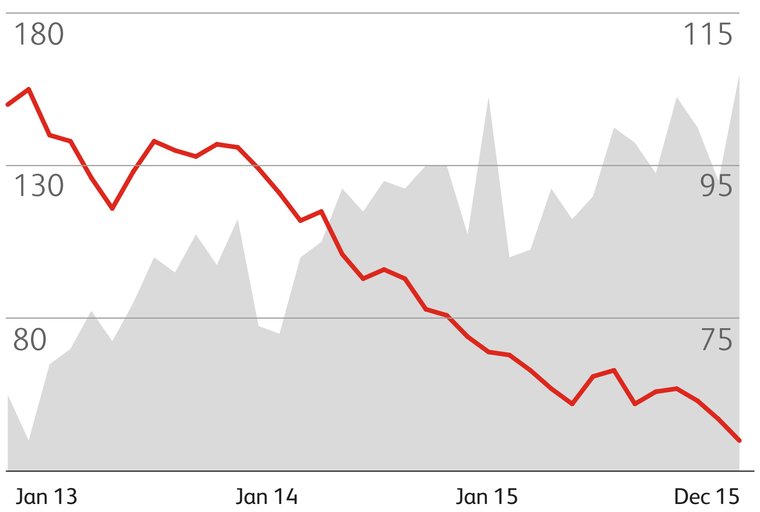
For iron ore producers, low prices require cutting costs and assessing logistical options to remain competitive on key markets. In addition, vertically integrated steelmakers, such as Metinvest, can maximise internal consumption of own raw materials to reduce costs and capture additional margin on steel.

Global iron ore market (MT)



Source: Commodities Research Unit

Iron ore price vs exports from Australia and Brazil



Source: Metal Bulletin 62% Fe iron ore fines CFR China, Bloomberg

DEVELOPMENTS IN UKRAINE

Ukraine's geopolitical and macroeconomic environment remains turbulent, as the unresolved situation in the east of the country threatens continued instability, while the overwhelming majority of local companies remain effectively excluded from international capital markets.

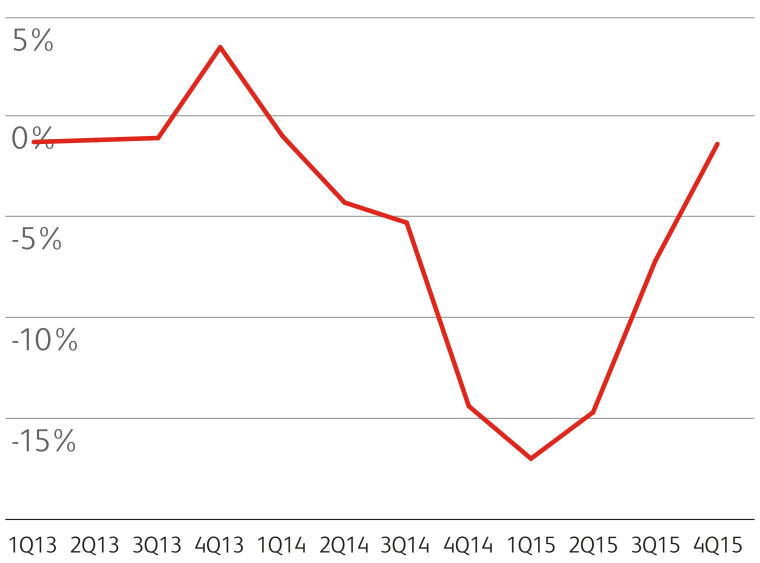
In 2015, Ukraine experienced further turbulence due to the conflict in the Donetsk and Luhansk regions. This further impacted production at Metinvest's plants in and around the affected area, due to direct damage in some cases, as well as the disruption of transportation and utilities. In February 2015, second ceasefire agreements were signed and the situation has been calmer since although it remains unstable and the Group continues to monitor developments closely.

Political and economic instability in Ukraine have led to a deterioration in public finances, turbulence on the country's financial markets, a lack of available capital, a depreciation of the hryvnia against major foreign currencies and a spike in inflation. According to provisional estimates by the State Statistics Service of Ukraine, the country's GDP fell by 9.9% year-on-year in 2015. However, quarterly GDP figures indicate that the decline slowed considerably in the third and fourth quarters, and the National Bank of Ukraine currently estimates that the nation's economy will return to growth in 2016.

The Ukrainian economy is currently highly dependent on external support. On 11 March 2015, the executive board of the International Monetary Fund (IMF) approved a four-year extended fund facility programme of around US$17.5 billion for Ukraine. In 2015, the country obtained the first and second tranches of US$5 billion and US$1.7 billion, respectively. Further disbursements of IMF tranches depend on the government's ability to implement reforms and other factors.

In addition, in October 2015, Ukraine reached an agreement to restructure US$15 billion of external public debt with its creditors, who accepted a 20% reduction of the principal amount. This led to an improvement in the country's credit rating, although further discussions on restructuring another part of the debt have failed so far.

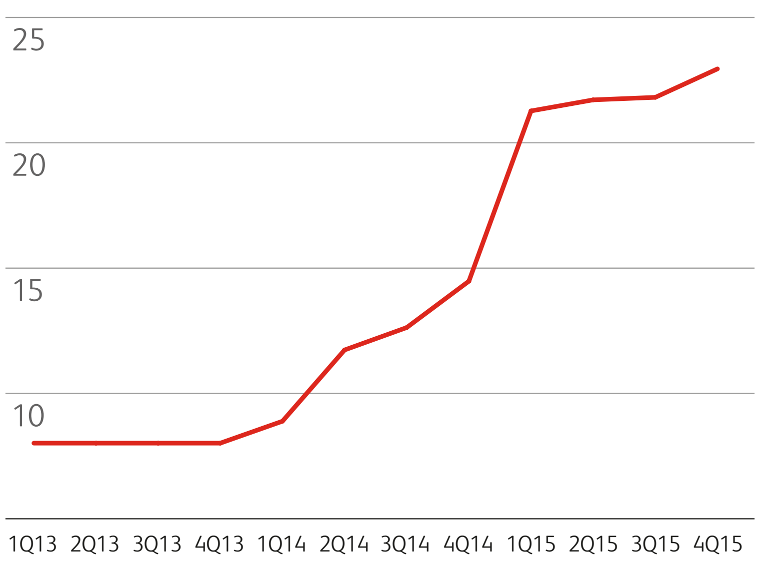
Real GDP growth (%)[1]



Source: State Statistics Service of Ukraine

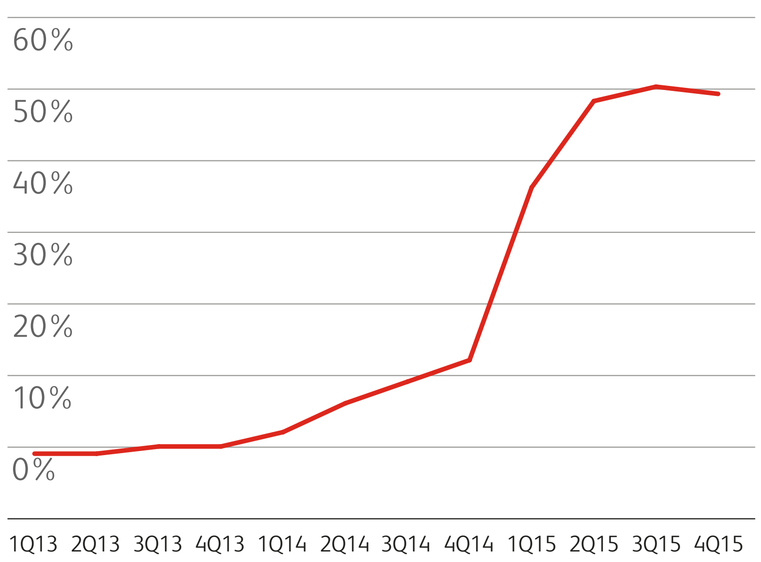
1 Year-on-year change

US$/UAH average exchange rate



Source: National Bank of Ukraine

Consumer price index (%)[2]



Source: State Statistics Service of Ukraine

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

UKRAINIAN STEEL AND RAW MATERIAL MARKETS

Ukraine's steel market experienced an ongoing crisis in 2015, amid falling demand in the main consuming sectors and export markets, as well as disruptions to the operations of key steelmakers with assets in the east of the country.

On the supply side, Ukrainian steel producers are under pressure from both domestic and external factors. Like Metinvest, several key local players have metallurgical assets and coal deposits in Eastern Ukraine, and they have experienced serious supply chain issues caused by infrastructure damage and logistical bottlenecks, leading to reductions or disruptions in production. In 2015, total crude steel production in Ukraine decreased by 15.5% year-on-year to 23.0 million tonnes, while the Group's output of crude steel fell by 16.7% year-on-year to 7.7 million tonnes.

On the demand side, rolled steel consumption (excluding pipes) in Ukraine dropped by 27.8% year-on-year to 4.0 million tonnes in 2015. This decline is directly attributable to the significant economic contraction during the year, which caused key drivers of steel consumption in the public and private sectors to decrease. In particular, construction activity fell by 12.3% and the hardware sector contracted by 19.5%. Overall, the machine-building industry declined even faster than GDP, falling by 14.1% year-on-year.

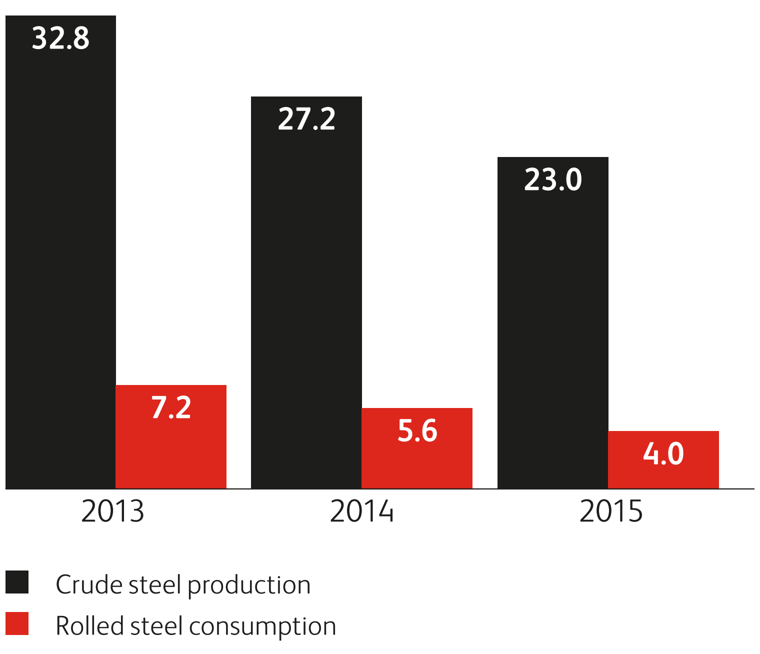
On the positive side, Ukraine began to emerge from a deep recession in the second half of 2015, indicating the potential for recovering demand in 2016.

External factors also affected the performance of Ukraine's steel industry, which is export-oriented, traditionally generating the majority of its revenues from international sales. In 2015, the country's steel exports (excluding pipes) declined by 16.0% year-on-year to 17.1 million tonnes. The main reasons for this include production difficulties at several plants in Eastern Ukraine, import substitution policy in some CIS countries and the intense competition in the global steel market, driven by greater exports from China and Russia.

In 2015, the fall in Ukraine's steel output, coupled with multi-year lows in global prices for raw materials and steel products, impacted the country's iron ore market. Output of merchant pellets, concentrate and sinter ore declined by 1.5% year-on-year to 76.1 million tonnes, while consumption fell by 13.7% year-on-year to 33.3 million tonnes. The Group's total iron ore concentrate production fell by 7.7% year-on-year to 32.2 million tonnes.

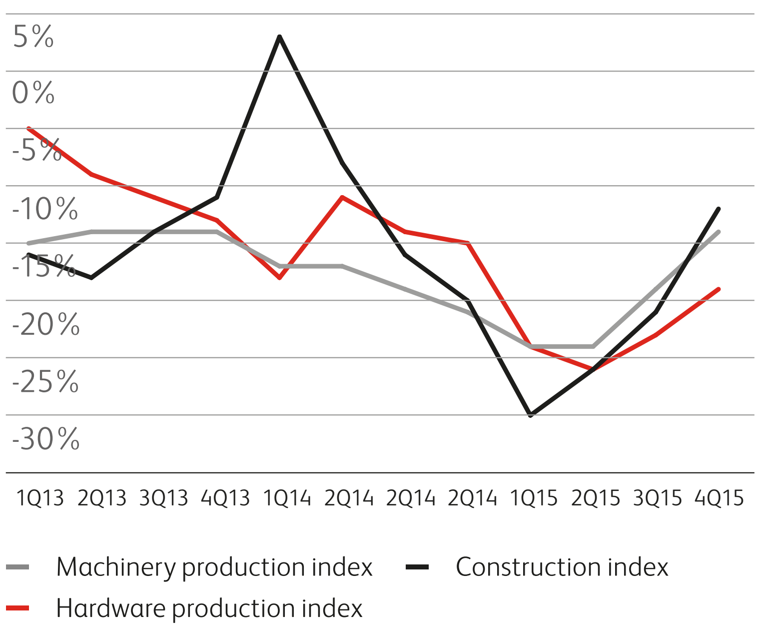
Meanwhile, as Ukraine's coking coal mines in Eastern Ukraine faced disruptions, local steelmakers had to buy more imported coal, which is costlier, in 2015. While some progress was made in restoring the domestic coking coal supply chain in the second half of the year, major challenges persist. Metinvest was no exception, and output of coking coal from its Ukrainian mines in the conflict zone plunged by 77.3% year-on-year to 346 thousand tonnes in 2015. To meet its coking coal needs, the Group shipped coking coal from its US mines and purchased coal from third parties.

Steel market in Ukraine (MT)



Source: Metal Expert

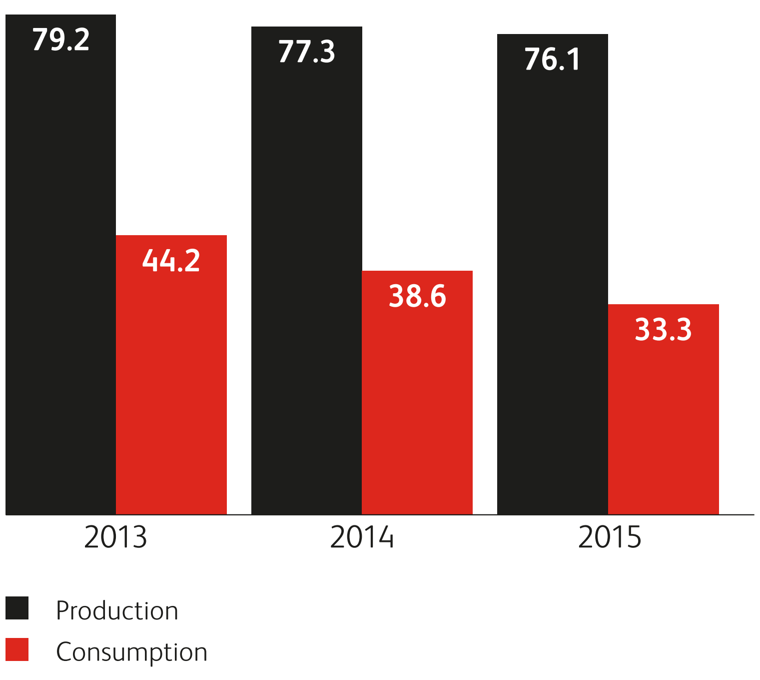
Key steel consuming sectors in Ukraine (%)[3]



Source: State Statistics Service of Ukraine, Metal Expert

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

Iron ore market in Ukraine (MT)



Source: Ukrainian Industry Expertise

ADDRESSING THE NEW REALITY THROUGH INTERNAL ACTIONS

In 2015, to overcome the myriad external developments, Metinvest undertook internal initiatives, focusing on stabilising the operating environment, optimising the product mix, enhancing operational efficiency, prioritising CAPEX and negotiating debt obligations with creditors.

STABILISING THE OPERATING ENVIRONMENT

As the conflict continued to affect operations and logistical channels in Eastern Ukraine in 2015, the Group moved to surmount issues on the ground as quickly as possible.

Certain facilities were directly hit by shelling in 2015. Avdiivka Coke's power supply was damaged several times during the year. We circumvented the emergency electricity stoppages by using on-site diesel generators, while working with power company DTEK, also part of SCM, to repair the affected infrastructure. Yenakiieve Steel suspended operations completely for about a month in the first quarter, following interruptions to raw material and electricity supplies, which we worked to restore quickly. Krasnodon Coal also experienced disruptions to inbound and outbound shipments, including supplies of production materials. We offset some of the shortfall in its output by redirecting coal from our US mines to our Ukrainian coke facilities and buying from third parties.

In December 2014, an explosion destroyed a key railway bridge over the Kalchyk River, knocking out the main rail link between our plants and the port in Mariupol. We responded promptly, setting up a single-track alternative to keep the vital link open. In parallel, we joined forces with Ukrzaliznytsia to repair the bridge, which reopened in November 2015. We also provided spare parts for the national rail operator's diesel locomotives, which enabled raw material supplies to our Mariupol steelmakers to be increased. In addition, when rail shipments were limited due to the low throughput capacity of the Kamysh-Zarya-Volnovakha railway, we used seaborne routes as an additional channel.

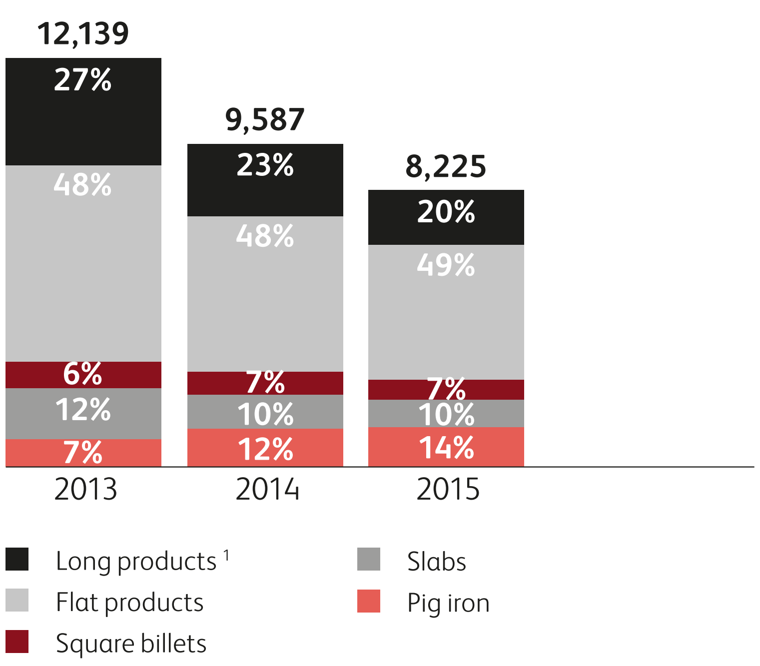
OPTIMISING THE PRODUCT MIX

In 2015, Metinvest faced record multi-year low prices and weak demand for products on key markets. In this environment, we sharpened our focus on optimising output and the product mix even more, seeking to select the right combination of products and markets to maximise margin.

In the Metallurgical division, total steel product output fell by 14% year-on-year to 8,225 thousand tonnes in 2015. Output of each product dropped, except for that of pig iron, which rose by 4% year-on-year, its share of the steel product mix reaching 14%, up from 12% in 2014. This was mainly driven by higher demand and margins for pig iron in Europe, the Middle East and North Africa (MENA) and Ukraine. As a result, the Group redistributed part of its hot metal output to produce pig iron, capturing additional margin on that product, compared with slabs and square billets. As for finished products, to maximise profits, we increased volumes to Europe, which helped to partly compensate lower sales elsewhere.

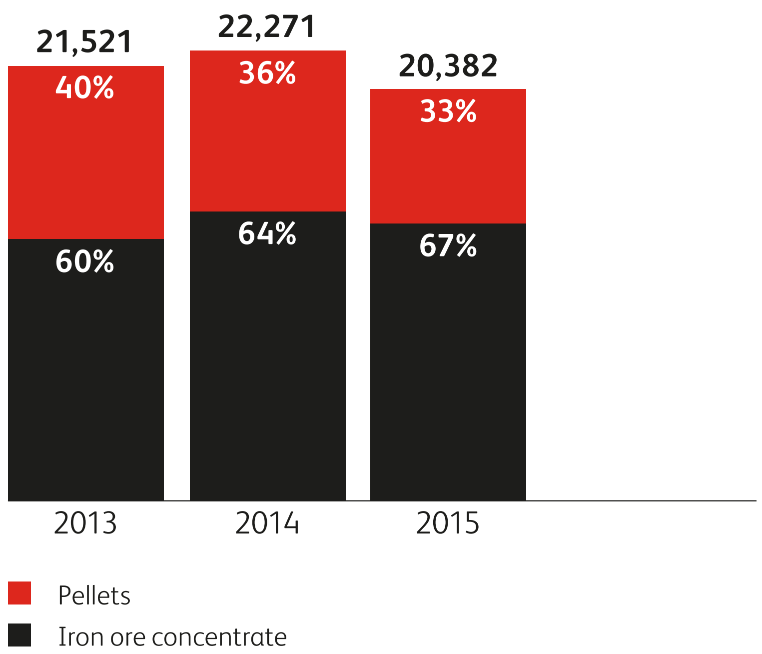
In the Mining division, output of merchant iron ore products fell by 8% year-on-year to 20,382 thousand tonnes. Output of pellets dropped by 16% year-on-year, while that of merchant concentrate decreased by 4% year-on-year. As a result, the share of merchant concentrate in the iron ore product mix rose to 67% in 2015, from 64% in 2014. This was mainly driven by the market environment in Southeast Asia,

Steel product mix
8,225KT
-14%



1 Share of long products includes share of rails and pipes: 5% in 2013, 4% in 2014 and 2% in 2015

Iron ore product mix
20,382KT
-8%



which saw higher demand for concentrate and intense competition in the pellet business. Given that effect and reduced demand in Ukraine (as several clients scaled back or halted steel output due to the situation in the east), we redirected pellet volumes to Europe and MENA (mainly Turkey) to capture margin.

ENHANCING OPERATIONAL EFFICIENCY

The depressed conditions on steel and iron ore markets and our considerable liquidity constraints have only encouraged us to take a closer look at our operational efficiency and production costs. After scrutinising every aspect of the business, we introduced a raft of initiatives to streamline the business in 2015, and we intend to continue this drive in 2016 and beyond.

Key operational improvements included recycling more recoverable resources, enhancing energy efficiency, optimising fuel consumption, scheduling repairs more efficiently and improving quality control. Other areas of focus included labour costs and third-party services, as well as corporate and administrative expenses. Throughout this drive, we aimed to streamline operations and avoid any abrupt changes. We improved purchasing efficiency in numerous areas of the business.

These initiatives proved successful in delivering tangible and rapid results. Over the year, we made overall savings of US$201 million compared with 2014. This included a net positive effect of US$169 million in the Metallurgical division and US$32 million in the Mining division. This highlights Metinvest's ability both to adapt to the new reality in the face of considerable adversity and to compete alongside the leading players in the global steel industry.

PRIORITISING CAPEX

In line with our Technological Strategy, we have been implementing a long-term investment programme to modernise our production facilities, concentrating on improving efficiency and reducing environmental impact. This strategy was designed to be flexible from the outset, to ensure its sustainability amid changing market conditions and funding constraints.

In 2015, we continued the successful implementation of our Technological Strategy, including a number of key projects in the Metallurgical and Mining divisions. Given our tight liquidity and events on the ground in some cases, we reduced CAPEX by 54% year-on-year to US$285 million, with maintenance accounting for 73% of that. We shifted our focus to priority repairs and strategic projects offering a rapid return on investments. Other projects have been temporarily halted or postponed, although we are committed to restarting them as soon as the situation permits.

Despite the limited financing, we made progress on key projects in 2015. In the Metallurgical division, this included completing the overhaul of blast furnace no. 4 and beginning the construction of pulverised coal injection (PCI) facilities at Azovstal, as well as resuming the PCI project at Yenakiieve Steel. We also continued upgrading the sinter plant at Ilyich Steel. In the Mining division, we advanced the crusher and conveyor projects at Northern GOK and Ingulets GOK. We also made further progress in replacing gas cleaning units on the Lurgi 552-B pelletising machine at Northern GOK.

NEGOTIATING WITH CREDITORS

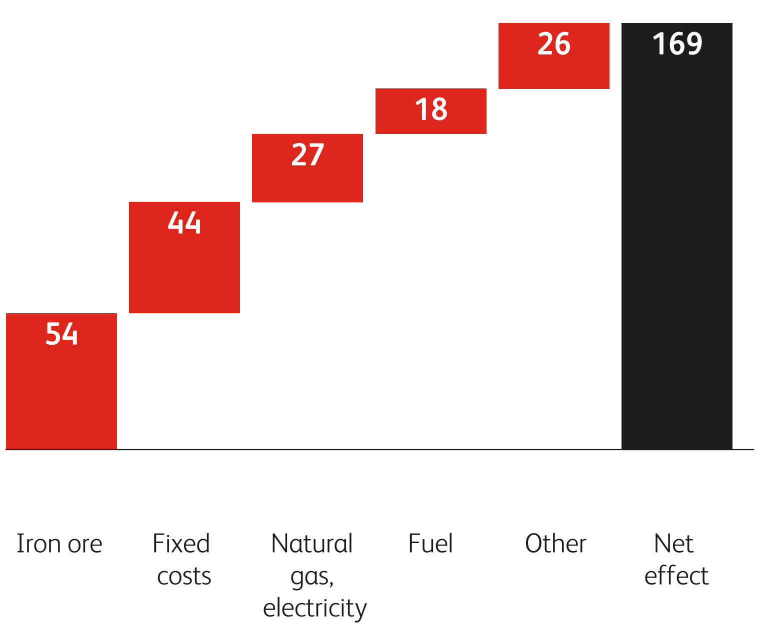
Historically, Metinvest has maintained a conservative approach to debt. However, over the last couple of years, a combination of factors has weakened the Group's liquidity position: namely, the conflict in the Donetsk and Luhansk regions, persistently low prices and demand for key products and the Group's inability to refinance its debt due to the effective closure of international capital markets to the vast majority of Ukrainian corporate borrowers. Against this backdrop, we experienced ongoing defaults over 2015.

Our approach to debt management in this situation has been to work amicably with our bondholders and PXF lenders to undertake a restructuring that is acceptable to all parties. We began talks to this end in early 2015 and the process is continuing in 2016. As part of it, we agreed non-binding heads of terms for restructuring the bonds and PXF facilities with the ad hoc committee of bondholders and the coordinating committee of PXF lenders on 24 May 2016. At the time of writing, to document and implement the consensual global restructuring, Metinvest is seeking to extend a moratorium on enforcement actions by bondholders and a standstill agreement with PXF lenders until November 2016.

In the meantime, we serviced interest and coupon payments on our bank loans and bonds in full in 2015 and have been doing so partly in 2016.

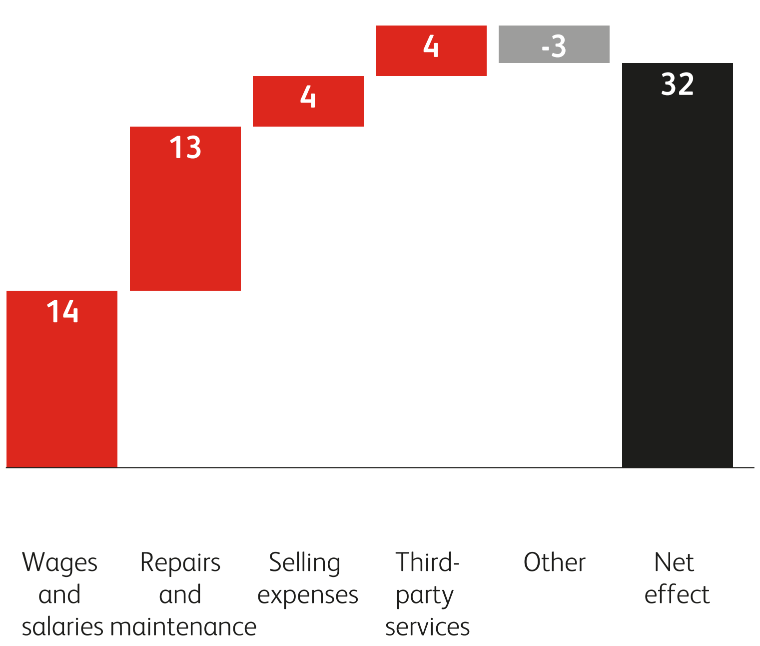
Improvements in the Metallurgical division

US$169M



Improvements in the Mining division

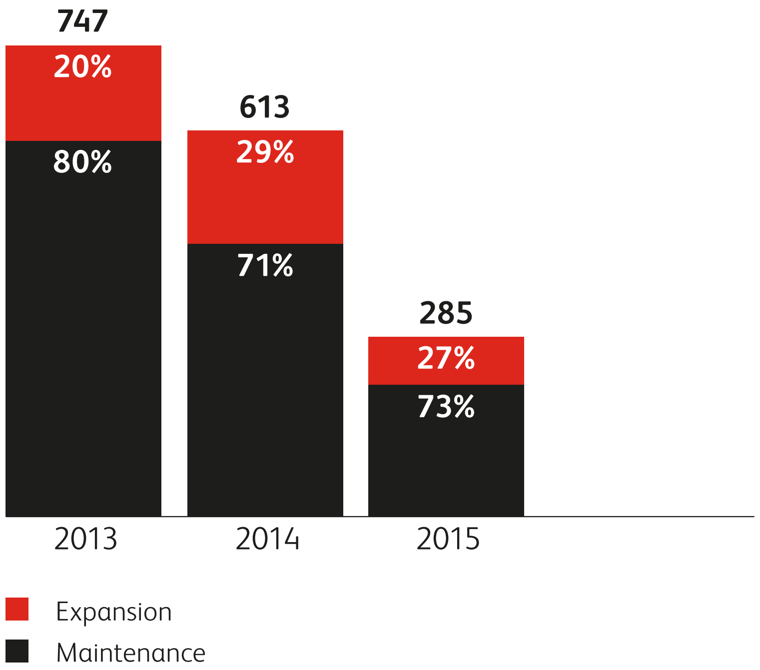
US$32M



CAPEX by purpose

US$285M

-54%



OVERCOMING UNPRECEDENTED CHALLENGES

In 2015, we embraced the new reality of the business, adapting to the emerging geopolitical situation and implementing the right internal initiatives to survive and compete amid record low prices for steel and raw materials worldwide.

As expected, 2015 was another deeply challenging year for our business. We continued to face a difficult geopolitical and economic situation in Ukraine, where events in the Donetsk and Luhansk regions continued to have repercussions, GDP contracted substantially and inflation soared. At the same time, conditions on the global steel and raw material markets, where prices were at their lowest in more than a decade, remain a major source of pressure.

Last year, as debt markets effectively remained closed to the majority of Ukrainian companies, we embarked on a necessary debt restructuring process with our creditors. We remain fully committed to the current negotiations and believe that they will lead to a satisfactory settlement for all stakeholders.

Amid these challenges, we believe that our flexible business model and strategy have enabled us to adapt to the new reality. Despite the persistently difficult operating environment in Eastern Ukraine, we were able to restore production at the main facilities disrupted in 2015. In no small part, this is also testament to the unwavering dedication of our employees.

Moreover, despite tight liquidity constraints, we continued to pursue our Technological Strategy, making the necessary investments in more efficient and environmentally friendly production for the future. We undertook a Group-wide drive to make operations more efficient and reduce production costs. We also continued to provide financial and other support to our communities, particularly those affected by the conflict.

KEY DEVELOPMENTS

The continually depressed prices of steel and iron ore products represent a key ongoing challenge for both Metinvest and the global steel industry. Prices of both reached multi-year lows in 2015, which undermined our financial performance, especially in the fourth quarter.

Given the decline in Chinese demand for steel and growing iron ore exports from Australia and Brazil, conditions on the global market remain bearish, although prices have improved in the beginning of 2016. Overcapacity in the steel industry is causing marginal producers to exit the market, particularly in China, where efficiency is lower and many steelmakers were operating at a loss throughout 2015.

Ukraine, where most of our assets are based, and which remains an important market for our products, continued to experience political and economic turbulence in 2015. During the first half of the year, the conflict in the east of the country led to disruptions at facilities, due to direct damage in some instances, as well as disruptions to raw material supplies, transport infrastructure and power and water utilities.

Yenakiieve Steel suspended its operations in February and March. Ilyich Steel and Azovstal were further affected by damage to a key gas pipeline in June and unstable raw material supplies during the whole year, while Krasnodon Coal faced disruptions to its shipments and supplies of materials for use in production. In addition, Khartsyzk Pipe was left idle due to lower demand for its products, while it also faced issues with limited supplies of coating materials for pipes and shipments of finished goods. Avdiivka Coke's power supply was interrupted several times by heavy shelling in February, March and August and the plant also experienced logistical issues.

Nonetheless, we were able to overcome the vast majority of these considerable issues and entered 2016 with production restored at all of our steelmaking facilities, a tribute to the hard work and bravery of our employees on the ground. So far, the affected regions have remained unstable, although we are prepared for any eventuality.

In the meantime, Ukraine's GDP contracted by nearly 10% year-on-year in 2015, reducing demand from key steel consuming sectors such as construction, machinery and hardware production. The results are starkly visible in the total output of the Ukrainian steel industry: crude steel production declined by 15% year-on-year and apparent steel consumption slumped by 28% year-on-year. The unfavourable market conditions, particularly in Ukraine, impacted some of Metinvest's operations as well. Amid a lack of orders, the Group halted production at blast furnaces no. 3 at Azovstal and no. 4 at Ilyich Steel in November and postponed the launch of blast furnace no. 4 at Azovstal to 2016, after the overhaul completed in September.

There was also some cost pressure from changes in domestic service rates. Railway transportation tariffs rose by 30% on 31 January 2015, creating an additional cost of around US$34 million during the year. Similarly, average electricity tariffs increased by 42% year-on-year, causing a negative effect of US$168 million. At the same time, the liberalisation of the gas market from October 2015 has had a positive effect on costs. There was also a positive FOREX effect on costs stemming from the movement of the hryvnia against the dollar, although such significant fluctuations are harmful for the business environment overall.

In terms of debt management, as international capital markets were effectively closed to the majority of Ukrainian companies, Metinvest experienced ongoing defaults over 2015. In early 2015, Metinvest began restructuring talks with its creditors that aim to reach a satisfactory settlement for all stakeholders, and this process continues in 2016. The Group eventually obtained a moratorium on enforcement actions by bondholders and signed a standstill agreement with PXF lenders until 27 May 2016 to ensure a stable platform for negotiating the restructuring of its debt. At the time of writing, Metinvest is seeking to extend the moratorium and standstill until November 2016. In the meantime, we serviced interest and coupon payments on our bank loans and bonds in full in 2015 and have been doing so partly in 2016. On 24 May 2016, after the reporting date, we agreed non-binding heads of terms for restructuring the bonds and PXF facilities with the ad hoc committee of bondholders and the coordinating committee of PXF lenders.

PROACTIVE APPROACH

How we approached and overcame these challenges in 2015 underscores the strength of our management team, business model and strategy. These reflect the strong, underlying fundamentals of the Group, which underpin its long-term prospects amid short to medium-term challenges. In addition, we remain one of the top producers in Europe and the CIS and a key supplier to both markets.

In view of the short to medium-term situation in the Ukrainian market, we adjusted our sales geography in 2015, while maintaining our position in key strategic markets. We also adjusted our production and sales mix to achieve the best possible margins, while prioritising products enjoying the greatest demand and maximising our own consumption of raw materials.

In addition, we focused on reducing costs through operational efficiency measures and improved our management of working capital.

In a highly competitive marketplace, customer service and product quality are key differentiators. In 2015, to serve our customers better and capture new ones, we extended the use of the back-to-back sales system, opened new sales offices in Poland and Spain and provided additional services. We continue to see Europe as a growing destination for our products due to demand and geographic proximity. In the reporting period, the Metallurgical division launched around 20 new products to meet market demand, mainly rebar, rails, plates and coils for the construction, machine-building and oil transportation industries.

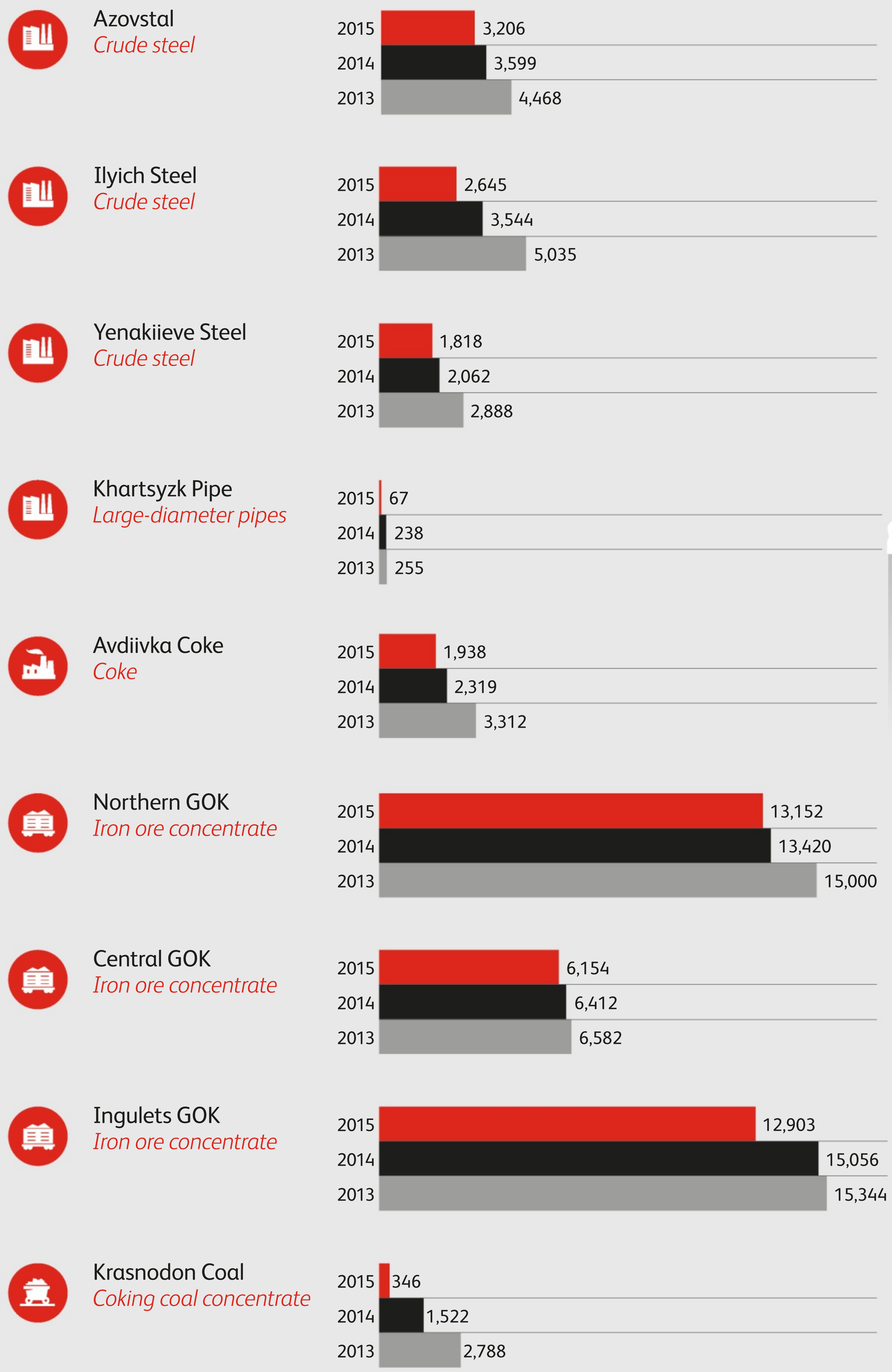
Another key step was prioritising capital expenditure under our long-term Technological Strategy. In our current liquidity situation, this involved reducing CAPEX by more than half compared with 2014 and setting clear priorities, such as strategic projects that offer rapid, tangible returns on investment and those that materially reduce our environmental footprint. Together, these accounted for 27% of CAPEX in 2015, while the remaining 73% was channelled into vital maintenance.

We pressed ahead with our priority projects to install pulverised coal injection facilities at Yenakiieve Steel and Azovstal and the crusher and conveyor systems at Northern GOK and Ingulets GOK. We also completed the overhaul of blast furnace no. 4 at Azovstal. In addition, we pressed ahead with the reconstruction of the sinter plant at Ilyich Steel, replacing the filters on sintering machines nos. 1-3. Alongside these, we have temporarily halted several major projects, which we are ready to restart as soon as market conditions permit.

We also vigorously pursued a raft of initiatives across the Group to streamline operations, with a view to enhancing efficiency and decreasing costs wherever possible. Key objectives included reprocessing more recoverable resources, enhancing energy efficiency, optimising fuel consumption, scheduling repairs more efficiently, improving quality control and reducing fixed costs. We also worked to improve the efficiency of purchasing in numerous areas of the business.

METINVEST'S KEY OPERATIONS IN UKRAINE

Annual production (KT)




Kyiv
Dnipro
UKRAINE
Solovey-Topoli
Yasynuvata
Yenakiieve Steel
Krasnodon Coal
Khartsyzk Pipe
Avdiivka Coke
Volnovakha
Northern GOK
Central GOK
Ingulets GOK
Azovstal
Kamysh-Zarya
Ilyich Steel
Azovstal port
Mariupol port
Berdyansk port
Yuzhny port
Mykolaiv port
Odesa port
Illichivsk port
Sea of Azov
Black Sea
Key
Operations
Operations affected by the conflict
Ports
Railway stations

RESULTS

Our operational and financial results reflected the conditions both in Ukraine and globally. The Group's output of crude steel fell by 17% year-on-year to 7,669 thousand tonnes in 2015, while that of steel products decreased by 14% year-on-year to 8,225 thousand tonnes. These declines were due to operational disruptions and logistical constraints, which forced local steelmakers to scale back output, the weak Ukrainian steel market and declining demand for Ukrainian steel products in key export markets.

Amid lower overall demand, iron ore concentrate output dropped by 8% year-on-year to 32,208 thousand tonnes in 2015, driven by high inventories in the first quarter caused by product shipment issues and lower intragroup consumption. Coking coal concentrate production fell by 20% year-on-year to 3,285 thousand tonnes amid lower production at Krasnodon Coal due to the conflict in Eastern Ukraine.

Compared with 2014, the Group's revenues declined by 35% to US$6,832 million and EBITDA by 81% to US$513 million. We posted a net loss of US$1,003 million for the year.

As prices of raw materials declined comparatively faster than those of steel, the divisional share of EBITDA changed, the Mining division's falling from 61% in 2014 to 15% in 2015 and the Metallurgical division's soaring from 39% to 85%[1]. This demonstrates the effectiveness of Metinvest's vertically integrated structure in capturing margins amid rapidly changing market conditions.

I am pleased to report that our operational improvement programme delivered tangible results. This is especially important given the situation in hand and underscores the Group's long-term ability to adapt proactively and compete at the top of its industry. Over 2015, the measures that we implemented generated overall savings of more than US$200 million compared with 2014.

I am pleased to report that our operational improvement programme delivered tangible results. This is especially important given the situation in hand and underscores the Group's long-term ability to adapt proactively and compete at the top of its industry.

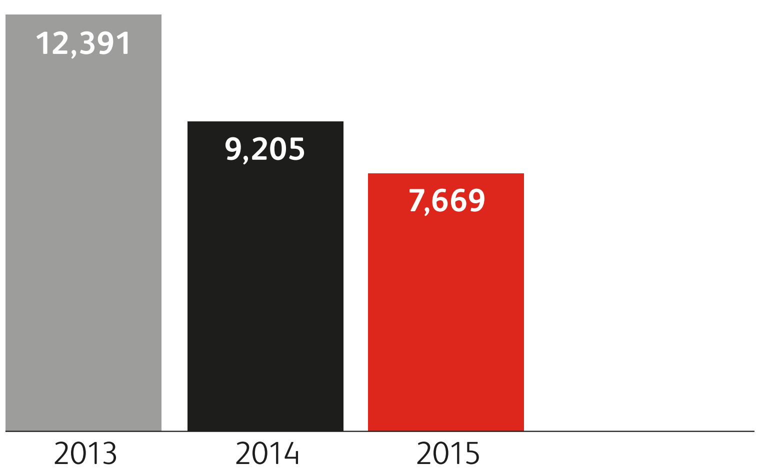
1 The contribution is to the gross EBITDA, before adjusting for corporate overheads and eliminations

KEY PERFORMANCE INDICATORS

Crude steel production

7,669KT

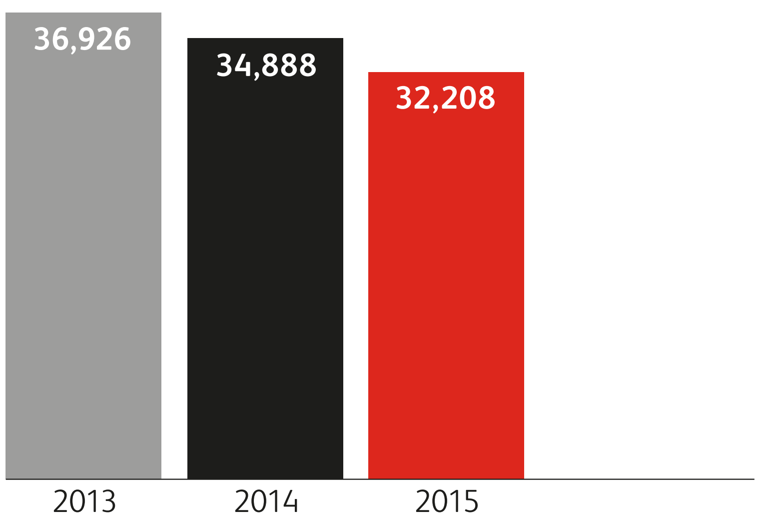
-17%



Iron ore concentrate production

32,208KT

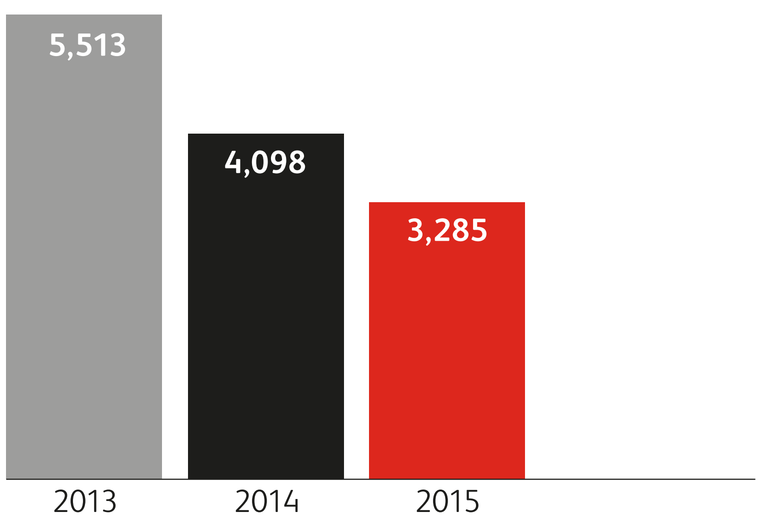
-8%



Coking coal production

3,285KT

-20%



MANAGERIAL CHANGES

Since Metinvest's last annual report, there have been several managerial changes. Following a reorganisation of the Strategy department, Ruslan Rudnitsky, Chief Strategy Officer, left the Group in November 2015. After the reporting period, in March 2016 Aleksey Kutepov stepped down as Chief Financial Officer and Yuliya Dankova has replaced him in the interim, while Sergiy Detyuk was appointed as Chief Information Officer. Also in March, Mykola Ishchenko stepped down as Director of the Mining division and Aleksandr Pogozhev, Director of the Metallurgical division, takes his place in the interim. Integrated management of the production function by Aleksandr will enhance synergies between the Metallurgical and Mining divisions and increase the efficiency of joint projects. One particular example is supplying high-quality iron ore products to Metinvest's steelmakers and steel products to its iron ore facilities.

On behalf of the Group, I would like to thank Ruslan, Aleksey and Mykola for their contributions and commitment over the years and welcome Yuliya and Sergiy to the team. Both have extensive industry expertise and established track records of success in their fields, making them each an excellent fit within the management team.

OUTLOOK FOR 2016

The global steel and raw materials markets appear set for another deeply challenging year in 2016. In addition, the political and economic situation in Ukraine could well continue to affect the business.

We look forward to the restructuring talks with our creditors reaching a successful conclusion. On this basis, we expect to improve our overall liquidity and plan for the long-term future of our business.

In the meantime, we expect the hard work undertaken in 2015 to continue. We will pursue our Technological Strategy to increase our overall productivity, quality and reduce our environmental impact, among other priorities. In addition, we will continue to adjust our output to prioritise products enjoying the greatest demand and offering the highest margin.

I believe that the true test of an individual or company is not when times are good, but when the challenges are the greatest. Whether it is restoring crucial bridges to our steelmaking facilities in Mariupol or repairing buildings in Avdiivka and Mariupol, we continue to invest in our communities and our employees continue to come forward as volunteers.

Vital in this process has been the Rinat Akhmetov Humanitarian Centre, set up by our main shareholder, which provided critical support throughout the year and continues to do so. Also crucial has been the contribution of both shareholders to the restructuring process.

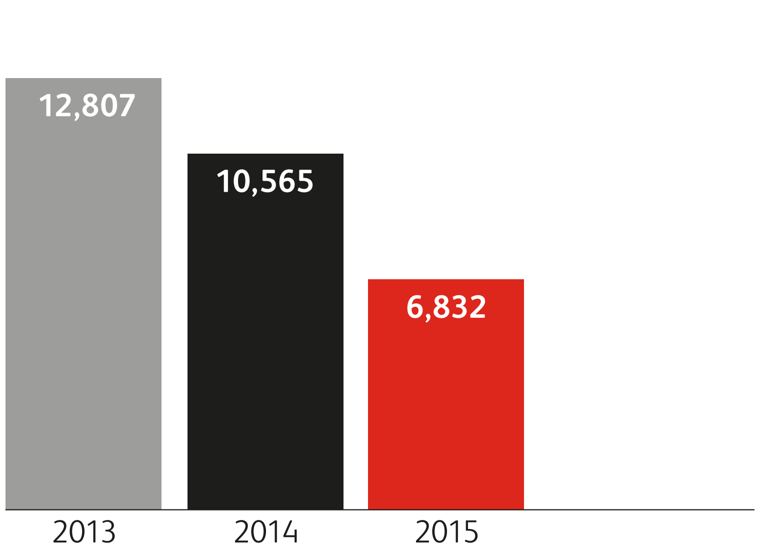
To all of our employees, investors, partners and clients, we thank you for your continued loyalty and belief in the Metinvest story.

Yuriy Ryzhenkov
Chief Executive Officer

Revenues

US$6,832M

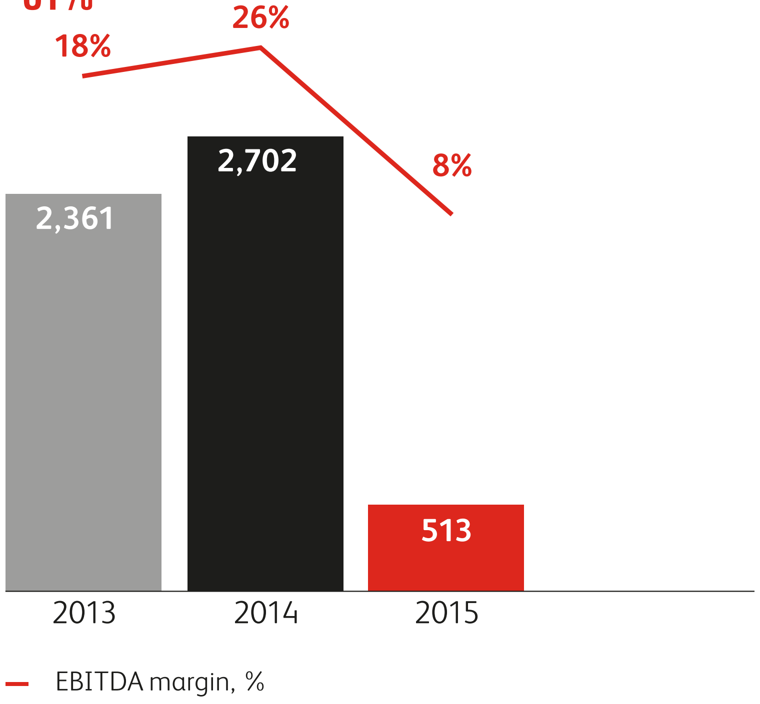
-35%



EBITDA

US$513M

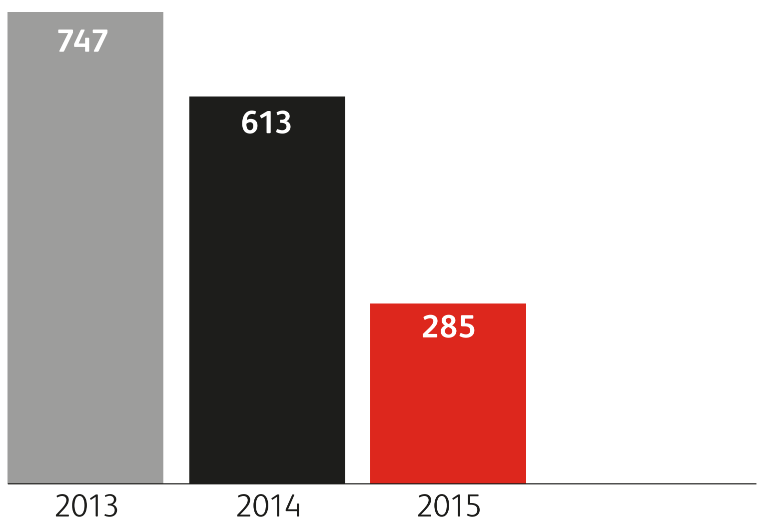
-81%

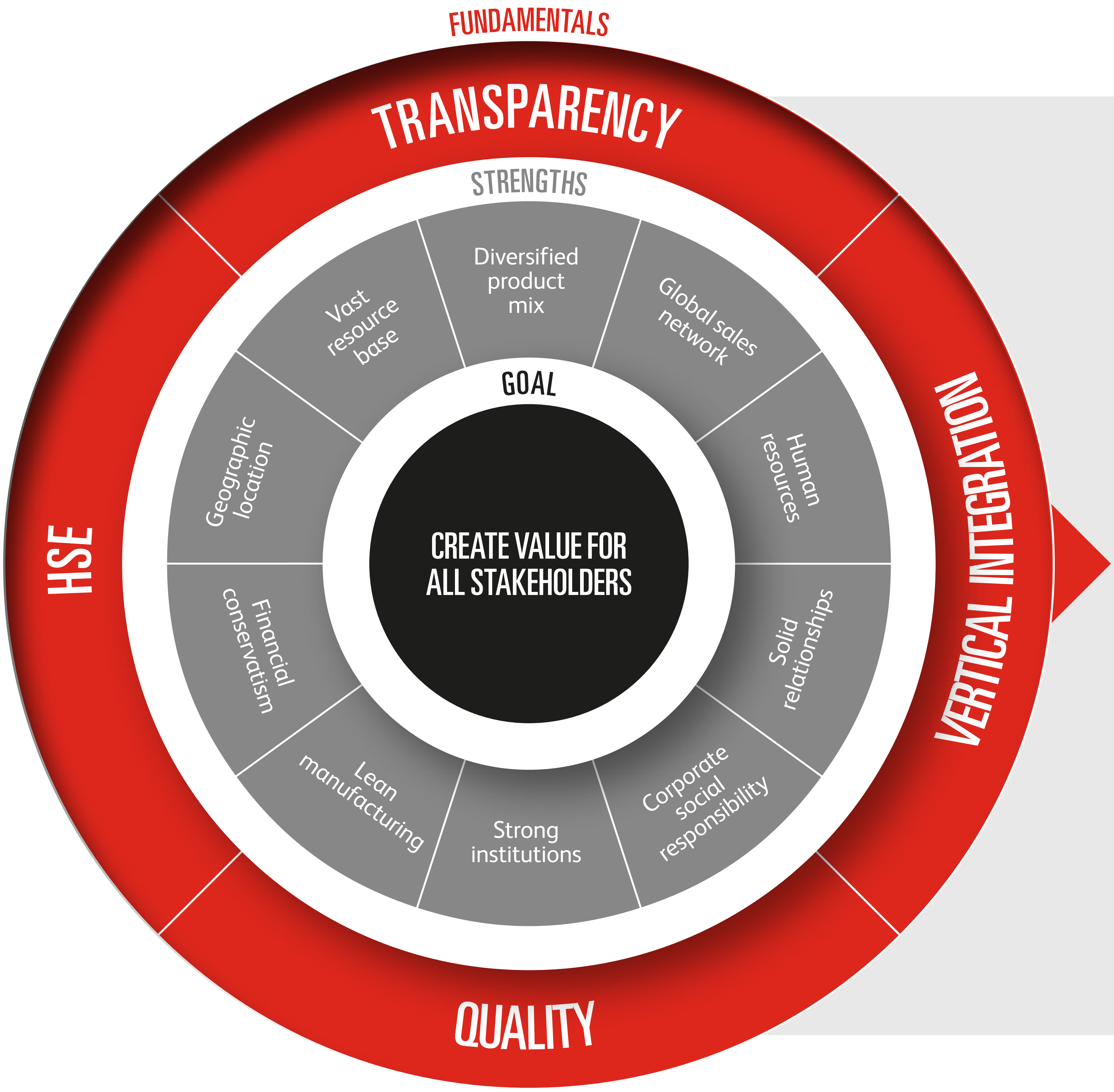


CAPEX

US$285M

-54%



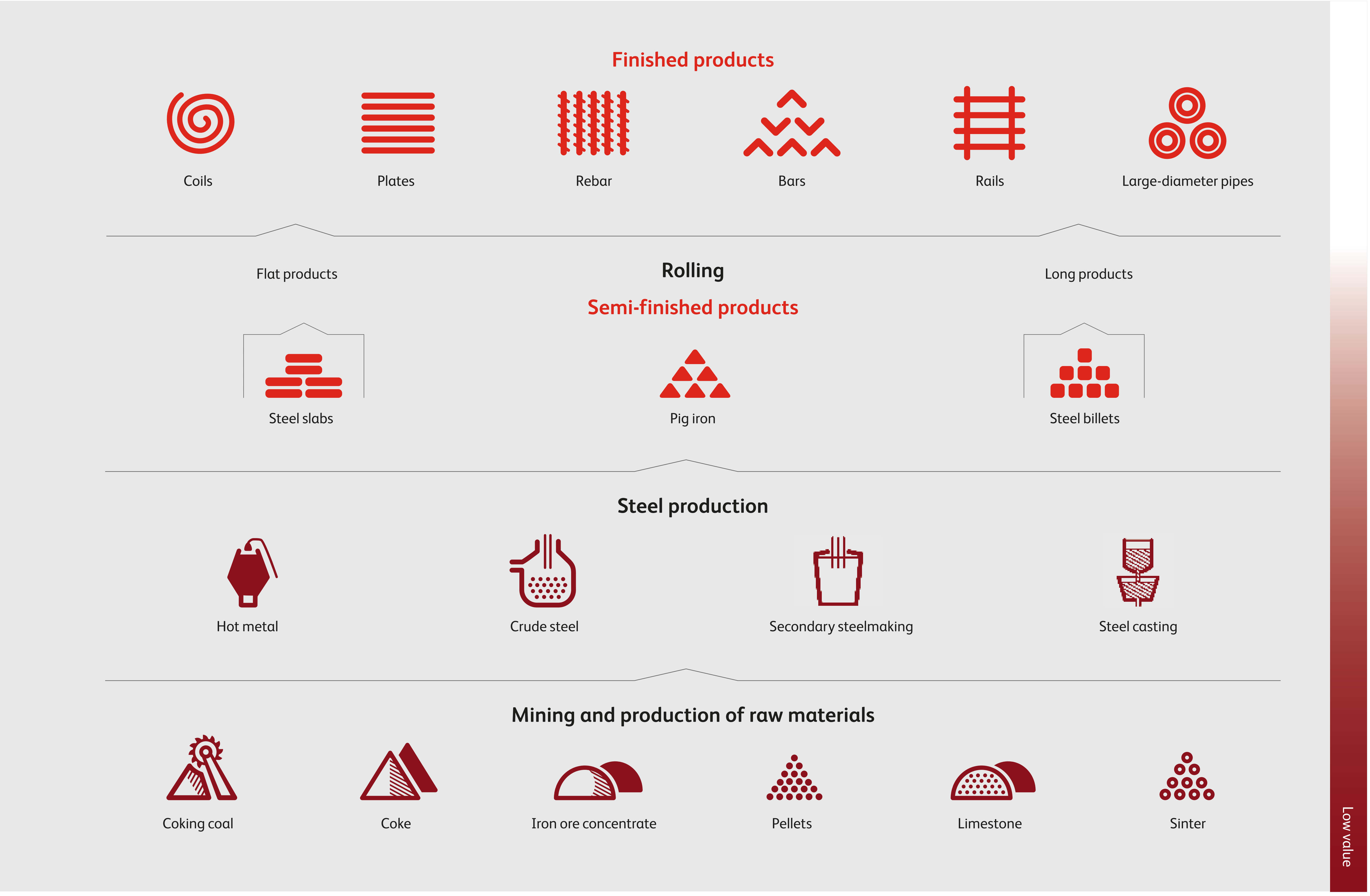


BUILT ON SOLID FOUNDATIONS

Metinvest's business is built on a model whose foundations are solid, as shown by the Group's ability to endure and achieve its ultimate goal, even in the most challenging of conditions.

GOAL
Metinvest's ultimate goal is to create value for all stakeholders: shareholders, investors, customers, employees, local communities, suppliers and the nation. To do this, the Group seeks to harness its base of high-quality assets and, through its streamlined vertically integrated structure, maximise returns along the value chain.

The Group has a unique combination of fundamental values and strengths that enable it to achieve this goal, demonstrating that its business model is solid.



FUNDAMENTALS

Transparency
Transparency is key as it inspires confidence among investors and other stakeholders. We also believe that our policy of openness and accountability makes us more efficient, responsible and dedicated.

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

Quality
Quality is critical, as it defines our ability, reputation and success. While we are proud of our work, we always seek to do better, notably through the application of continuous improvement.

Health, safety and environment (HSE)
We make HSE a priority and it is integral to all of our long-term investment plans. We continue to target only the highest standards for health and safety, while investing to reduce our environmental impact each year.

STRENGTHS
- Diversified product mix
- Global sales network
- Human resources
- Solid relationships
- Corporate social responsibility
- Strong institutions
- Lean manufacturing
- Financial conservatism
- Geographic location
- Vast resource base

Strategy

STRATEGIC GOALS	STRATEGIC OBJECTIVES
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 business	Implement advanced corporate management practices aimed at achieving results

STRATEGIC PRIORITIES	SELECT ACHIEVEMENTS IN 2015
Enhance occupational safety, labour protection and environmental practices	We evaluated health and safety management systems at enterprises that have become part of the Group since 2011. We also made further progress on key environmental projects.
Continue to implement the Technological Strategy	We resumed construction of the pulverised coal injection facilities at Yenakiieve Steel and began building the one at blast furnace no. 4 at Azovstal.
Improve operational efficiency	Through operational efficiency improvements, we achieved savings of US$169 million in the Metallurgical and US$32 million in the Mining divisions.
Enhance working capital management	We decreased average inventory levels and secured VAT reimbursements.
Improve sales efficiency	We sought to boost business with end customers, maximise profit in priority regions, launch new products, provide additional services and develop the in-house distribution network.
Build an effective HR management system	We extended our professional training initiatives and began building a career management system for executives.
Make the purchasing function more effective	We improved purchasing efficiency in numerous areas of the business.
Implement the ERP system and IT strategy	We implemented SAP at Ilyich Steel and Metinvest-SMC and moved to a single SAP Advanced Planner and Optimiser platform for the supply chain.
Manage key risks	As part of our compliance programme, we built a single system for working on anti-monopoly compliance and raised awareness about the area among employees.
Oversee key operational tasks	We implemented an action plan to streamline maintenance and repair expenses and established a transport service company and Metinvest-Promservice.

OPERATIONAL AND FINANCIAL REPORT

While there were ongoing operational and financial challenges in 2015, Metinvest kept moving forward, using its strategy as a guide for extracting value from its asset base and maximising it along the production chain.

IN THIS SECTION:

SOLID RESULTS

In 2015, the Metallurgical division overcame a deeply challenging external environment and disruptions to its production facilities to deliver a solid performance.

PRODUCTION ASSETS

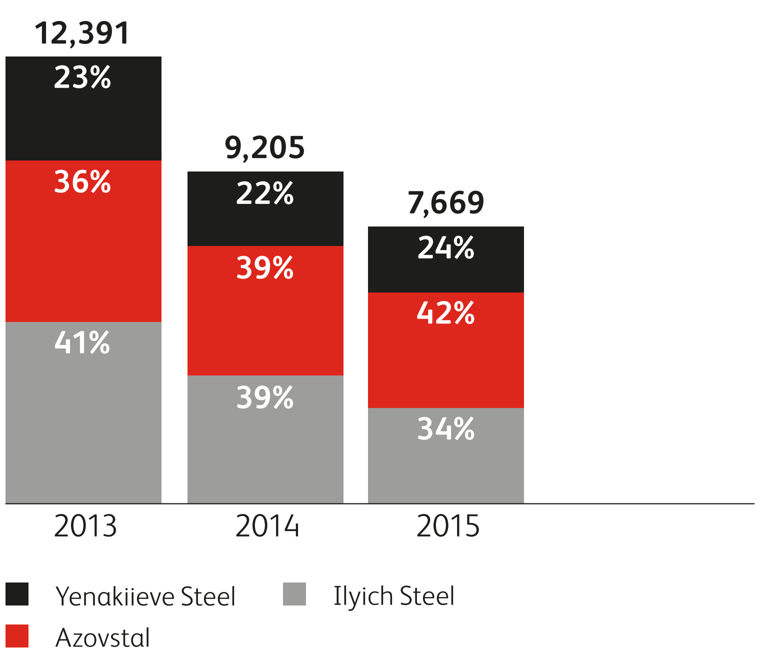
Metinvest's steelmaking assets comprise three hot metal facilities with rolling mills (Ilyich Steel, Azovstal and Yenakiieve Steel) and a pipe plant (Khartsyzk Pipe) in Ukraine; three rolling mills in continental Europe (Ferriera Valsider, Metinvest Trametal and Promet Steel); and a rolling mill in the UK (Spartan). In addition, the Group has a 49.9% stake in Zaporizhstal, one of Ukraine's largest steelmakers, which is classified as a joint venture. Metinvest's coking assets consist of Avdiivka Coke, Donetsk Coke, Zaporizhia Coke and the facilities at Azovstal, as well as Inkor Chemicals, which makes chemical products. In 2015, the Group was 99% self-sufficient[1] in coke for steelmaking.

We maintain an ISO 9001:2008-certified quality management system at all major steelmaking and re-rolling facilities.

Crude steel production by asset

7,669KT

-17%



PERFORMANCE

In 2015, the Group's output of crude steel fell by 17% year-on-year to 7,669 thousand tonnes and steel products by 14% year-on-year to 8,225 thousand tonnes. The declines were due to disruptions amid the conflict, bottlenecks in raw material and finished product supplies and weak demand in key markets.

In 2015, our plants in Mariupol, Ilyich Steel and Azovstal, decreased crude steel output by 25% and 11% year-on-year, respectively, due to low demand for steel products, especially at the year-end, and limited raw material supplies. To ensure their deliveries, we continued to use alternative supply channels (seaborne shipments) until November 2015. However, as market demand and prices for key products dropped close to multi-year lows in the fourth quarter, we reduced output and resumed using less expensive traditional supply routes. After the reporting period, in April 2016, given the low throughput capacity of the Kamysh-Zarya–Volnovakha railway, the only rail link connecting Mariupol with the rest of Ukraine, we began using seaborne shipments again.

In the first quarter of 2015, Yenakiieve Steel suspended operations due to interruptions to shipments and electricity supplies amid the conflict. In the third quarter, operations at its Makiivka branch were affected by damage to a gas pipeline and electricity cables from shelling in August. Meanwhile, limited scrap availability in Eastern Ukraine impacted Yenakiieve Steel's operating results in the second half of the year. In the fourth quarter, the plant experienced further disruption due to restricted gas supplies.

1 Coke self-sufficiency is calculated as actual coke production divided by actual consumption of coke to produce hot metal in the Metallurgical division

Interruptions to square billet shipments from Yenakiieve Steel for re-rolling at Promet Steel also affected the former's production results.

Avdiivka Coke was hit several times by artillery shelling in 2015. Over the year, there were several electricity stoppages, during which we used on-site diesel generators to ensure stable operations. Notably, in August, shelling damaged high-voltage lines to the plant. Employees worked with experts from power company DTEK, also part of SCM, to repair them, enabling production to continue amid considerable adversity. In the first half of 2015, Khartsyzk Pipe, which experienced extensive disruptions beginning in the second half of 2014, maintained minimal output and in June, it halted production due to a lack of orders.

Overall, 2015 was a year of two halves. In the first, the division's results were affected mainly by the situation in Eastern Ukraine. In the second, the pressure came mainly from low demand and prices for products. We successfully resumed production at all steelmakers by the end of the first half, and they have remained operational.

Given the challenges, the Group implemented two targeted projects to address the logistical constraints of its steel mills and ensure business continuity. First, we oversaw the reconstruction of a key railway bridge in Mariupol to enable deliveries to and from the city's port. Second, we worked with state railway operator Ukrzaliznytsia to provide parts for refurbishing diesel locomotives. This allowed us to maintain and expand the fleet of working locomotives, ensuring raw material deliveries to our steelmakers in Mariupol.

The Group also undertook numerous operational improvements aimed at reducing production costs, saving US$169 million compared with 2014. Key objectives included recycling more recoverable resources, enhancing energy efficiency, optimising fuel consumption, scheduling repairs more efficiently and improving quality control.

Among other achievements, we reduced concentrate consumption by increasing the use of secondary materials at Ilyich Steel; used more pellets and decreased consumption of third-party sinter at Yenakiieve Steel; and lowered spending on external equipment maintenance and repair services.

Despite liquidity constraints, the division continued key projects as part of the Technological Strategy. Its total investments equalled US$137 million in 2015. In line with the Group approach, we focused on maintenance work, initiatives offering rapid investment returns and projects that make tangible environmental improvements.

One key achievement was finishing the overhaul of blast furnace no. 4 at Azovstal, which we commissioned in September 2015 and launched after the year-end. Another was advancing the projects to install PCI at Yenakiieve Steel, where the new facility was launched at blast furnace no. 5 in February 2016, and Azovstal. We continued the upgrade of Ilyich Steel's sinter plant, replacing the filters on sintering machines nos. 1-3, as this project is significant for Mariupol.

In 2015, we halted the construction of the infrastructure for a new air separation unit at Yenakiieve Steel due to an emergency. Several other projects remain on hold due to funding and operational constraints. We are fully committed to restarting them as soon as conditions permit. The Metallurgical division continues to innovate for customers. In 2015, we launched more than 20 new steel products, including new sections from Yenakiieve Steel and crane rails from Azovstal.

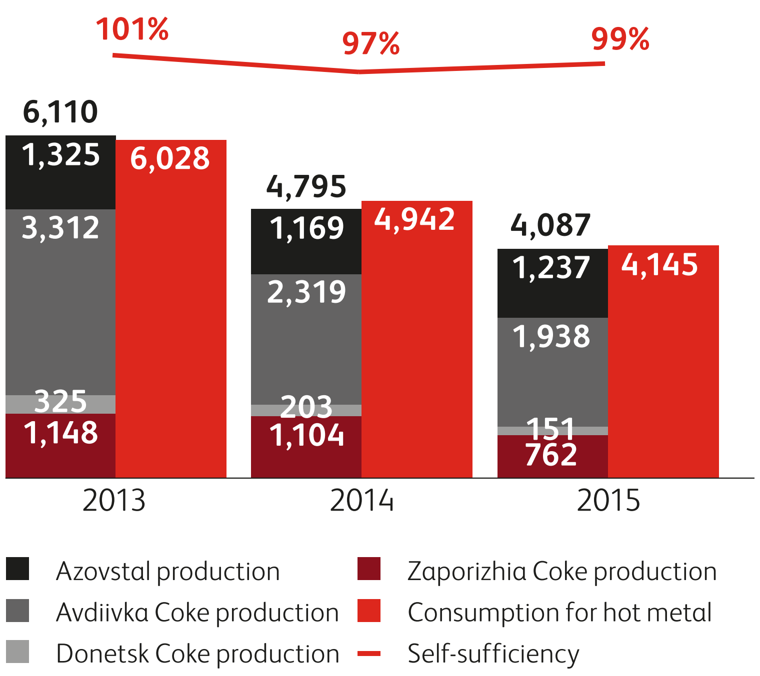
OUTLOOK AND STRATEGY

The division's main priorities in 2016 are to maintain uninterrupted production at its integrated steelmakers in Eastern Ukraine and ensure stable raw material and product shipments. Another key objective will be streamlining production costs where possible. We will also aim to maintain output at sustainable levels in anticipation of continued low global prices for steel, and continue seeking to maximise margins based on market conditions.

Coke self-sufficiency (KT)

99%

+2pp



CASE STUDY
ZAPORIZHSTAL

In 2015, we and our partners ran Zaporizhstal at 100% production capacity in challenging market conditions, while Metinvest's 49.9% stake in the joint venture continued to make a solid contribution to Group EBITDA.

EXCELLENT FIT

Zaporizhstal fits with Metinvest's business perfectly. One of the largest steelmaking facilities in Ukraine, it can produce around 4 million tonnes of crude steel a year. The enterprise is located in Zaporizhia, southeastern Ukraine, close to our iron ore facilities in Kryvyi Rih, home to Metinvest's Zaporizhia Coke and on the Dnipro River, a strategic transportation route. Zaporizhstal has resumed its strategic partnership with Zaporizhia River port, helping to reduce distribution costs.

Zaporizhstal is also one of our top third-party purchasers of iron ore, so we capture additional margin through our share of its steelmaking capacity, while its sales and distribution network and product mix complement ours. We acquired a 49.9% stake in 2011-12 and have been creating synergies with our steelmakers and iron ore producers since. We classify the investment as a joint venture.

We work with our partner on major investment projects to improve Zaporizhstal's efficiency and reduce its environment impact. In 2014, its blast furnace no. 4 was rebuilt, which enabled the Group to triple its resales of the enterprise's pig iron in 2015. In addition, a new hydrochloric acid pickling line and a regeneration plant for spent acid pickles were built. The latter has reduced the plant's emissions significantly.

RESULTS

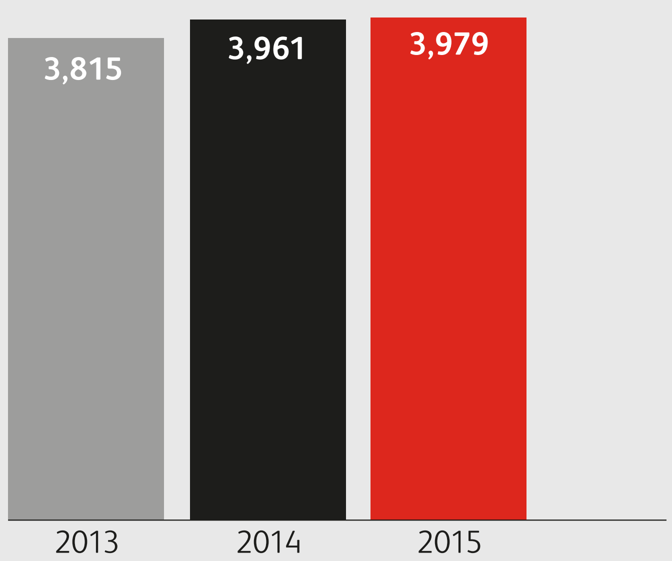
In 2015, amid challenging market conditions, Zaporizhstal kept its crude steel production steady at 3,979 thousand tonnes. Finished steel goods accounted for 91% of the product mix and merchant pig iron for 9%. In 2015, Zaporizhstal contributed US$153 million to the Group's EBITDA. We and our partners continue to implement priority CAPEX initiatives at Zaporizhstal. In 2015, these included beginning the final stage of a major overhaul of the sinter plant to reduce the plant's environmental footprint. As part of this, we changed two gas-cleaning filters and began connecting new gas-cleaning equipment to the six sinter machines.

We also worked together to pursue operational improvements as part of the Group's drive, saving US$46 million over the year. Notably, we reviewed fuel use, optimised the metal charge and streamlined iron ore consumption.

Crude steel production

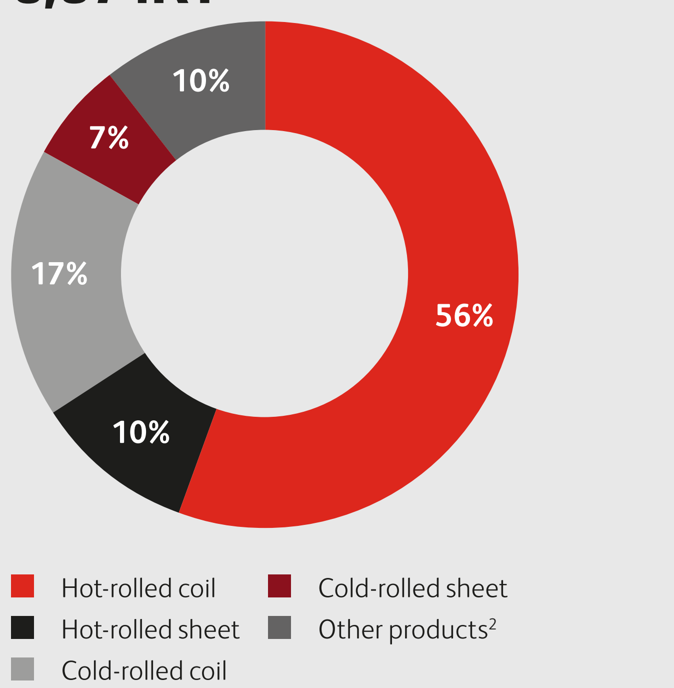
3,979KT

0%



Product mix in 2015

3,674KT



2 Other includes joist web, pig iron, strip and tin

COMMENDABLE PERFORMANCE

In 2015, in the face of considerable adversity, the Mining division prevented any major fall in its iron ore output and worked tirelessly to maintain operations at Krasnodon Coal.

PRODUCTION ASSETS

Metinvest's main iron ore facilities are Ingulets GOK, which produces concentrate, and Northern GOK and Central GOK, which produce concentrate and pellets. In July 2014, we acquired 45.9% of Southern GOK, which produces iron ore concentrate and sinter and is classified as a joint venture. In addition, we own Komsomolske Flux, a large Ukrainian producer of limestone.

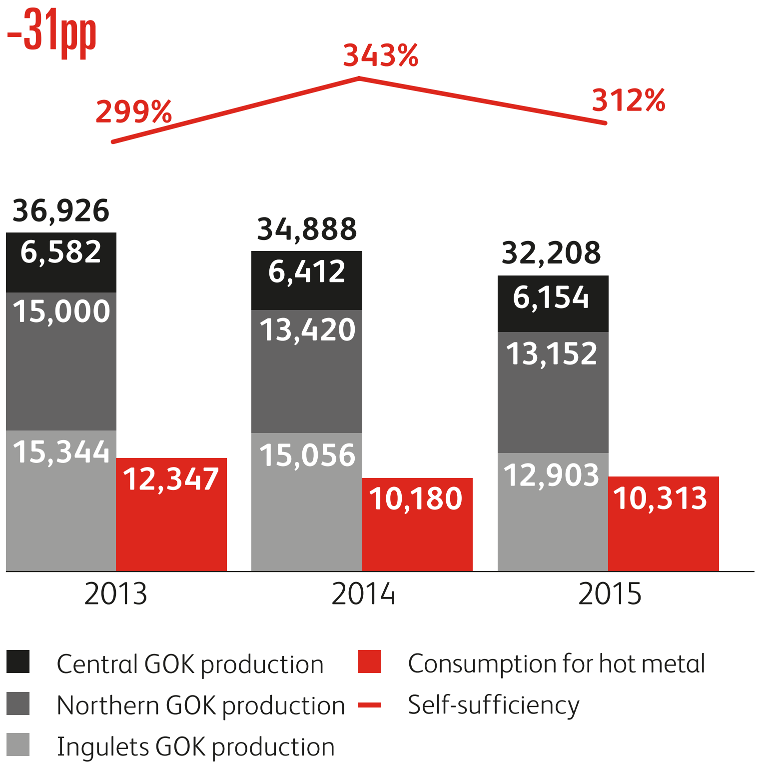
The iron ore facilities are all in Kryvyi Rih, around 450 kilometres from the Group's main steelmaking facilities. As at 31 December 2015, we had long-life proven and probable iron ore reserves in Ukraine of 1,383 million tonnes[1]. On the same date, our self-sufficiency in iron ore was over 300%[2].

Our main coking coal facilities are Krasnodon Coal, in Ukraine, and United Coal, in the US. As at 31 December 2015, the Group's unaudited total coal reserves equalled 508 million tonnes, while its self-sufficiency in coal was 48%[3]. Metinvest covers its remaining coal needs through purchases from third parties.

For the iron ore enterprises, the Mining division maintains a quality management system certified by Bureau Veritas and Krivbasstandartmetrologiya as meeting the standards required for producers of merchant concentrate and pellets. The system is also certified in accordance with ISO 9001.

Iron ore self-sufficiency (KT)

312%
-31pp



PERFORMANCE

In 2015, our total iron ore concentrate production fell by 8% year-on-year to 32,208 thousand tonnes. The main reason for this was overstocked warehouses in the first quarter, caused by shipment disruptions and the unsatisfactory condition of equipment at Ingulets GOK, as well as lower intragroup consumption amid the conflict. To remedy the issues at Ingulets GOK, we undertook stabilisation measures and an equipment overhaul in the third quarter and output increased in the fourth. Production at Northern GOK and Central GOK decreased in the fourth quarter amid a fall in accessible ore due to limitations in removing overburden rock.

One key reason for the lower output of merchant iron ore products in 2015 was lower overall concentrate production. In addition, there was a shift in production from pellets to merchant concentrate due to the market environment in Southeast Asia, which saw higher demand for concentrate and intense competition in the pellet business. As such, output of pellets dropped by 16% year-on-year to 6,668 thousand tonnes, while that of merchant concentrate decreased by 4% year-on-year to 13,714 thousand tonnes.

Given the overall environment, the production results reflect the Group's commendable success in containing the decline. We did this by responding to changes in regional demand and pushing further into export markets. During the year, as several Ukrainian iron ore clients reduced or halted steel output due to the conflict, we redirected iron ore products to Europe and MENA (in particular, Turkey).

The division's coking coal output fell by 20% year-on-year to 3,285 thousand tonnes in 2015. This was mainly due to operational constraints at Krasnodon Coal, which is in the conflict zone and experienced disruptions to inbound and outbound shipments. The drop at Krasnodon Coal was partly offset by a year-on-year rise at United Coal, driven by renewed production at existing mines, the launch of new capacity and improved geological conditions.

This reality only encouraged the drive towards greater operational improvements in 2015. As part of a Group initiative, the division scrutinised its costs, achieving considerable results. In particular, tighter cost control at iron ore facilities resulted in a net positive effect of US$32 million. Key focus areas included wage and salaries, repairs and maintenance and third-party services, and we concentrated on streamlining, as opposed to making major changes.

The division also pursued its plans under the Technological Strategy in 2015, investing US$136 million in CAPEX overall. Given the liquidity constraints, we prioritised essential maintenance, which accounted for 80% of the division's investments, keeping all equipment fully operational. We also focused on key strategic projects that will bring tangible, substantial and rapid cost benefits.

Notable progress included financing the crusher and conveyor system at Northern GOK's Pervomaisky quarry. At Ingulets GOK, construction of the crusher and conveyor system on the Vostochny conveyor continues, while we have placed the plans for the Zapadny conveyor on hold due to limited funding, minor delays and the need to update design documentation.

1 According to JORC methodologies, as at 1 January 2010 and adjusted for production of 483 million tonnes of reserves between 1 January 2010 and 31 December 2015. Ore reserves refer to the economically mineable part of mineral resources
2 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 division
3 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 division. Coal consumption for PCI is included in the calculation

In 2015, we made further progress in upgrading the gas cleaning units on Northern GOK's Lurgi 552-B pelletising machine, replacing three of the five filters. The rebuilding of the enterprise's Lurgi 278-B pelletising machine has been suspended due to the liquidity situation.

The division also maintained its commitment to pursuing the highest health and safety standards in 2015. At Krasnodon Coal, we continued to roll out the production safety and air and gas protection systems. The multi-gas monitoring and worker positioning system at Eastern Sukhodolska is operating successfully, while a similar one is ready for commissioning at Western Samsonovska.

OUTLOOK AND STRATEGY

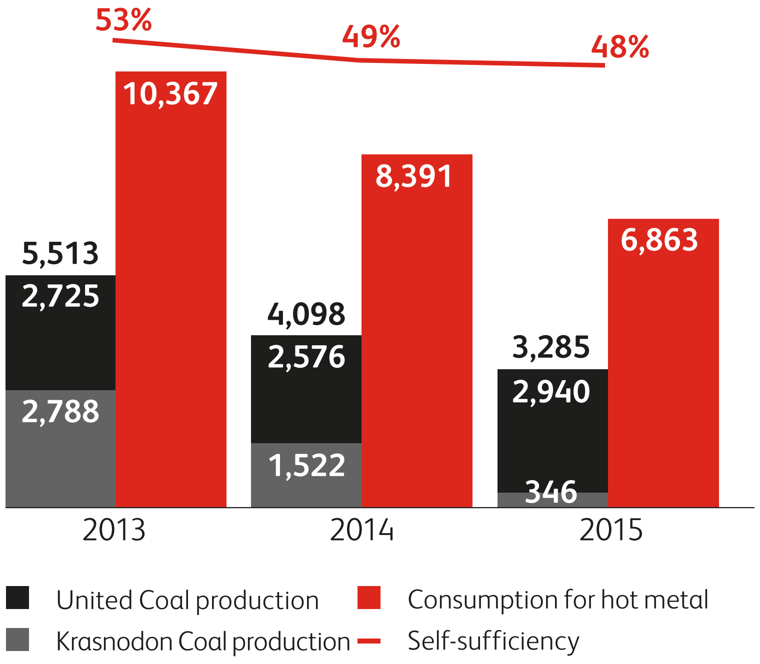
In 2016, the division will continue to maximise margin by exploiting the Group's vertically integrated structure, covering the iron ore needs of its steelmakers and selling the surplus to third parties. As part of this, to compensate for reduced demand in Ukraine, we will press ahead with locating new customers in export markets and working to improve the quality of our iron ore products, which have a current Fe content of 65-68%, even further. We also intend to advance our crusher and conveyor systems as far as possible, as they will reduce operating costs considerably. Regarding coal, we will work to stabilise production at the Krasnodon mines.

In addition, the division will continue its drive to streamline costs through operational improvements. Throughout our activities, employee health and safety remains the ultimate priority and we are fully committed to eliminating fatalities and lost-time incidents.

Coal self-sufficiency (KT)

48%

-1pp



CASE STUDY
SOUTHERN GOK

In mid 2014, Metinvest acquired a 45.9% stake in the Southern GOK joint venture, securing an additional source of iron ore concentrate and sinter for its steelmaking facilities and boosting profitability.

EXTENDING LEADERSHIP IN IRON ORE

Southern GOK currently mines iron ore from one open pit in its quartzite fields and transports it by rail to crushing, beneficiation and sinter plants. It produces iron ore concentrate with an iron ore (Fe) content of around 65.4% to 67.7% and sinter with an Fe content of around 56.2%.

Metinvest acquired a direct stake of 0.79% in Southern GOK in June 2014 and a 44.8% effective interest in July 2014. The Group classifies the asset as a joint venture and began consolidating its results in the third quarter of 2014.

The transaction gave us a stake in one of our most important third-party suppliers of sinter and iron ore concentrate and the ability to contribute management expertise and oversee investments to improve operational efficiency and safety. In addition, like our wholly owned iron ore facilities, Southern GOK is located in Kryvyi Rih, making it a natural fit for our business.

RESULTS

In 2015, Southern GOK produced 11,389 thousand tonnes of iron ore concentrate, up 4% year-on-year. Output of merchant concentrate increased by 8% year-on-year to 10,176 thousand tonnes amid a shift in production in favour of concentrate. Output of sinter decreased by 22% year-on-year to 1,616 thousand tonnes due to the unfavourable market environment.

Some 7% of the sinter was consumed internally, by Yenakiieve Steel, and the remainder was sold to external customers. All merchant concentrate was sold to third parties, mainly in China and Europe.

In 2015, Southern GOK contributed US$59 million to Group EBITDA.

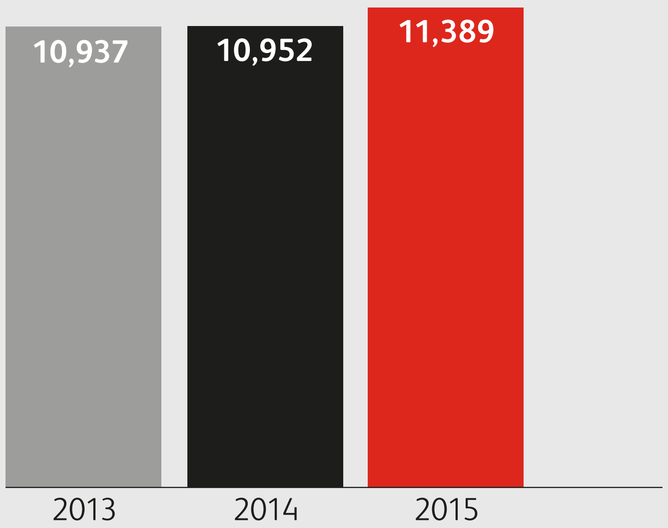
Over the year, Metinvest worked constructively with its partners in the joint venture to pursue the Group's operational improvement initiatives at Southern GOK. Overall, this generated a net saving of US$20 million. Key achievements included optimising production processes (benefit of US$7 million), making repairs and maintenance more efficient (US$6 million), streamlining labour costs (US$4 million) and reducing other fixed costs (US$2 million).

In 2015, Southern GOK continued to make a meaningful contribution to our results, and we look forward to working closely with our partners to develop the asset further.

Iron ore concentrate production

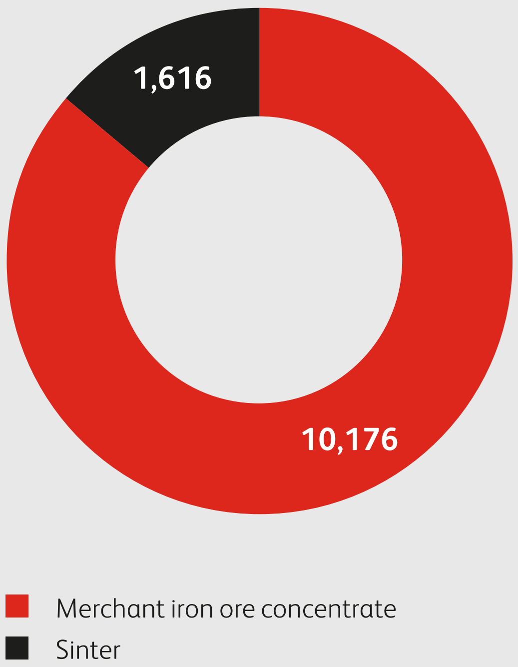
11,389KT

+4%



Product mix in 2015

11,792KT



POSITIVE EBITDA AMID CONSIDERABLE ADVERSITY

Despite record multi-year low prices for key products, EBITDA remained positive in 2015, thanks to its core competitive advantages and flexible strategy.

OVERVIEW

Metinvest's financial results for 2015 reflect the ongoing complexity of the situation in the year. The Group faced muted demand and prices for key products in Ukraine and internationally, further periodic disruptions to operations due to the conflict in the country's eastern regions and ongoing liquidity issues. However, we believe that our flexible business model and strategy have enabled us to adapt to the new reality.

As prices of raw materials declined comparatively faster than those of steel, the divisional share of EBITDA changed, the Mining division's slumping from 61% in 2014 to 15% in 2015 and the Metallurgical division's soaring from 39% to 85%[1]. This demonstrates the effectiveness of Metinvest's vertically integrated structure in capturing margins amid rapidly changing market conditions.

Given the tight liquidity, the Group placed even greater emphasis on strict cash flow discipline in 2015. Alongside the drive to cut costs and improve operational efficiency, we minimised CAPEX and debt repayments amid debt restructuring discussions. By the year-end, total debt had decreased by 9% to US$2,946 million. Our cash balance stood at US$180 million, which we continue to view as inadequate in the ordinary course of our business.

We remain fully focused on navigating the current situation successfully and look forward to improving our liquidity situation in 2016 and beyond.

REVENUES

Metinvest's revenues are generated from sales of its steel, iron ore, coal and coke products and re-sales 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 2015, Metinvest's consolidated revenues fell by US$3,732 million year-on-year to US$6,832 million. Revenues from the Metallurgical division declined by US$2,758 million, while those from the Mining division dropped by US$974 million. This was mainly driven by overall lower production of crude steel amid the conflict in Eastern Ukraine, lower output of iron ore concentrate, weak demand in key markets and multi-year low prices of steel and iron ore products. The share of the Metallurgical division in external sales increased by 2 percentage points (pp) year-on-year to 79%, while the share of the Mining division decreased by 2 pp year-on-year to 21%.

In 2015, Metinvest's revenues in Ukraine dropped by 35% year-on-year to US$1,619 million. This was mainly due to lower sales of finished steel and iron ore products amid weak demand in major steel consuming sectors and lower selling prices, which followed benchmark dynamics. Regarding iron ore products, sales in Ukraine slumped, as a couple of Metinvest's key customers in the country scaled back production dramatically following the escalation of the conflict in the second half of 2014. Meanwhile, the share of Ukraine in the Group's consolidated revenues remained unchanged year-on-year at 24%.

International sales decreased by 35% year-on-year to US$5,213 million in 2015. While sales to all regions fell, the breakdown by region changed compared with 2014. The proportion of sales to Europe rose by 5 pp year-on-year to 33% of consolidated revenues in 2015, due to higher sales volumes of pig iron, square billets, flat products and pellets. The share of sales to Southeast Asia fell by 5 pp year-on-year to 11% due to decreased selling prices of key products and lower sales volumes of flat products, slabs and pellets.

1 The contribution is to the gross EBITDA, before adjusting for corporate overheads and eliminations

Metallurgical division

The Metallurgical division generates revenues from sales of pig iron, steel and coke products and services. In 2015, its revenues decreased by 34% year-on-year to US$5,407 million. This was attributable to lower sales of all steel products: flat (down US$1,467 million), long (down US$506 million), semi-finished (down US$443 million) and tubular (down US$174 million) products. In addition, sales of coke and chemical products decreased by US$59 million, while sales of other products and services dropped by US$110 million.

Pig iron

In 2015, sales of pig iron decreased by 23% year-on-year to US$379 million. This was driven by a substantially lower average selling price (-42 pp), which was partly compensated by an increase in sales volumes (+20 pp). Sales volumes of pig iron rose by 241 thousand tonnes to 1,467 thousand tonnes, mainly due to re-sales of 332 thousand tonnes of Zaporizhstal's pig iron as a result of a hot metal surplus following the major overhaul of blast furnace no. 4, completed in the second half of 2014. Given the unfavourable market prices in the US, sales volumes were redirected to the other higher-margin markets of Ukraine, Europe, the Middle East and North Africa (MENA) and other regions (such as Mexico).

Slabs

In 2015, sales of slabs slumped by 43% year-on-year to US$274 million, of which 29 pp was attributable to a drop in the average selling price and 15 pp to lower sales volumes. Sales volumes of slabs decreased by 135 thousand tonnes year-on-year to 782 thousand tonnes due to lower overall production volumes in the first half of the year and a lack of orders in the second. This resulted in lower sales volumes to Europe and Southeast Asia. Meanwhile, sales volumes to the MENA region (mainly Turkey) increased by 177 thousand tonnes year-on-year due to a rise in sales to a key client. The decline in the average selling price followed the benchmark for slabs (FOB Black Sea), which dropped by 39% year-on-year.

Square billets

In 2015, sales of square billets decreased by 35% year-on-year to US$228 million, driven by a drop in the average selling price (-27 pp) and sales volumes (-8 pp). The latter decreased by 53 thousand tonnes year-on-year to 631 thousand tonnes, mainly due to lower production volumes at Yenakiieve Steel following the halt of production from 7 February to 16 March 2015, as well as limited supplies of raw materials and natural gas during the year. MENA remained the most important market, accounting for 73% of total sales of billets: in particular, Turkey accounted for 41% of total sales volumes to the region. The average selling price followed FOB Black Sea quotations for billet, which dropped by 32% year-on-year.

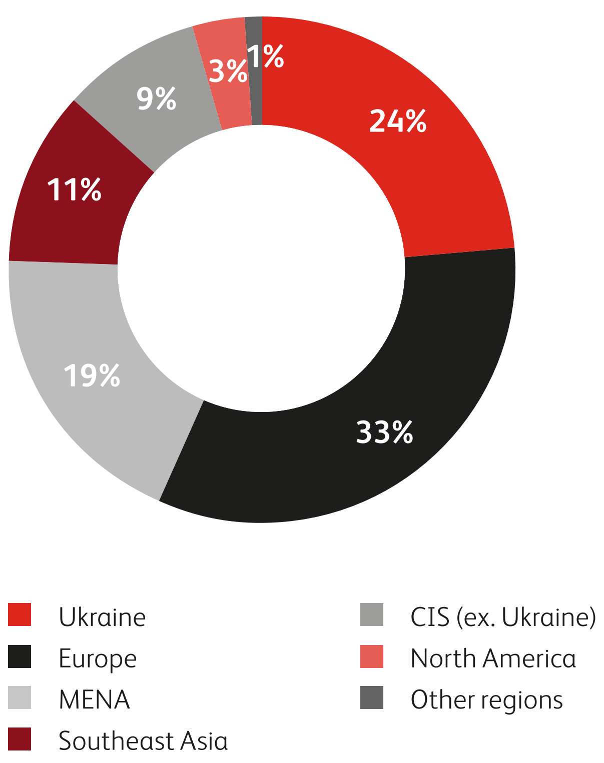
Flat products

In 2015, sales of flat products decreased by 32% year-on-year to US$3,084 million, of which 21 pp was attributable to a lower average selling price and 11 pp to lower sales volumes. Sales volumes decreased by 857 thousand tonnes year-on-year to 6,726 thousand tonnes, driven mainly by a 13% decline in flat product output at Metinvest's operations in 2015. Zaporizhstal's share in total sales volumes of flat products increased by 3 pp year-on-year to 40% in 2015. As such, sales volumes to all regions fell except Europe. Sales volumes in Ukraine dropped by 198 thousand tonnes year-on-year amid weak demand in key steel consuming industries given the situation in the country. Shipments to the Commonwealth of Independent States (CIS) dropped by 51 thousand tonnes year-on-year, driven by lower sales to Russia. Sales volumes in MENA and Southeast Asia decreased by 445 thousand tonnes and 452 thousand tonnes year-on-year respectively amid lower overall production and stronger competition from Chinese producers. In contrast, sales volumes to Europe increased by 334 thousand tonnes year-on-year due to customer capture through the back-to-back sales system and additional services provided. Moreover, sales volumes to Romania, Poland, Spain and Portugal rose following the opening of new sales offices in the countries. As a result, Europe accounted for 51% of total sales in 2015, compared with 42% in 2014. The average selling price was largely in line with HRC benchmark quotations (FOB Black Sea), which were down 35% year-on-year.

Given the tight liquidity, the Group placed even greater emphasis on strict cash flow discipline in 2015. Alongside the drive to cut costs and improve operational efficiency, we minimised CAPEX and debt repayments amid debt restructuring discussions.

Revenues by region in 2015

US$6,832M



North America revenues in 2015

US$229M

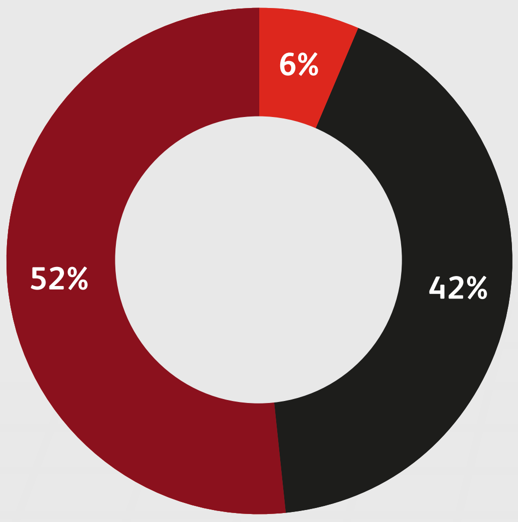


Chart legend

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

Metinvest's operations

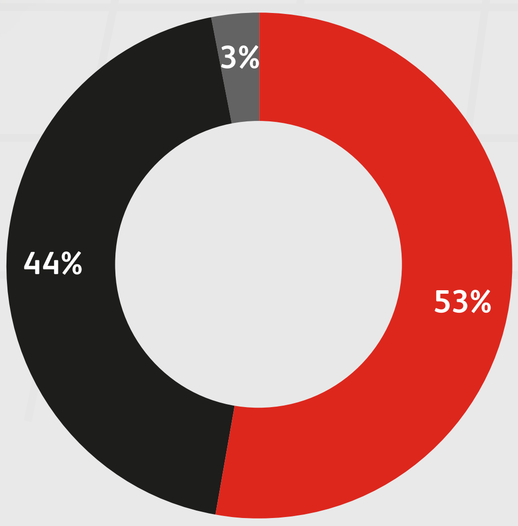
1. Ukrainian operations
   Azovstal
   Ilyich Steel
   Yenakiieve Steel
   Khartsyzk Pipe
   Avdiivka Coke
   Zaporizhia Coke
   Donetsk Coke
   Northern GOK
   Central GOK
   Ingulets GOK
   Krasnodon Coal
2. Ferriera Valsider
3. Metinvest Trametal
4. Spartan UK
5. Promet Steel
6. United Coal

Metinvest's sales offices

1. China
2. Turkmenistan
3. United Arab Emirates
4. Russia (14 offices)
5. Lebanon
6. Ukraine (23 offices)
7. Turkey
8. Bulgaria (3 offices)
9. Spain
10. Poland
11. Italy (3 offices)
12. Tunisia
13. Germany
14. Switzerland
15. Belgium
16. United Kingdom
17. Dominican Republic
18. Canada
19. United States
20. Belarus (2 offices)
21. Romania

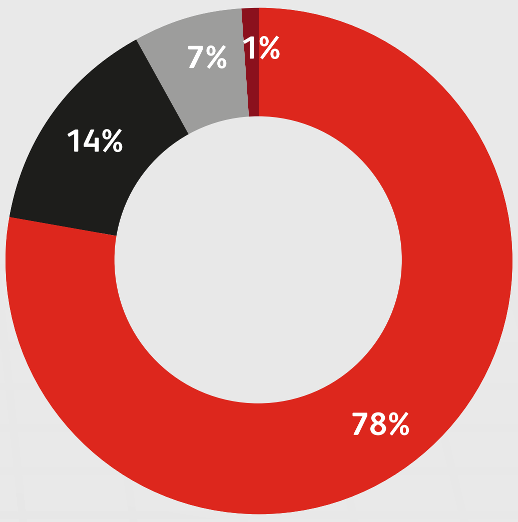
Other regions revenues in 2015

US$71M



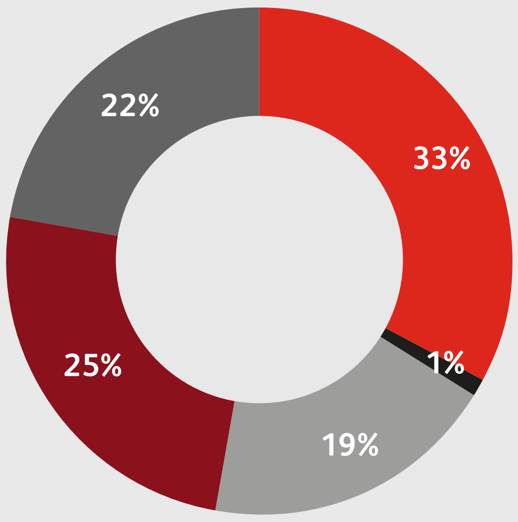
Europe revenues in 2015

US$2,255M



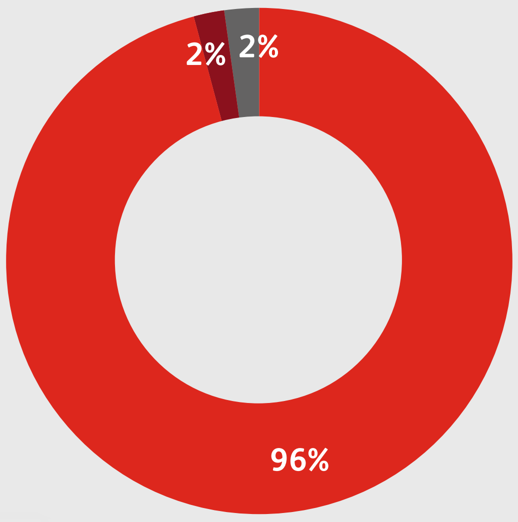
Ukraine revenues in 2015

US$1,619M



CIS* revenues in 2015

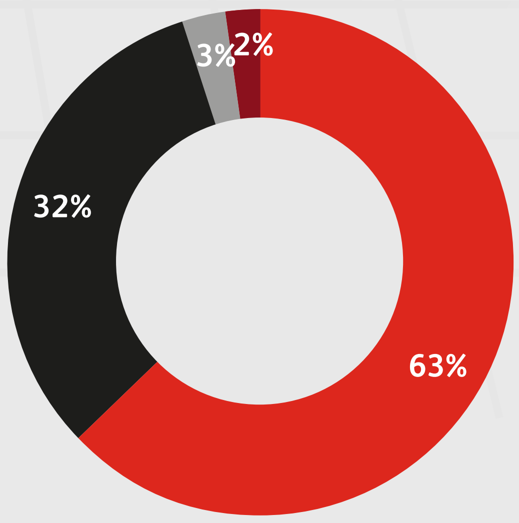
US$602M



* Excluding Ukraine

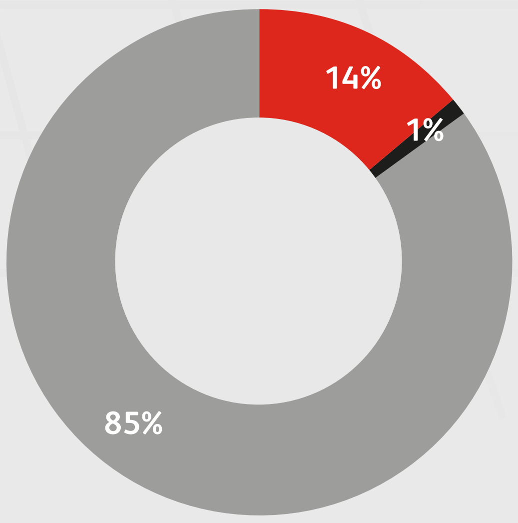
MENA revenues in 2015

US$1,305M



Southeast Asia revenues in 2015

US$751M



Long products

In 2015, sales of long products decreased by 42% year-on-year to US$710 million, of which 20 pp was attributable to a decline in sales volumes and 21 pp to a lower average selling price. Sales volumes decreased by 403 thousand tonnes year-on-year to 1,562 thousand tonnes. This was caused by lower production and logistical issues due to the conflict and difficulties in supplying square billets from Yenakiieve Steel to Promet Steel in Bulgaria for further re-rolling. As such, sales to key markets fell.

Tubular products

In 2015, sales of tubular products decreased by 73% year-on-year to US$63 million. This was due to the same percentage decline in sales volumes, which dropped by 174 thousand tonnes year-on-year to 66 thousand tonnes amid a lack of orders.

Coke and chemical products

In 2015, sales of coke and chemical products decreased by 13% year-on-year to US$404 million, driven by lower sales volumes (-5 pp) and a fall in the average selling price (-7 pp). Sales volumes of coke and chemical products declined by 116 thousand tonnes year-on-year to 2,035 thousand tonnes, due to a slump in coke output amid raw material supply constraints and unstable operations at Avdiivka Coke and Donetsk Coke from July 2014.

Mining division

The Mining division generates revenues from sales of iron ore, coal and other products and services. In 2015, its revenues decreased by 41% year-on-year to US$1,425 million, mainly because of a slump in prices of iron ore products, as well as lower sales volumes.

Iron ore concentrate

In 2015, sales of merchant iron ore concentrate declined by 45% year-on-year to US$639 million, of which 42 pp was attributable to a drop in the average selling price and 3 pp to a decrease in sales volumes. Volumes declined by 412 thousand tonnes year-on-year to 13,159 thousand tonnes. Sales volumes in Ukraine and Europe fell by 1,062 thousand tonnes and 142 thousand tonnes year-on-year, respectively. As such, volumes were redirected to Southeast Asia, where they increased by 792 thousand tonnes year-on-year. The average selling price followed the dynamics of the benchmark for 62% Fe iron ore (CFR China), which dropped from US$97/tonne in 2014 to US$56/tonne in 2015 (down 43% year-on-year).

Pellets

In 2015, sales of pellets decreased by 49% year-on-year to US$500 million, driven by a fall in the average selling price (-31 pp) and a drop in sales volumes (-17 pp). Volumes decreased by 1,465 thousand tonnes year-on-year to 6,925 thousand tonnes due to a 16% decline in pellet output in 2015 and destocking in 2014. Sales volumes in Ukraine decreased by 977 thousand tonnes year-on-year amid lower consumption by key customers due to the conflict. Sales in Southeast Asia decreased by 1,666 thousand tonnes year-on-year due to lower production. As such, volumes were partly redirected from Southeast Asia and Ukraine to other markets: 681 thousand tonnes to Europe and 498 thousand tonnes to MENA. Sales to MENA, mainly Turkey, were resumed after a break of over one year. The average selling price dropped in line with the benchmark for 62% Fe iron ore (CFR China), which fell by 43% year-on-year.

Coking coal concentrate

In 2015, sales of coking coal increased by 4% year-on-year to US$179 million. This was caused by an 8% rise in sales volumes, partly offset by a lower average selling price. Sales volumes increased by 147 thousand tonnes year-on-year to 1,933 thousand tonnes due to higher sales in North America. The average selling price in Ukraine rose by 37% year-on-year following an increase in the share of more expensive coal in sales to this country. At the same time, the average quarterly contract price for hard coking coal in North America fell by 17% year-on-year, in line with the benchmark for hard coking coal (FOB Australia), which dropped by 19% year-on-year.

Cost of sales

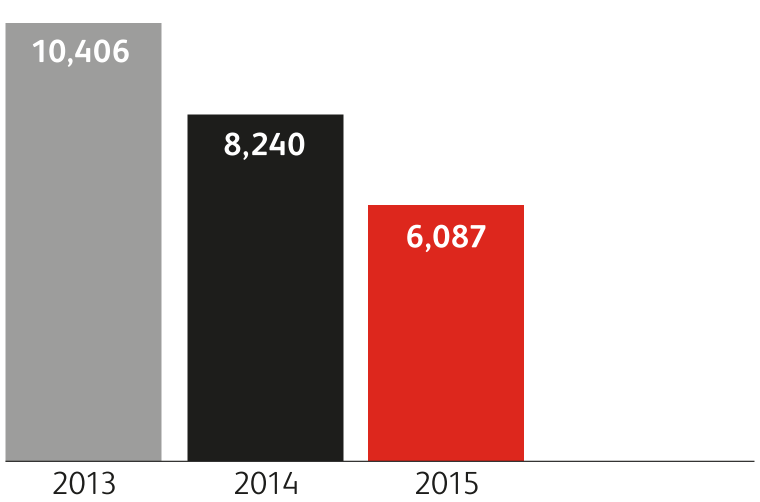
Metinvest's cost of sales consists primarily of: the cost of raw materials; the cost of energy materials, including gas and electricity; payroll and related expenses for employees; amortisation and depreciation; repair and maintenance expenses; outsourcing; taxes; and other costs.

In 2015, Metinvest's cost of sales declined by 26% year-on-year to US$6,087 million. This was primarily attributable to: (i) favourable movements in the USD/UAH exchange rate, which accounted for US$1,410 million or 65% of the total decrease in the cost of sales, (ii) a reduction in raw material costs (excluding changes in work in progress and finished goods) of US$454 million due to a decrease in consumption volumes (effect of US$185 million) and lower prices (effect of US$268 million), (iii) lower energy consumption (effect of US$286 million) and lower gas prices (savings of US$96 million) and (iv) a drop in the cost of goods and services for resale of US$411 million, mainly goods from Zaporizhstal. These factors were partly offset by: (a) a rise in electricity tariffs (effect of US$168 million), (b) an increase in depreciation and amortisation of US$123 million as a result of a revaluation of property, plant and equipment (PPE), (c) a rise in services and other costs of US$104 million, mainly due

Cost of sales

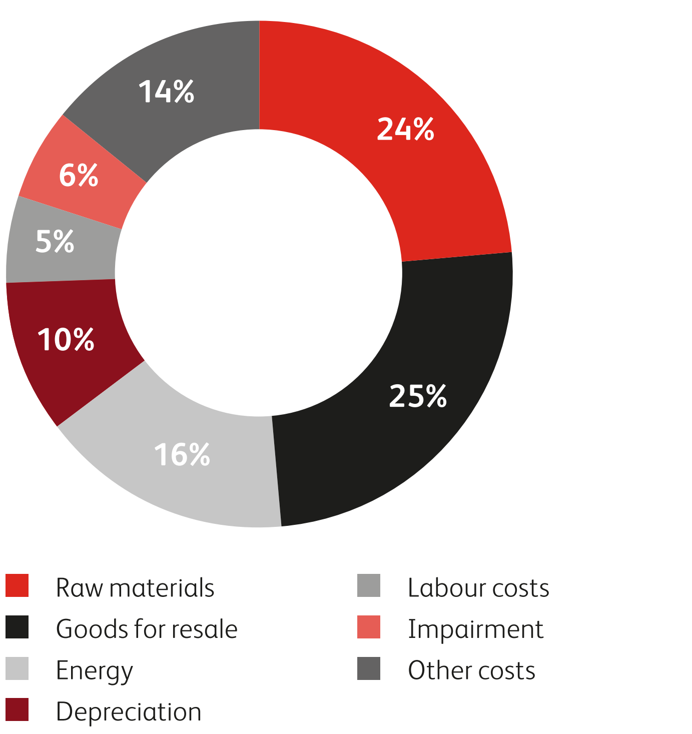
US$6,087M

-26%



Cost of sales by nature

US$6,087M



to the high inflation in Ukraine and (d) an increase in impairment charges of US$61 million, attributable mainly to United Coal.

As a percentage of consolidated revenues, the cost of sales increased by 11 pp year-on-year to 89% in 2015.

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 2015, distribution costs decreased by 13% year-on-year to US$920 million. The decline was primarily attributable to the positive effect of changes in the hryvnia exchange rate, which mainly impacted transportation costs, wages and salaries, as well as other distribution costs (US$203 million). In addition, freight costs dropped by US$79 million due to lower freight tariffs amid depressed crude oil prices. These factors were partly offset by a 30% increase in railway tariffs since 31 January 2015 (effect of US$34 million) and higher other transportation costs (effect of US$58 million). As a share of consolidated revenues, distribution costs increased by 3 pp year-on-year to 13% in 2015.

General and administrative costs

General and administrative costs consist largely of: salaries paid to administrative employees; consultancy fees; audit, legal and banking services expenses; insurance costs; and lease payments.

In 2015, general and administrative costs decreased by 26% year-on-year to US$211 million, driven by favourable movements in the US$/UAH exchange rate, which mainly impacted wages and salaries, as well as service fees (US$92 million), a decrease in depreciation and amortisation costs of US$10 million and lower rent expenses for the head office (US$3 million).

As a share of consolidated revenues, general and administrative costs remained unchanged year-on-year at 3% in 2015.

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 trade and other receivables, gains or losses on disposals of property, plant and equipment and gains or losses on sales of inventory.

In 2015, other operating expenses amounted to US$300 million, compared with US$130 million of other operating income in 2014. This was mainly driven by an increase in impairment of trade and other receivables of US$252 million, primarily due to the recognition of US$255 million of impairment of trade receivables of some key customers in the Mining division following further delays in payments beyond the originally expected dates and certain operational and financial issues for them. In addition, operating foreign exchange gains decreased by US$267 million year-on-year, as receivables denominated in hard currency declined while such payables remained unchanged. These factors were partly compensated by a decrease in impairment of goodwill of US$28 million year-on-year to US$74 million, all of which is attributable to United Coal, and a positive FOREX effect on other items of US$54 million.

As a share of consolidated revenues, other operating expenses amounted to negative 4% in 2015, compared with positive 1% in 2014.

Operating profit

In 2015, the operating loss amounted to US$686 million, compared with an operating profit of US$1,105 million a year earlier. This primarily reflected a reduction in revenues of US$3,732 million year-on-year and an increase in other operating losses of US$430 million, partly compensated by a drop in the cost of sales of US$2,153 million and distribution, general and administrative costs of US$219 million year-on-year. In 2015, the operating margin was negative and amounted to 10%, compared with a positive operating margin of 10% in 2014.

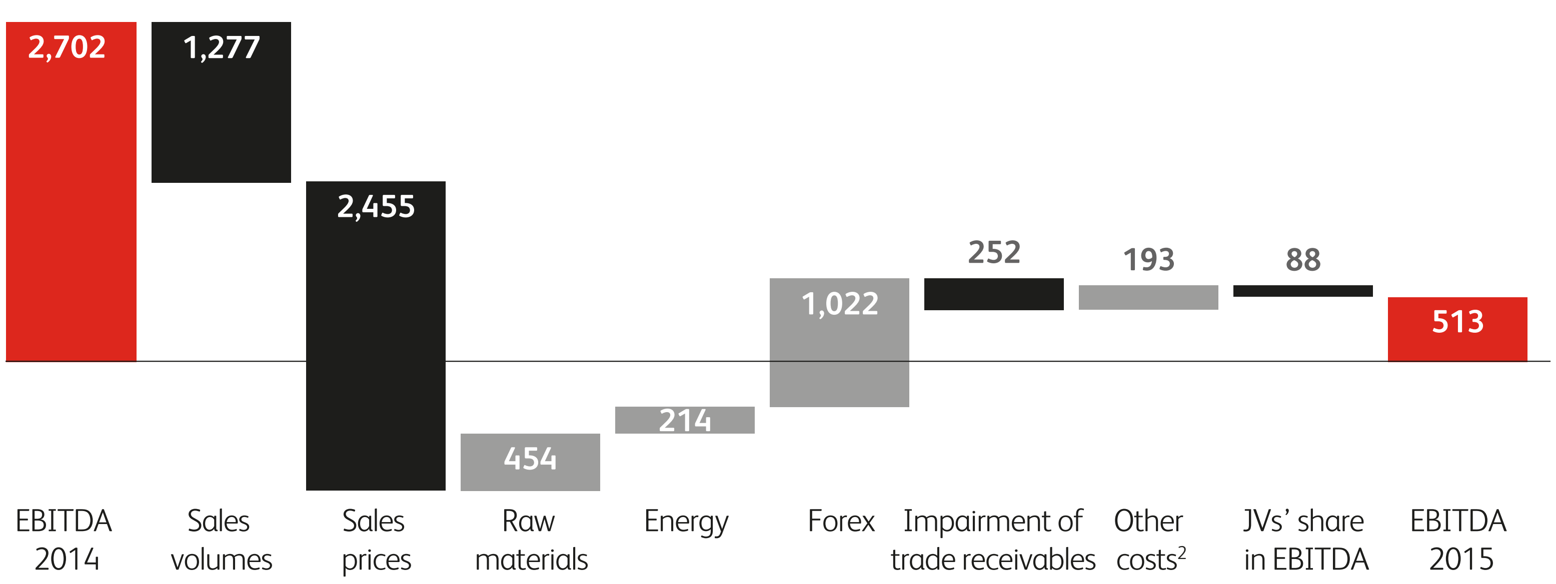
EBITDA

In 2015, EBITDA dropped by US$2,189 million year-on-year to US$513 million. The contributions from the Mining and Metallurgical divisions declined by US$1,666 million and US$637 million respectively, partly offset by a fall in corporate overheads and eliminations of US$114 million.

EBITDA drivers

US$513M

-US$2,189M

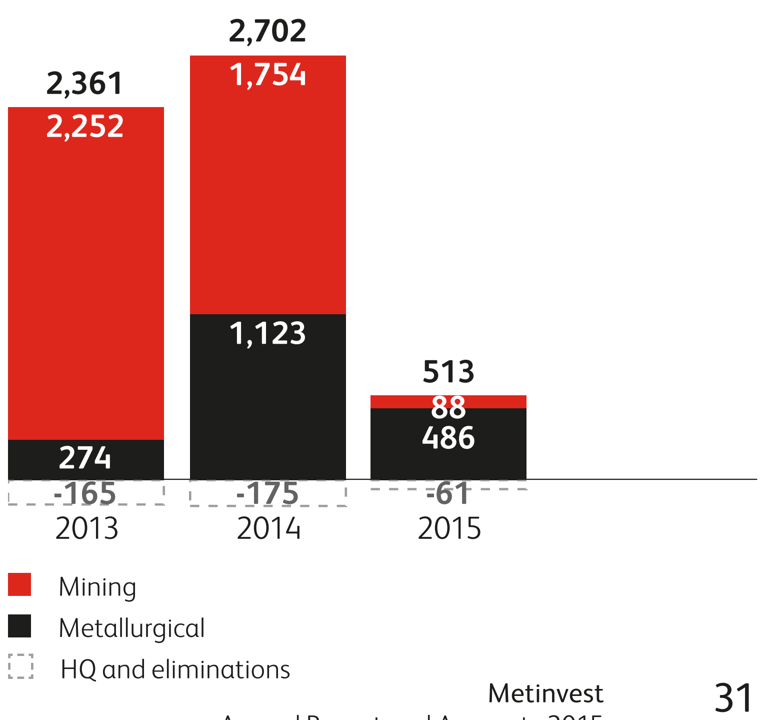


2 Other costs include logistics, fixed costs, change in work in progress and finished goods, as well as other expenses

EBITDA by division

US$513M

-81%



In 2015, the year-on-year reduction in consolidated EBITDA was primarily attributable to a decrease in sales of US$3,732 million. This was due to a collapse in selling prices for steel, iron ore and coal products (US$2,455 million) and lower sales volumes of steel, coke and chemical products (US$1,094 million) and iron ore and coal products (US$184 million). Other key drivers of the decline in EBITDA were:

- an increase of impairment of trade receivables of US$252 million, mainly attributable to some key customers of the Mining division; and
- a drop in the positive contribution to EBITDA of US$88 million from the JVs, due to a decrease in EBITDA of US$29 million at Zaporizhstal and US$59 million at Southern GOK[3].

These factors were partly compensated by:

- a positive effect of the hryvnia devaluation of US$1,022 million;
- a decrease in the cost of raw materials due to lower market prices of coal, scrap, iron ore and coke (US$268 million), as well as lower consumption (US$185 million);
- lower spending on energy due to less consumption (US$286 million) and lower prices of natural gas (US$96 million), which were partly offset by increased electricity tariffs (US$168 million); and
- a decline in other costs of US$193 million, mainly due to a drop in the cost of goods and services for resale.

Metinvest's consolidated EBITDA margin decreased by 18 pp year-on-year to 8% in 2015. The EBITDA margin of the Mining division dropped by 40 pp to 3%, while that of the Metallurgical division declined by 5 pp to 9%.

Finance income

Finance income comprises interest income on bank deposits and loans issued, imputed interest on other financial instruments, gains from early repayment of assets and other finance income.

In 2015, finance income totalled US$26 million, compared with US$25 million in 2014. As a percentage of consolidated revenues, finance income remained flat year-on-year at 0% in the reporting period.

Finance costs

Finance costs include interest expenses on bank borrowings and debt securities, finance foreign exchange net losses, losses from the origination of financial assets and other finance costs.

In 2015, finance costs dropped by 30% year-on-year to US$635 million. This decline was mainly attributable to a decrease of US$221 million in foreign exchange losses from financing activity, which arose on intragroup loans and dividends. In addition, interest expense and imputed interest on seller notes were down by US$28 million year-on-year due to a total debt decrease of US$286 million during 2015. Interest expenses on pension obligations declined by US$21 million year-on-year, driven by the hryvnia depreciation.

As a percentage of consolidated revenues, financial costs remained unchanged year-on-year at 9% in 2015.

Share of result of associates and joint venture

In 2015, the share of net income from associates and joint ventures decreased by 8% year-on-year to US$131 million, largely driven by a decrease in Southern GOK's net income of US$12 million, although the Group started consolidating its results in 3Q 2014.

Income tax expense

In accordance with the Tax Code of Ukraine, the current income tax rate in the country is 18%. Metinvest's overall income tax rate derives from the rates applicable to profits in the jurisdictions where it operates (Ukraine, the US and countries in Europe).

In 2015, the income tax expense amounted to a positive US$161 million, compared with a negative US$211 million in 2014. This was principally driven by a drop in current tax of US$170 million to US$28 million in 2015 due to lower production and profitability, as well as foreign exchange differences. In addition, deferred tax assets increased by US$202 million year-on-year to US$189 million in 2015, as the Group incurred losses in the previous reporting periods and final adjustments were made at the year-end in line with legislation.

Net profit

In 2015, the net loss amounted to US$1,003 million, compared with net income of US$159 million in 2014, principally due to lower revenues, impairment of trade and other receivables and lower operating foreign exchange gains. These factors were partly offset by lower cost of sales, income tax, distribution, general and administrative costs and finance costs.

As a result, the net margin amounted to negative 15% in 2015, compared with positive 2% in 2014.

Liquidity and capital resources

Net cash from operating activities

In 2015, net cash flow from operating activities decreased by 58% year-on-year to US$625 million. The main driver was a fall in profit before working capital changes of US$1,581 million year-on-year to US$513 million. This was party compensated by a year-on-year decrease in income tax paid and interest paid of US$314 million and US$35 million respectively, as well as a positive change in working capital of US$351 million during the year. Income tax paid dropped by 89% year-on-year to US$39 million in 2015, mainly due to lower profitability amid a collapse in prices of steel and iron ore products and a new tax collection procedure introduced in 1Q 2014, when both the final payment for 4Q 2013 and the advance payment for 1Q 2014 were paid. The positive change in working capital was primarily attributable to an increase in accounts payable of US$215 million, as well as a decrease in inventories of US$123 million and accounts receivable of US$13 million.

Net cash used in investing activities

In 2015, net cash used in investing activities decreased by 58% year-on-year to US$237 million, as several CAPEX projects were frozen due to the conflict in Eastern Ukraine and payments deferred to further periods due to the tight liquidity situation. Total cash used to purchase PPE, as well as intangible assets, equalled US$275 million in 2015, down US$274 million year-on-year.

3 The Group acquired 45.9% in Southern GOK in July 2014 and started consolidating its results in 3Q 2014

Net cash used in financing activities

In 2015, net cash used in financing activities dropped by 80% year-on-year to US$309 million, mainly due to lower debt repayments amid the liquidity crunch and debt restructuring discussions. As such, repayments of loans and borrowing were down by US$817 million year-on-year to US$134 million. Net repayments of trade financing decreased by US$305 million year-on-year to US$179 million. In 2015, there were no dividends paid, no repayment of seller notes, and no settlement of non-controlling interests in subsidiaries, compared with US$553 million paid for these purposes in 2014. The only new proceeds from loans and borrowings received during 2015 was the final drawdown under the ECA facility of US$4 million, compared with US$446 million received primarily under the shareholder loans in 2014.

As a result of the abovementioned factors, total debt was down by 9% year-on-year to US$2,946 million as of 31 December 2015.

Metinvest's cash balance stood at US$180 million as of 31 December 2015, compared with US$114 million as of 31 December 2014.

Capital expenditure

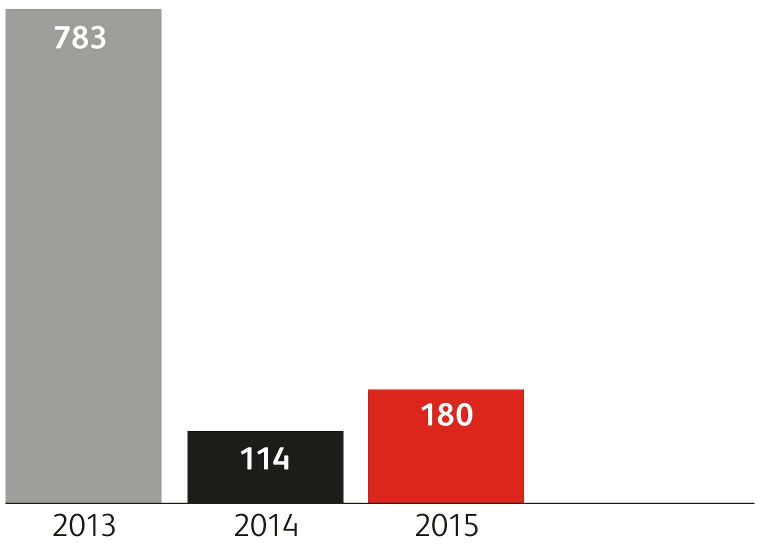
Capital expenditure decreased by 54% year-on-year to US$285 million in 2015. Expenditure on maintenance projects amounted to 73% of total investments (71% in 2014) and on expansion projects to 27% (29% in 2014). The Metallurgical and Mining divisions each accounted for 48% of CAPEX (45% and 50% respectively in 2014). Capital expenditures on corporate overheads totalled US$12 million, down 65% year-on-year.

In 2015, net cash used in financing activities dropped by 80% year-on-year to US$309 million, mainly due to lower debt repayments amid the liquidity crunch and debt restructuring discussions.

Year-end cash balance

US$180M

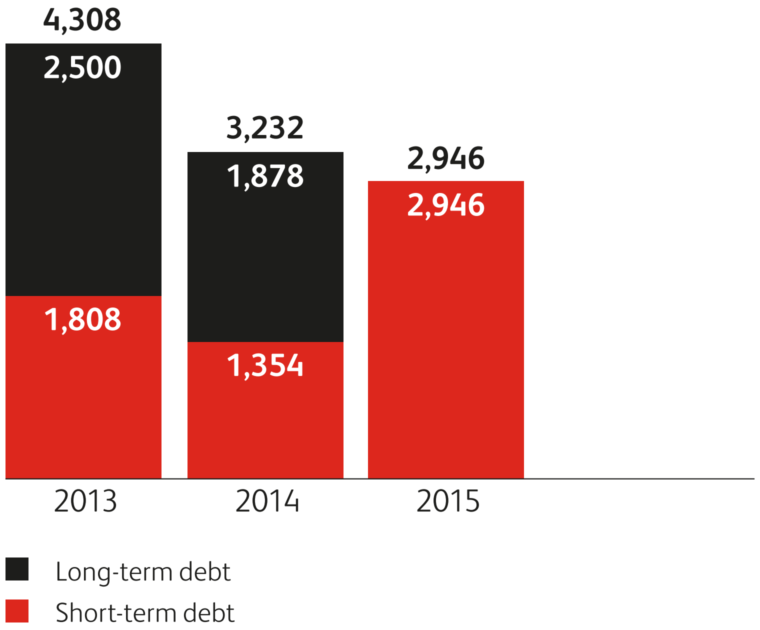
+58%



Total debt

US$2,946M

-9%



GOVERNANCE REPORT

Committed to the highest standards of corporate governance, Metinvest has created a set of solid institutions that ensure rigorous oversight, maximum transparency and continuous risk management in every area of the business.

IN THIS SECTION:

FORGING AHEAD DESPITE ADVERSITY

Amid continued major challenges in Eastern Ukraine and tough market conditions for our products globally, the performance of Metinvest's team is a tribute to the spirit and resourcefulness of our people.

ENGAGING PROACTIVELY

By any measure, 2015 was another difficult year, both in Ukraine and globally. The Ukrainian economy suffered a sharp contraction, exacerbated by the crisis in the east of the country. After the turmoil during the first quarter of the year, the situation in the Donetsk and Luhansk regions largely stabilised, although major logistical bottlenecks and other operational issues still remain and the overall situation is unresolved.

As such, I consider it a major achievement that we were able to restore and maintain production at all of our steel plants after the disruptions during 2014 and the first quarter of 2015. We should never forget the bravery and teamwork shown by our employees and managers on the ground in Eastern Ukraine.

Certainly, our financial results reflect the impact of global market prices for steel and raw material products, which hit their lowest in more than a decade. At the same time, they reflect success in optimising production, increasing operational efficiency and reducing the cost of sales. We were also able to pursue priority investment projects under our Technological Strategy, while remaining ready to restart suspended initiatives as soon as the liquidity situation improves.

As a result of these efforts, and despite the continued turbulence in the Donetsk and Luhansk regions, we were able to maintain volumes of steel, iron ore and coking coal at sustainable levels and keep EBITDA positive in 2015. This commendable performance helps to ensure that Metinvest can remain on track to fulfil its long-term strategy and navigate this difficult period successfully.

Of course, our short to medium-term survival depends on the outcome of the restructuring process begun with our bondholders and bank lenders. We believe that this process can and will lead to an announcement of terms that will serve the interests of all stakeholders. It is both my fervent wish and genuine belief that Metinvest will emerge from this process even more resolute about its long-term objectives.

PROTECTING OUR EMPLOYEES

We have always firmly believed that our employees are one of our enduring strengths and never has this been clearer than in recent times.

As the conflict in Eastern Ukraine continued in 2015, the Group undertook measures to maintain social stability. In particular, we addressed a spike in personnel outflow from January to April rapidly, reallocating employees from enterprises experiencing lower capacity utilisation to other initiatives, including restoration and humanitarian work. We also avoided large-scale headcount optimisation programmes. Through our proactive response and the readiness of our people, net personnel outflow stabilised in May.

Metinvest also sought to take into account the reality of the rapidly deteriorating economic conditions for its employees in Ukraine. On 1 April 2015, we conducted a pay review, raising salaries for many employees based on the results of annual appraisals.

The health and safety of employees remains our overriding priority. In the year, we invested US$61 million in projects in the area, including US$43 million on occupational safety, US$7 million on industrial safety and US$4 million on building, facility and transport safety. We also redoubled our commitment to health and safety education, putting around 13,000 of our 91,000 employees, almost 14% of the workforce, through training based on corporate standards in the area.

SERVING OUR COMMUNITIES

For thousands of our managers and workers, Eastern Ukraine is home. Since the conflict began in 2014, I have been deeply moved by the sheer number of our employees, themselves facing everyday risks, who have volunteered their time and resources to help those who have been displaced by the conflict.

As Ukraine's largest company, corporate citizen and lead employer in many towns and cities, Metinvest feels a deep responsibility to lend a hand to those most affected. We are committed to restoring infrastructure damaged in the recent events. This is both the right thing to do and a clear statement that we will not allow the conflict to disrupt the years of progress we have made in investing in these communities to improve the quality of life there. In 2015, we spent around US$24 million overall on social initiatives.

Our greatest contribution has been through the Humanitarian Centre, the largest relief undertaking of its kind in Eastern Ukraine. The programme was the initiative of Mr. Akhmetov in 2014 and is run through System Capital Management (SCM), our shareholder. Last year, Metinvest contributed around US$16 million to the centre as a direct way to deliver emergency relief to affected communities.

In addition, we spent more than US$1 million on restoring infrastructure in the conflict zone, focusing on Mariupol and Avdiivka. In Mariupol, we worked to restore a vital bridge over the Kalchyk River and undertook major work to repair housing and schools in one neighbourhood hit hard by shelling in early February 2015. In Avdiivka, which was badly damaged by fighting, we launched initiatives to repair damaged social facilities, apartment blocks and schools.

Alongside this extraordinary assistance to our communities in crisis, we have maintained our long-term levels of local spending through social partnership programmes with municipal administrations. Through these, we are able to identify key projects that best meet the needs of each city or town. Our 'Green Centre' campaign to landscape urban spaces and remove waste also continues. In 2015, we pledged more than US$6 million to the social partnership programmes and 'Green Centre'.

We view these investments as critical to the wellbeing of the communities where our people live and work. Their success means a new generation of managers and employees who are healthier, better educated and can contribute to our collective future.

The Group's social efforts were recognised in 2015. In a national competition for business cases, Metinvest won the 'Community Development' category for its submission, the 'Corporate Social Responsibility in an Unstable Environment' project.

REDUCING OUR ENVIRONMENTAL FOOTPRINT

Another long-term undertaking that the Group maintained in 2015 was to prioritise investment projects that mitigate its environmental impact. Over the year, we spent more than US$194 million on environmental initiatives, including capital and operational improvements.

In the reporting period, notable achievements included completing the modernisation of blast furnace no. 4 at Azovstal, which brings emissions from it into line with EU standards; and installing a new aspiration unit, the first of its kind in Ukraine, in the crushing section of coke shop no. 1 at Avdiivka Coke. In addition, we pressed ahead with the upgrade of the sinter plant at Ilyich Steel, the largest such environmental project in Ukraine's modern history, and installed new filters on three of its sintering machines. These are just three examples of several ongoing initiatives that help to make a material, positive difference to our environmental footprint.

On behalf of the Supervisory Board, I would like to thank all of our employees for their bravery and hard work last year, and all of our stakeholders for their continued belief in Metinvest. We share a common understanding that the success of the Group is critical for the success of our local communities and Ukraine as a whole.

Igor Syry
Chairman of the Supervisory Board

COMMITTED TO BEST PRACTICE

Metinvest is committed to transparency, accountability and best practice, and it has developed a corporate governance system designed to uphold these values throughout the Group and ensure that all stakeholders are treated fairly and equitably.

SYSTEM

Our aim is to build a corporate governance system that rivals those of the most transparent public companies and serves the interests of all stakeholders as well as possible. Our institutions are designed to serve not only our shareholders and investors, but also all other parties involved, including local communities and employees. The important corporate governance institution is the Supervisory Board of Metinvest B.V.

We believe that maintaining a transparent and robust system of checks and balances across the Group leads to greater operational efficiency, sound financial management and a safer workplace for everyone.

In addition, our track record of proactive engagement with the investor community, information disclosure and sound financial oversight strengthens our investment case and provides a solid foundation for cooperation and dialogue.

As of 31 December 2015, 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 one share, and the ultimate interest of SMART in Metinvest B.V. shall be 25% plus one 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 we strive to do better than our peers. This increases our 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 of our 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 us 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 us 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.

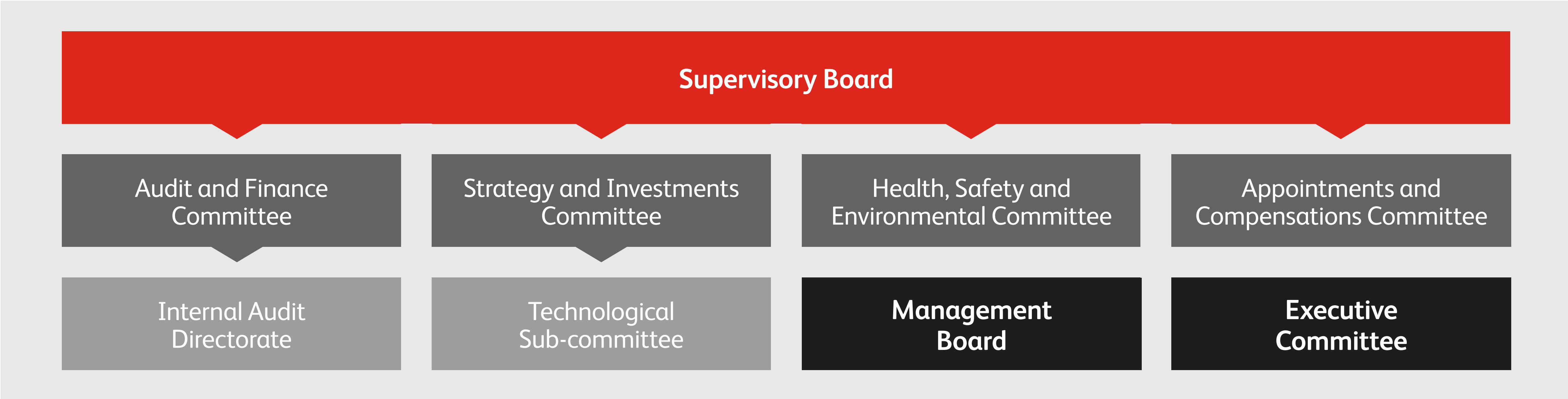
POLICIES

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

SUPERVISORY BOARD

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

- devising strategic 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 the 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 members of the Strategy and Investments Committee are:

- Alexey Pertin (Chairman);
- Damir Akhmetov;
- Christiaan Norval;
- Stewart Pettifor;
- Oleg Popov;
- Gregory Mason;
- Igor Syry; and
- Amir Aisautov.

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.

TECHNOLOGICAL SUB-COMMITTEE

The Strategy and Investments Committee is assisted by the Technological Sub-committee, which was established in May 2015. It is responsible for advising and assisting the executive management in the development and implementation of 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 to enable the implementation of the Technological Strategy.

Stewart Pettifor and Gregory Mason have been appointed as co-chairmen of the Sub-committee.

AUDIT AND FINANCE COMMITTEE

The members of the Audit and Finance Committee are:

- Christiaan Norval (Chairman);
- Yaroslav Simonov;
- Frank Rieger;
- Igor Syry; and
- Amir Aisautov.

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 Management Board;
- 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.

INTERNAL AUDIT DIRECTORATE

The Audit and Finance Committee is assisted by the 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 members of the Health, Safety and Environmental (HSE) Committee are:

- Stewart Pettifor (Chairman);
- Igor Syry;
- Gregory Mason; and
- Amir Aisautov.

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 members of the Appointments and Compensations Committee are:

- Igor Syry (Chairman);
- Alexey Pertin;
- Oleg Popov; and
- Amir Aisautov.

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 of 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 Group.

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

Supervisory Board

With vast experience gained from directorships and other senior executive positions in companies worldwide, our Supervisory Board is committed to the highest international standards of oversight, transparency and accountability.

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 has been Chief Operating Officer of System Capital Management since 2013. 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 is 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 has been the Chairman of the Supervisory Board of Smart Holding since 2014 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 of on 14 July 2014. He is responsible for technological innovation and the implementation of continuous improvement practices. He has been a member of the Supervisory Board of Smart Holding since 2014. He previously served as CEO of Severstal International, managing its 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. He has been a member of the Supervisory Board of Smart Holding since 2014. In 1993-2000, he worked at 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 as a Class A Member of the Supervisory Board on 14 July 2014. He oversees the following areas: strategy, corporate development, governance and production efficiency. He has been an Associate Director of SCM Advisors (UK) Limited since 2013 and a member of the Supervisory Board of DTEK since 2011.

Damir Akhmetov attended Le Rosey (Switzerland) through the International Baccalaureate Diploma Programme from 1996 to 2006. He graduated from Sir John Cass Business School (City University, 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 responsible for international affairs. He is the founder and Executive Chairman of Green Gas International and oversees its financing activities. 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 the 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 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 as a Class A Member of the Supervisory Board on 14 July 2014. He oversees legal matters, compliance and corporate development and governance. He specialises in corporate, banking and finance law, securities legislation and foreign investment and currency regulation. He advises on domestic and international debt and equity offerings, as well as cross-border M&A. He has previously worked at Silecky, affiliated with Squire Sanders and Dempsey. He worked as Head of Legal and Compliance at Renaissance Capital Ukraine from 2005 to 2007 and COO in 2008. He is currently a Deputy Director of law firm Voropaev and Partners.

Yaroslav Simonov graduated with a distinction from the Law Faculty of Kyiv National Taras Shevchenko University (Ukraine) and holds an LLM in International Business Law, also with distinction, from the Central European University in Budapest (Hungary).

Executive Committee

Our Executive Committee brings together professionals with extensive experience in the industry, management and professional services, exactly the expertise needed to steer the Group through changing times.

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

Director of Metallurgical division, interim Director of Mining division

Alexander Pogozhev has been the Director of the Metallurgical division since October 2011 and the interim Director of the Mining division since March 2016. Previously, he was the Director of the Steel and Rolled Products division from October 2010. He has extensive professional experience at large enterprises in the metals industry. He served as Chief Operations Director of Severstal International (US) from 2008 to 2010 and worked at Severstal from 1991 to 2008, where he held several executive positions, including Chief Operating Officer.

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

Dmitry Nikolayenko

Sales Director

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

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

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.

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.

Yuliya Dankova
Interim Chief Financial Officer

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

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

Svetlana Romanova
Chief Legal Officer

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

Svetlana has a master's degree in International Law and Translation (English) from the Kyiv Taras Shevchenko National University, 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).

Aleksey Komlyk
PR and Regional Development Director

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

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

Sergiy Detyuk
Chief Information Officer

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

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

SUSTAINABILITY REPORT

Metinvest recognises that the wellbeing of its people, the prosperity of local communities in which it operates and the condition of the world's environment are vital to the Group's long-term sustainability, and it contributes actively in these areas by providing financing and support for dedicated projects.

IN THIS SECTION:

AN ENDURING STRENGTH

In 2015, Metinvest pursued key human resources (HR) objectives to ensure social stability, reduce fixed personnel costs and develop its approach to training, leadership and career management, while remaining focused on its overriding HR priority throughout: supporting employees and their families in Eastern Ukraine.

COMMITMENT

Metinvest has always firmly believed that its people are one of its enduring strengths, and never has this been clearer than in recent times. We are one of the largest employers in Ukraine and have more than 90,000 staff worldwide. Many have been working at our production facilities for generations. As part of our culture of dedication in the workplace, we seek to reciprocate the commitment that employees show to the business.

Over the years, the Group has developed a dedicated, pragmatic HR system, one focused on dealing with both the present and future requirements of employees and the organisation. As our business evolves constantly, so does our HR function, and we are committed to improving it continuously in line with international best practice.

Given recent events in Ukraine, Metinvest's overriding HR priority has been to support employees and their families in the eastern regions of the country, while continuing to help its people reach their full potential. In this light, and in line with its focused approach and the liquidity constraints, the HR department identified and pursued five key objectives in 2015: ensure social stability, reduce fixed personnel costs, develop the professional training system, adapt the leadership model and build a career management system.

SOCIAL STABILITY

As the conflict in the Donetsk and Luhansk regions continued in 2015, there was a surge in personnel outflow, particularly from January to April. The HR department responded proactively, devising measures to stem the flow. As part of our commitment to supporting communities affected by the turbulence, we assigned employees at underutilised facilities to help with repairing and rebuilding damaged infrastructure in towns, cities and enterprises and to take part in the Humanitarian Centre's volunteer programmes. We also avoided large-scale headcount optimisation programmes.

These steps brought rapid, tangible and positive results. Net personnel outflow stabilised in May and we significantly reduced the annual outflow from facilities in the conflict zone.

Metinvest also sought to take into account the reality of the rapidly deteriorating economic conditions for its employees in Ukraine. Over 2015, the economy contracted by 9.9% year-on-year[1]. The hryvnia slumped against the US dollar from UAH15.77 on 31 December 2014 to UAH24.00 on 31 December 2015[2], down 34% over the year, with the steepest decline in the first quarter. The local currency devaluation and an increase in regulated gas tariffs in April 2015 pushed the consumer price index to 49% in 2015[3]. In this light, on 1 April 2015, we conducted a pay review, raising salaries for many employees based on the results of annual appraisals.

FIXED COSTS

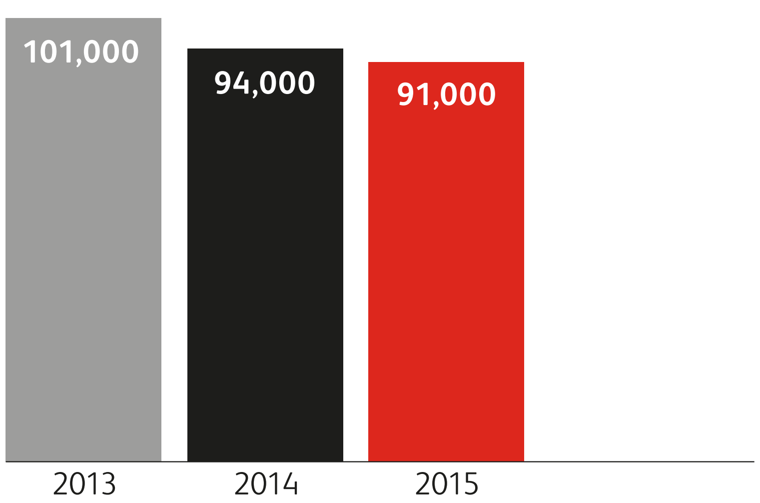
As part of our Group-wide drive to scrutinise expenses given the depressed market environment and our tight liquidity, the HR department sought to reduce its spending in 2015. The aim was to do this in ways that avoided any major decrease in headcount, in line with Metinvest's other objective of ensuring social stability.

In February-March and November-December, when steel prices hit lows, we introduced shorter working days for administrative staff at all of the Group's companies, including in the head office. Unoccupied personnel of both the Mining and Metallurgical divisions were idled.

Employee headcount

91,000 employees

-3%



1 State Statistics Service of Ukraine
2 National Bank of Ukraine
3 State Statistics Service of Ukraine

We reduced certain administrative expenses related to office operations, office rent costs, Group cars and business travel. We also streamlined social spending by suspending the work of social facilities in the conflict zone, transferring non-core facilities for public administration, reducing payments to trade unions and cancelling various social programmes.

We also cancelled numerous non-critical management and professional training programmes. In November-December, we suspended voluntary medical insurance for employees at the head office and administrative personnel at production facilities. We also sought to refill only vital vacancies based on capacity utilisation and reduced recruitment costs.

Overall, the measures resulted in savings of US$36 million over the year.

PROFESSIONAL TRAINING

As part of its drive to ensure that employees perform to the best of their abilities, Metinvest has a dedicated professional training system. Following an audit of it in 2014, we took concrete measures to implement the findings in 2015.

For our workers, we enhanced existing training programmes, bringing them in line with corporate standards, and launched 19 new ones, which around 500 people underwent in 2015. At Azovstal, we introduced a system to audit professional qualifications, reviewing 1,180 of the enterprise's workers to identify knowledge gaps. We also implemented a system to train instructors and 29 people completed a pilot programme to give them basic teaching skills.

For our engineering and technical personnel, we organised six 'professional schools' to give them practical knowledge using problem-based learning and 129 people at four enterprises received training in 2015. At Azovstal, as part of the new system to audit professional qualifications, 367 engineering and technical specialists were tested. We ran technical courses to teach specialist employees how to apply theoretical knowledge in practical situations more effectively. One specific programme, 'The Theory of Inventive Problem Solving', which aims to teach employees how to search for non-standard solutions to complex tasks, trained 205 people in the year.

Metinvest's overall professional training statistics reflect the Group's commitment in this area. In 2015, 36,354 employees completed one or more training courses, including health and safety, or 41% of the workforce.

LEADERSHIP MODEL

Given the dramatic changes in the external environment and unstable political situation in Ukraine, Metinvest conducted an extensive study of the leadership skills of its people at key production facilities and other business units in 2015. The aims were to identify the optimal personal and professional qualities for the new reality and to update the Group's competency model based on them. As the competency model is central to all HR processes – including recruitment, the formation of the talent pool and annual appraisals – and Metinvest's corporate culture itself, this review was vital.

The approach was both qualitative and quantitative and involved face-to-face interviews and surveys among employees. Overall, the study covered 11 enterprises and 4,433 people and the results were insightful. Seven new qualities typical of effective employees were identified: altruistic, super-responsible, inventive, quick learner, mobilising, humane and reputable. Of these, five were used as the basis for the updated competency model.

CAREER MANAGEMENT

To identify and develop potential managers more effectively, Metinvest began building an executive career management system in 2015. Many of the foundations for this – annual appraisals, a talent pool, development and training, open competitions and career path development – were already in place, so the Group set about integrating them, making significant progress. We began to devise career advancement rules, approving procedures for various functions. We established pilot assessment centres at Ilyich Steel and Northern GOK to identify talented managers. We also introduced a system of open competition for candidates for management positions, and 50 people took part for 12 positions.

We also built on the success of our management training. From late 2014 to the end of 2015, another 60 people from the Talent Pool completed our Leadership Academy, organised in conjunction with the Centre for Creative Leadership and E&Y, undergoing three modules and defending 10 projects. We continued to run the Strategic Leadership Development programme in collaboration with INSEAD, and 35 top managers from the Talent Pool completed three modules and defended eight projects over the same period. The latter were based on Metinvest's priority objectives and led by members of the Executive Committee personally. They included subjects such as the formation of an optimal management model for the maintenance and repair function, an assessment of Metinvest's strategic options, the creation of a strategy to promote products in target markets and working capital optimisation.

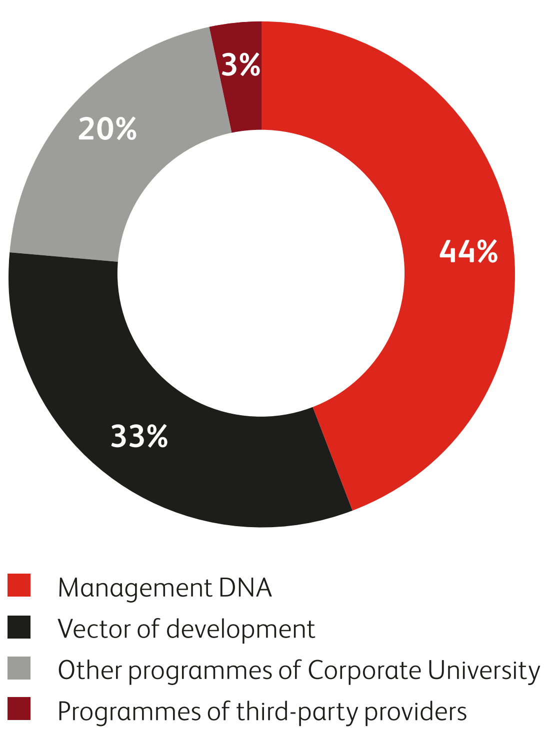
In 2015, 9,256 managers underwent at least one course and spent an average of 3.4 days each receiving instruction. Programmes completed by managers included 'Management DNA' (8,835 people), 'Vector of Development' (6,470), corporate university courses (4,041) and those run by external providers (637).

OUTLOOK FOR 2016

Metinvest intends to build further on its achievements in these five key HR areas in 2016. The wellbeing of employees in Eastern Ukraine remains paramount and we intend to continue monitoring the situation there closely. Another key priority will be controlling fixed personnel costs and optimising headcount. Alongside this, we plan to roll out many of the pilot training programmes, qualification verification systems and courses further in 2016. We will also continue to develop the corporate university, by launching academies dedicated to particular functions in the Group, and the career management system.

Management training in 2015

19,983 employees



SAFETY FIRST

Metinvest continued to prioritise health and safety in 2015, raising standards, introducing new systems and training employees, underscoring that its commitment to safeguarding its people is greater than ever.

SAFETY CULTURE

Looking after the health and safety of employees in all aspects of their work is Metinvest's number one strategic priority and a core value. Since our creation, we have reduced fatalities and injuries at our facilities significantly by making sustained, major investments in production processes, safety equipment and systems and training. We have also invested in occupational health to identify risks and introduce safer working practices. We continue to make steady investments each year in direct health and safety measures, including equipment and training, while also building safety into all of our technological projects and business plans.

The Group considers it vital to create a culture based on the notion of 'safety first' and accountability when rules are violated. We have a dedicated Health, Safety and Environmental (HSE) Committee that oversees our safety systems and ensures compliance with local regulations in our areas of operation and international best practices. It reports directly to the Supervisory Board. If we identify unsafe working conditions, or an injury occurs, it is our policy to conduct root-cause analysis to establish where the safety system failed 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.

A safety-based work culture is also one where every employee on every level takes responsibility for his or her own safety and that of co-workers, knows the rules and understands the incentives to report unsafe working conditions. In such a culture, we are all committed to working together to create a safer workplace.

As part of this drive, Metinvest has instituted Cardinal Rules, a set of non-negotiable universal safety directives that define a set of clear standards and underpin site and job-specific rules.

RESULTS IN 2015

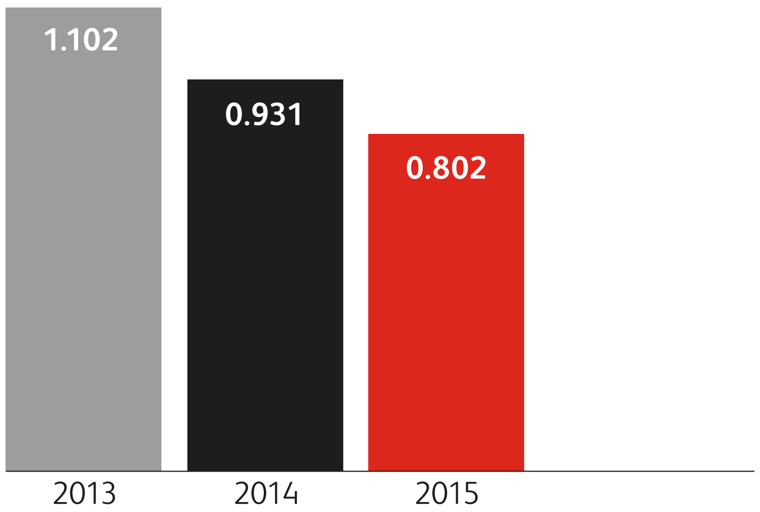
As the turbulence in Eastern Ukraine continued in 2015, the Group's overriding health and safety priority was to ensure the wellbeing of its people in the region. Our HSE function played a pivotal role in coordinating the necessary measures on the ground. These included reinforcing the security of enterprises, supporting plants and workers physically affected by events and helping employees to manage related stress and other emotional issues. Liaising closely with HR, the function also sought to provide all employees reassigned to other roles due to the conflict with the necessary health and safety training promptly.

Health and safety remained a priority area for spending as well. In 2015, Metinvest allocated US$61 million to initiatives in the area, including US$43 million on occupational safety, US$7 million on industrial safety and US$4 million on building, facility and transport safety. The frequency ratios for fatal and lost-time incidents at our facilities, measured in terms of incidents per million man hours worked, were 0.064 and 0.802, respectively, the latter marking a new record low.

The Group redoubled its commitment to health and safety training in 2015. More than 13,000 employees underwent HSE training based on corporate standards in the area, while 402 heads of structural divisions at 11 enterprises completed a special course called 'The Role of Commitment and Personal Leadership in Ensuring the Safe Performance of Production Targets'.

Lost-time injury frequency rate[1]

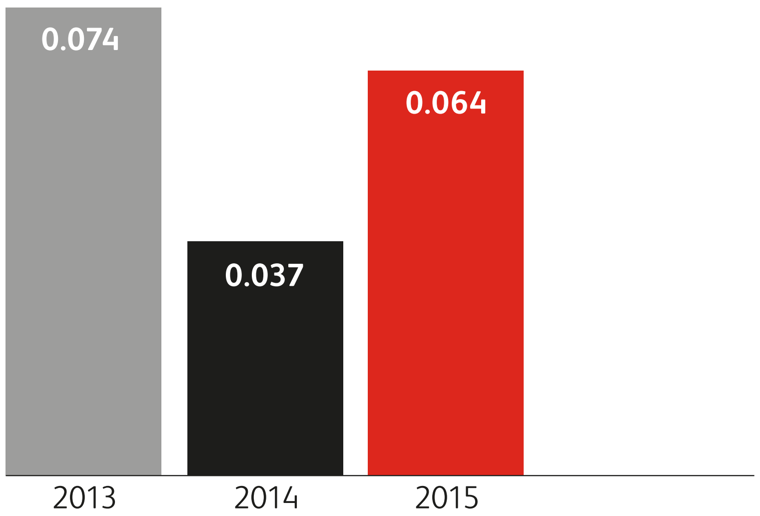
0.802



1 Lost-time injury frequency rate is the number of lost-time incidents per 1 million man hours

Fatality frequency rate[2]

0.064

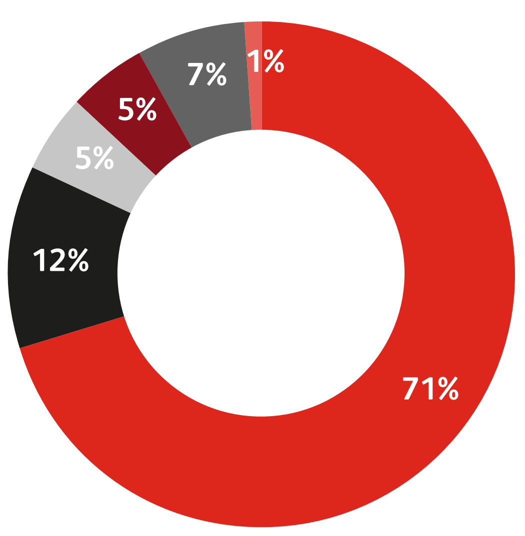


2 Fatality frequency rate is the number of job-related fatalities per 1 million man hours

The Group redoubled its commitment to health and safety training in 2015. More than 13,000 employees underwent HSE training based on corporate standards in the area.

Spending on health and safety

US$61M



Metinvest continues to implement its risk assessment programme covering all production processes and investment projects using HAZID, ENVID and HAZOP procedures and extend LOTOTO and permit-to-work methods across the Group[3]. In 2015, we conducted 115 HAZID risk assessments and trained 51 HAZID 'chairpeople': employees who can then lead assessments. Based on the assessments completed, we developed a priority risk register, plans to mitigate all high-level threats and 663 recommendations to reduce specific risks to acceptable levels. We also prepared and distributed four presentations dedicated to particular risk areas and conducted training sessions based on them: 'STOP for Safety: Safety During Disassembling and Demolition Work', 'Caution: Carbon Monoxide', 'Dangers of Rotating and Moving Machinery and Equipment' and 'Safety Glasses'.

In 2015, the Group also evaluated the health and safety management systems of enterprises that have become part of it since 2011. This highlighted areas for development and led to recommendations for concrete steps. We also conducted a comparative analysis of the systems with a view to unifying standards across facilities.

Following the success of the trial 'Healthy Heart' project at Ilyich Steel in 2014, Metinvest analysed the results in 2015. The aim of the programme is to combat the high rates of cardiovascular disease observed among workers at facilities by encouraging them to make positive changes in their lifestyle. Reducing the risk of heart attacks helps to keep our people in good health and eliminates the risk of an industrial accident caused by cardiovascular illness in the workplace. We are ready to roll out the scheme at all enterprises in the Metallurgical division as soon as conditions permit.

In addition, the Metallurgical division continued to sharpen its focus on gas safety and control. In 2015, we bought 164 portable gas analysers for evaluating conditions during highly hazardous work. We also assessed where stationary gas analysers should be installed.

In the Mining division, Metinvest continued to extend the production process safety and air and gas protection systems in Krasnodon Coal's mines in 2015. The multi-gas monitoring and worker positioning system at Eastern Sukhodolska is operating successfully, while a similar one has been pre-assembled and is ready for commissioning at Western Samsonovska. We developed a comprehensive programme to improve tunnelling and the use of mine props at Krasnodon Coal, and all new mines are now developed in accordance with it. We also bought all electric locomotives at our coal mines into compliance with current safety regulations for such operations.

In addition, in line with the first aid standards introduced across the Group, Metinvest continued to upgrade the equipment in existing ambulances. Overall, since the implementation of this standard, we have bought 10 new ambulances for enterprises.

The Group remains committed to adopting international best practices in health and safety and obtaining OHSAS 18001 (occupational health and safety) certification for its assets. Azovstal, Yenakiieve Steel, Khartsyzk Pipe, Northern GOK, Ingulets GOK, Krasnodon Coal, Komsomolske Flux and Inkor Chemicals are OHSAS 18001-certified. In 2015, an OHSAS 18000 audit was conducted at Metinvest Holding, which was found to be in full compliance with international standards of integrated occupational safety.

OUTLOOK FOR 2016

Safeguarding the health and safety of employees remains Metinvest's ultimate strategic priority. One integral objective is to reduce the number of fatal and lost-time incidents to zero. Alongside this, while the situation in Eastern Ukraine has become relatively calmer, we will continue to prioritise the wellbeing of our people there.

Specific aims for 2016 include ensuring that our lifting equipment complies with the necessary safety and technical standards, reducing injuries associated with the use of protective barriers and working at heights and resolving the issues identified by the health and safety management system assessments in 2015. We will also continue working to reduce the number of fatalities due to cardiovascular diseases and pursuing our gas safety programme to eliminate incidents involving carbon monoxide.

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. LOTOTO (Lock Out, Tag Out, Try 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

CONTRIBUTING TO SUSTAINABILITY

Metinvest is firmly committed to investing in initiatives that help to preserve the environment and support the communities in which it operates, as it recognises the inherent role that they play in the long-term success of its business.

THE WORLD AROUND US

Environmental sustainability is vital to our long-term mission of becoming a leading European steelmaker that meets the most exacting international standards. We are aware that our activities have an impact on the environment and this affects our local communities and the world as a whole. We adhere to local environmental regulations wherever we are present, and our strategy envisages complying with the highest industry standards and implementing best global practices.

To mitigate our environmental footprint, we continue to make sustained, long-term investments under our Technological Strategy to decrease our consumption of resources and output of emissions. We regularly review and enhance the environmental aspects of every investment project and require that all newly built or refurbished facilities meet EU environmental standards. We are also ready to respond rapidly to critical environmental issues as they arise.

In 2015, Metinvest continued the drive to reduce the environmental impact of the business, spending more than US$194 million on initiatives, including capital and operational improvements.

One major ongoing undertaking is the upgrade of the sinter plant at Ilyich Steel, which is the largest such environmental project in Ukraine's modern history. As part of this, in 2015, we installed new highly efficient cyclones on three sintering machines of the plant. The year was also the first full one after we stopped open-hearth production at Ilyich Steel, decommissioning six furnaces in 2014, which decreased the plant's emissions of nitrogen compounds by around 68% and dust emissions by 12%.

In 2015, we completed the modernisation of blast furnace no. 4 at Azovstal, launching it after the reporting period. This included installing a state-of-the-art gas cleaning system, which brings emissions from the furnace into line with EU standards. We also developed a design for switching from a wet to a dry type of blast furnace cleaning system at Azovstal.

The planned reconstruction of the sinter plant at Yenakiieve Steel remains on hold due to the situation in Eastern Ukraine and funding constraints. We are committed to restarting the project as soon as possible.

At our Zaporizhstal joint venture, we replaced the filters on two sintering machines in the sinter plant. The upgrade of blast furnace no. 4 completed at the end of 2014 included building a dust removal plant for the charging system and casthouse. Following the work, the blast furnace now operates in accordance with best European environmental practices. We continue to work with our joint-venture partner to reduce Zaporizhstal's environmental impact.

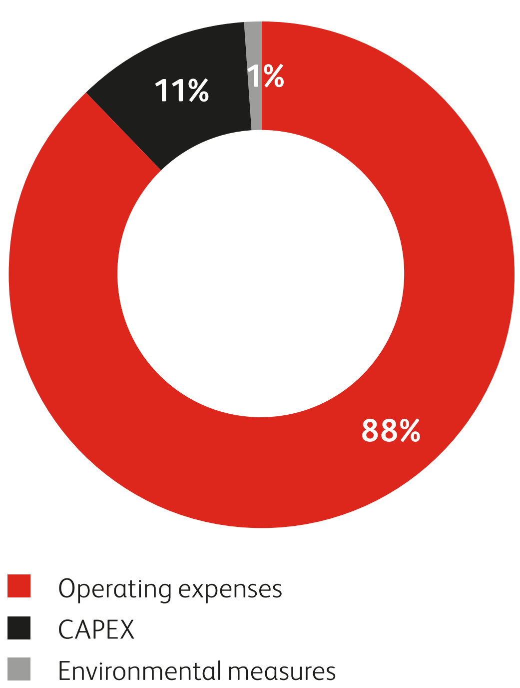
At Avdiivka Coke, we installed a new aspiration unit in the crushing section of coke shop no. 1 in 2015, launching it just after the year-end. It is designed to collect up to 99% of dust from the air, and the technology is the first of its kind in Ukraine. We also replaced three of the five filters on the unit in the Lurgi 552-B pelletising machine at Northern GOK.

As of the end of 2015, 10 of the Group's plants had ISO 14001 environmental management certification. As part of our long-term strategy, we intend to make the remaining assets compliant in the next few years.

In the year, an ISO 14000 audit was conducted at Metinvest Holding, which was found to be in full compliance with international environmental management standards.

Spending on environment

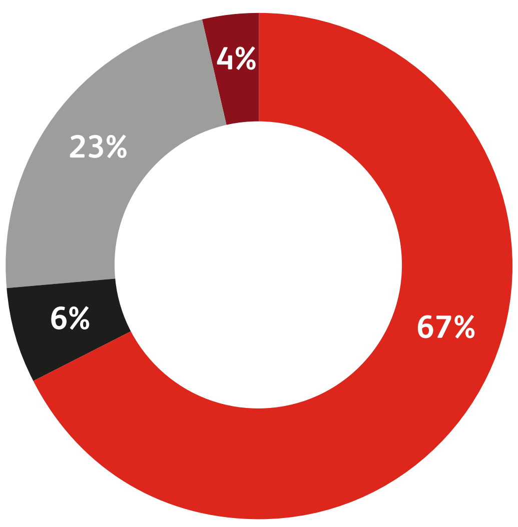
US$194M



To mitigate our environmental footprint, we continue to make sustained, long-term investments under our Technological Strategy to decrease our consumption of resources and output of emissions.

Spending on communities

US$24M



THE COMMUNITIES WHERE WE WORK

Metinvest takes its role as a corporate citizen of Ukraine very seriously and equally takes responsibility for its local communities. In many cases, our plants are the key employer and economic anchor for these communities. We have reacted to economic and political uncertainty promptly and effectively, particularly the conflict in Eastern Ukraine, through increased financial support as a company and personal commitment by thousands of our employees.

In 2015, Metinvest spent around US$24 million on social initiatives. This included US$16 million for humanitarian aid to support those affected by the events in the Donetsk and Luhansk regions and US$1 million to help restore infrastructure in the conflict zone.

Numerous buildings, facilities and transport links in Mariupol have been damaged or destroyed during the conflict, so the Group has spearheaded a concerted effort to resolve this rapidly. Notably, in the Vostochny district of the city, which was hit by heavy shelling in early 2015, employees from our enterprises in Mariupol, Ilyich Steel and Azovstal spent almost five months helping to restore daily life for residents. In addition, after an explosion destroyed a key railway bridge over the Kalchyk River in late 2014, we moved quickly to establish a single-track backup, keeping the rail link between our plants and the port in Mariupol functioning. Working with national rail operator Ukrzaliznytsia, we spent around US$1 million on repairing the main bridge and recommissioned it in November 2015.

Avdiivka was also hit hard multiple times during 2015. Through Avdiivka Coke, the bedrock of the city, Metinvest and the local administration undertook tremendous efforts to restore infrastructure and social facilities. To coordinate the work, we established a social partnership programme, symbolically naming it 'We Will Revive Avdiivka Together'. In 2015, we restored 15 social facilities, 69 apartment blocks and 135 private houses in the city. We also launched an initiative called 'New Resident of Avdiivka', which helps families with newborn babies.

Alongside responding to urgent needs, Metinvest continues to implement traditional social partnership programmes. In close cooperation with municipal governments, we identify key projects for each community. In Kryvyi Rih, we repaired city roads and lights, purchased medical equipment and reconstructed the children's ward of the city hospital. In Novhorodske, we are renovating the sports complex and implementing the project 'Water is the Source of Life'.

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, 359 proposals were submitted and we chose 64 winners, who each received grants.

In 2015, we continued our 'Green Centre' campaign to landscape urban spaces and remove waste to improve the urban environment. The programme, which included around 600 events during the year, fulfilled more than 400 requests from local communities, cleared around 1,300 tonnes of waste and helped to plant over 300 trees.

The Group's social efforts were recognised in 2015. In a national competition for business cases, Metinvest won the 'Community Development' category for its submission, the 'Corporate Social Responsibility in an Unstable Environment' project.

In October 2015, Metinvest published its social report for 2013-14. The document was prepared in accordance with the international Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI 4.0) and the principles of the UN Global Compact.

OUTLOOK FOR 2016

Metinvest will continue to pursue its environmental and community initiatives in 2016, as they represent a vital contribution to the long-term sustainability of the business.

Planned environmental projects include further reconstruction of the gas cleaning systems at the sinter plants of Ilyich Steel and Zaporizhstal and at blast oxygen furnace no. 2 at Ilyich Steel. As regards community work, we are committed to helping where possible, particularly through the social partnership programmes, which enable us to work with the residents in our towns and cities on targeted initiatives that are most appropriate for them.

FINANCIAL STATEMENTS

This section contains Metinvest's abbreviated consolidated financial statements for 2015, 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.
Abbreviated IFRS Consolidated Financial Statements
31 December 2015

CONTENTS

Independent Auditor's Report
to the general meeting of Metinvest B.V.

To the general meeting of Metinvest B.V.

We have audited the accompanying summary financial statements 2015 of Metinvest B.V., The Hague ('the Company'). The accompanying summary financial statements, which comprises the summary consolidated balances sheet as at 31 December 2015, the summary consolidated income statement, the statements of comprehensive income, statement of changes in equity and cash flow for the year then ended, and related notes, are derived from the audited financial statements of Metinvest B.V. and its subsidiaries (together 'the Group') for the year 2015. We expressed an unqualified audit opinion on those financial statements in our report dated 26 April 2016. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain the Company financial statements as required by International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code. Reading the summary financial statements, therefore, is not a substitute for reading the complete audited financial statements of Metinvest B.V.

DIRECTOR'S RESPONSIBILITY
The directors are responsible for the preparation of the summary of the audited financial statements.

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

OPINION
In our opinion, the summary financial statements derived from the audited financial statements of Metinvest B.V. for the year 2015 are consistent, in all material respects, with those financial statements.

MATERIAL UNCERTAINTY RELATED TO GOING-CONCERN
We draw your attention to Note 3 to the consolidated financial statements, which states that the Group is in default with respect to the majority of its loans and borrowings and is continuing the negotiations on the restructuring. This default gives a number of the Group's lenders the ability to legally require repayment of the respective debt on demand.

As a consequence, in order for the Group to achieve positive cash flow for the period throughout 2016 and the first four months of 2017, the Group is crucially dependent on the willingness of the Group's lenders not to demand early repayment and to continue their support to the Group by postponing the payment of interest in excess of 30% of the total due amount and restructuring a significant portion of payments due in 2016 and the first four months of 2017 to future periods. This matter, along with other matters as set forth in Note 3 and the uncertainties set forth in Note 2, indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

EMPHASIS OF AN UNCERTAINTY IN THE FINANCIAL STATEMENTS WITH RESPECT TO THE POLITICAL AND ECONOMIC UNCERTAINTIES IN UKRAINE
We draw your attention to Note 2 and Note 5 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 as well as negative developments of the global commodity prices. These factors increase uncertainties regarding the Group's assessment of the carrying amounts of property, plant and equipment under revaluation model and the recoverable amounts of property, plant and equipment, goodwill and other intangible assets under impairment testing, as disclosed in Note 5.

Our opinion is not modified in respect of this matter.

Amsterdam, 26 April 2016
PricewaterhouseCoopers Accountants N.V.

Original signed by P.C. Dams RA

Metinvest B.V. – Ref.: e0377587

PricewaterhouseCoopers Accountants N.V., Thomas R. Malthusstraat 5, 1066 JR Amsterdam, P.O. Box 90357, 1006 BJ Amsterdam, the Netherlands
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Abbreviated Consolidated Balance Sheet

All amounts in millions of US dollars	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Goodwill	8	**601**	754
Other intangible assets	9	**164**	534
Property, plant and equipment	10	**4,822**	6,538
Investments in associates and joint ventures	11	**779**	906
Deferred tax asset	28	**105**	89
Income tax prepaid	12	**105**	108
Trade and other receivables	14	**229**	139
Total non-current assets		**6,805**	9,068
Current assets			
Inventories	13	**766**	1,222
Income tax prepaid	12	**66**	110
Trade and other receivables	14	**1,365**	2,042
Cash and cash equivalents	15	**180**	114
Total current assets		**2,377**	3,488
TOTAL ASSETS		**9,182**	12,556
EQUITY			
Share capital	16	**0**	0
Share premium	16	**6,225**	6,225
Other reserves	17	**(8,013)**	(6,034)
Retained earnings		**5,674**	6,372
Equity attributable to the owners of the Company		**3,886**	6,563
Non-controlling interest	18	**138**	199
TOTAL EQUITY		**4,024**	6,762
LIABILITIES			
Non-current liabilities			
Loans and borrowings	19	**–**	1,878
Retirement benefit obligations	21	**335**	473
Deferred tax liability	28	**348**	504
Other non-current liabilities	22	**103**	67
Total non-current liabilities		**786**	2,922
Current liabilities			
Loans and borrowings	19	**2,858**	1,268
Seller's notes	20	**88**	86
Trade and other payables	23	**1,426**	1,518
Total current liabilities		**4,372**	2,872
TOTAL LIABILITIES		**5,158**	5,794
TOTAL LIABILITIES AND EQUITY		**9,182**	12,556

Signed and authorised for release on behalf of Metinvest B.V. on 25 April 2016:

Originally signed by Managing Director A, Yuriy Ryzhenkov.

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

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

Abbreviated Consolidated Income Statement

All amounts in millions of US dollars	Note	**Year ended 31 December 2015**	Year ended 31 December 2014
Revenue	7	**6,832**	10,565
Cost of sales	24	**(6,087)**	(8,240)
Gross profit		**745**	2,325
Distribution costs	24	**(920)**	(1,063)
General and administrative expenses	24	**(211)**	(287)
Other operating income/(expenses), net	25	**(300)**	130
Operating (loss)/profit		**(686)**	1,105
Finance income	26	**26**	25
Finance costs	27	**(635)**	(902)
Share of result of associates and joint ventures	11	**131**	142
(Loss)/Profit before income tax		**(1,164)**	370
Income tax benefit/(expense)	28	**161**	(211)
(Loss)/Profit for the year		**(1,003)**	159
Profit is attributable to:			
Owners of the Company		**(988)**	116
Non-controlling interests		**(15)**	43
(Loss)/Profit for the year		**(1,003)**	159

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

Abbreviated Consolidated Statement of Comprehensive Income

All amounts in millions of US dollars	Note	**Year ended 31 December 2015**	Year ended 31 December 2014
(Loss)/Profit for the year		**(1,003)**	159
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurement of retirement benefit obligation		**(7)**	(38)
Revaluation and impairment of property, plant and equipment	10, 24	**886**	2,902
Share in other comprehensive income of joint ventures		**72**	123
Income tax relating to items that will not be reclassified subsequently to profit or loss	28	**(161)**	(514)
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		**(2,525)**	(5,389)
Total other comprehensive loss		**(1,735)**	(2,916)
Total comprehensive loss for the period		**(2,738)**	(2,757)
Total comprehensive loss attributable to:			
Owners of the Company		**(2,680)**	(2,560)
Non-controlling interest		**(58)**	(197)
Total comprehensive loss for the period		**(2,738)**	(2,757)

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

Abbreviated Consolidated Statement of Cash Flows

All amounts in millions of US dollars	Note	Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from operating activities			
(Loss)/Profit before income tax		**(1,164)**	370
Adjustments for:			
Depreciation of property, plant and equipment (PPE) and amortisation of intangible assets	24	**615**	850
Impairment and devaluation of PPE and other intangible assets	24	**364**	315
Impairment of goodwill		**74**	102
Impairment of associates and joint ventures		**4**	–
Gain on disposal of property, plant and equipment	25	**(8)**	(8)
Finance income	26	**(26)**	(25)
Finance costs	27	**635**	902
Unrealised operating foreign exchange differences		**(115)**	(315)
Net change in retirement benefit obligations, except for interest costs and remeasurements		**(34)**	(44)
Impairment of trade and other accounts receivable	25	**292**	60
Share of result of associates and joint ventures	11	**(131)**	(142)
Inventory write down, net	13	**21**	16
Other non-cash operating (gains)/losses		**(14)**	14
Operating cash flows before working capital changes		**513**	2,095
Decrease/(Increase) in inventories		**123**	(267)
(Increase)/Decrease in trade and other accounts receivable		**13**	211
Increase in trade and other accounts payable		**215**	38
Cash generated from operations		**864**	2,077
Income taxes paid		**(39)**	(353)
Interest paid		**(200)**	(235)
Net cash from operating activities		**625**	1,489
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		**(275)**	(549)
Proceeds from sale of property, plant and equipment		**21**	15
Acquisition of associates and joint ventures		**–**	(45)
Loans issued to related parties	14	**–**	(21)
Proceeds from repayments of loans issued	14	**3**	19
Interest received		**14**	22
Net cash used in investing activities		**(237)**	(559)
Cash flows from financing activities			
Proceeds from loans and borrowings	19	**4**	446
Repayment of loans and borrowings	19	**(134)**	(951)
Repayment of seller's notes	20	**–**	(90)
Net trade financing repayment	19	**(179)**	(484)
Payment for acquisition of non-controlling interest in subsidiaries		**–**	(75)
Dividends paid		**–**	(388)
Net cash used in financing activities		**(309)**	(1,542)
Effect of exchange rate changes on cash and cash equivalents		**(13)**	(57)
Net (decrease)/increase in cash and cash equivalents		**66**	(669)
Cash and cash equivalents at the beginning of the year		**114**	783
Cash and cash equivalents at the end of the year	15	**180**	114

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

Abbreviated Consolidated Statement of Changes in Equity

All amounts in millions of US dollars	Attributable to owners of the Company Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interest (NCI)	Total equity
Balance at 1 January 2014	0	5,461	(3,088)	6,277	8,650	981	9,631
Revaluation of property, plant and equipment (Notes 10 and 24)	–	–	2,752	–	2,752	150	2,902
Share in other comprehensive income of joint venture	–	–	123	–	123	–	123
Remeasurement of retirement benefit obligation	–	–	–	(36)	(36)	(2)	(38)
Income tax relating to components of other comprehensive income (Note 28)	–	–	(494)	7	(487)	(27)	(514)
Currency translation differences	–	–	(5,028)	–	(5,028)	(361)	(5,389)
Other comprehensive (loss)/income for the period	–	–	(2,647)	(29)	(2,676)	(240)	(2,916)
Profit for the period	–	–	–	116	116	43	159
Total comprehensive (loss)/income for the period	–	–	(2,647)	87	(2,560)	(197)	(2,757)
Realised revaluation reserve, net of tax	–	–	(256)	256	–	–	–
Acquisition of 2% interest in PJSC Nothern Iron Ore Enrichment Works from parties under common control	–	–	(43)	–	(43)	(32)	(75)
Acquisition and disposals of non-controlling interest in subsidiaries	–	–	–	(2)	(2)	5	3
Contribution of a joint venture and non-controlling interest in two existing subsidiaries by SMART (Notes 11 and 16)	–	764	–	154	918	(558)	360
Dividends declared by the Company	–	–	–	(400)	(400)	–	(400)
Balance at 31 December 2014	0	6,225	(6,034)	6,372	6,563	199	6,762
Revaluation and impairment of property, plant and equipment (Notes 10 and 24)	**–**	**–**	**859**	**–**	**859**	**27**	**886**
Share in other comprehensive income of joint venture	**–**	**–**	**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 income 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**

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

Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015
All tabular amounts in millions of US dollars

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 Smart Group 82% of PJSC Ingulets Iron Ore Enrichment Works in exchange for the transfer to SMART of 25% of the Company. Following the November 2007 transaction, Metinvest B.V. was owned 75% by SCM 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 its share capital to the sellers of Ilyich Group.

As of 31 December 2015, 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 one share, and the ultimate interest of SMART in the Company shall be 25% plus one 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	**2015**	2014	Segment	Country of incorporation
Metinvest Holding LLC	**100.0%**	100.0%	Corporate	Ukraine
PJSC Azovstal Iron and Steel Works	**96.2%**	96.1%	Metallurgical	Ukraine
PJSC Yenakiieve Iron and Steel Works	**91.5%**	90.8%	Metallurgical	Ukraine
JV Metalen LLC	**100.0%**	100.0%	Metallurgical	Ukraine
PJSC Khartsyzsk Pipe Plant	**98.5%**	98.3%	Metallurgical	Ukraine
Ferriera Valsider S.p.A.	**70.0%**	70.0%	Metallurgical	Italy
Metinvest Trametal S.p.A.	**100.0%**	100.0%	Metallurgical	Italy
Spartan UK Limited	**100.0%**	100.0%	Metallurgical	UK
Metinvest International SA	**100.0%**	100.0%	Metallurgical	Switzerland
Metinvest Eurasia LLC	**100.0%**	100.0%	Metallurgical	Russia
Metinvest Service Metal Centres LLC	**100.0%**	100.0%	Metallurgical	Ukraine
Metinvest Ukraine LLC	**100.0%**	100.0%	Metallurgical	Ukraine
JSC Promet Steel	**100.0%**	100.0%	Metallurgical	Bulgaria
PJSC Makiivka Iron and Steel Works	**90.2%**	90.2%	Metallurgical	Ukraine
PJSC Ilyich Iron and Steel Works	**99.2%**	99.2%	Metallurgical	Ukraine
PSC Ilyich Steel	**100.0%**	100.0%	Metallurgical	Ukraine
PJSC Avdiivka Coke Plant	**93.0%**	92.5%	Metallurgical	Ukraine
JSC Zaporozhkoks	**52.2%**	51.0%	Metallurgical	Ukraine
JSC Donetskkoks	**93.6%**	93.6%	Metallurgical	Ukraine
PJSC Northern Iron Ore Enrichment Works	**96.4%**	96.4%	Mining	Ukraine
PJSC Central Iron Ore Enrichment Works	**99.8%**	99.6%	Mining	Ukraine
PJSC Ingulets Iron Ore Enrichment Works	**99.8%**	99.8%	Mining	Ukraine
OSC Komsomolske Flux Plant	**99.7%**	99.7%	Mining	Ukraine
United Coal Company LLC (UCC)	**100.0%**	100.0%	Mining	US
PJSC Krasnodon Coal Company	**92.9%**	92.4%	Mining	Ukraine

As at 31 December 2015, the Group employed approximately 91 thousand people (31 December 2014: 94 thousand).

The consolidated financial statements of Metinvest B.V. for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 25 April 2016.

1 METINVEST B.V. AND ITS OPERATIONS CONTINUED

For better understanding of Metinvest's financial position and the results of operations, these abbreviated financial statements should be read in conjunction with the Metinvest's audited financial statements as of and for the year ended 31 December 2015, which include all disclosures required by Dutch legislation.

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

2 OPERATING ENVIRONMENT OF THE GROUP

The recent 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 and has continued in 2015. The National Bank of Ukraine has among other measures, imposed a requirement for Ukrainian companies to sell 75% of their foreign currency revenue and other foreign currency inflows on the inter-bank market, restrictions on the purchase of foreign currency on the inter-bank market and ban for payment of dividends abroad. These restrictions were prolonged several times and are currently effective until 8 June 2016. As of 31 December 2015, the amount of undistributed retained earnings of the Group's Ukrainian subsidiaries was approximately US$1,732 million.

On 11 March 2015, the IMF Executive Board approved a four-year Extended Fund Facility (EFF) programme for Ukraine in the amount exceeding US$17 billion. During 2015 Ukraine obtained first and second tranches in accordance with EFF programme in the amount of US$5 billion and US$1.7 billion, respectively. Further disbursements of IMF tranches depend on the implementation of Ukrainian government reforms and other economic, legal and political factors. In October 2015, Ukraine reached an agreement with the majority of its creditors for restructuring of the part of the national external debt in the amount of US$15 billion. After reaching the above restructuring agreement on external debt with the majority of its creditors, the credit rating of Ukraine has improved. There remains a significant portion of debt for which a restructuring has not been agreed to.

On 1 January 2016, the agreement on the free trade area between Ukraine and the EU came into force. The Russian government reacted to this event by implementing a trading embargo on many key Ukrainian export products. In response, the Ukrainian government implemented similar measures against Russian products.

The banking system of Ukraine remains fragile due to its weak level of capital, its weakening asset quality caused by the economic situation, currency devaluation 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 escalation of the conflict since the signing of ceasefire agreements in September 2014. The majority of the Group's Metallurgical segment and some of the Mining segment is located in, or near to, the parts of the Donetsk and Lugansk regions where there has been armed conflict. This includes the city of Mariupol (where the Group's two largest steel plants, PJSC Ilyich Iron and Steel Works and PJSC Azovstal Iron and Steel Works, are located), which is approximately 20 kilometres from the line of contact of conflicting parties. Production at these plants has been negatively impacted by the situation, starting from the second half of 2014. The Group retains operational controls over all its assets.

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 and 2015. 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. There has been no significant impact to the physical condition of the Group's assets.

During 2015 management of the Group has implemented certain measures in order to maintain profitability and liquidity, such as reduction in capital expenditures, reduction in administrative costs, termination of sea transportation of iron ore to plants located in Mariupol, suspension of production in open-hearth furnaces at PJSC Ilyich Iron and Steel Works, and other measures.

The reduction of steel production in 2015 (as compared to 2014) was 14%, a reduction of production of iron ore products was 7%. As of the beginning of 2016, PJSC Ilyich Iron and Steel Works and PJSC Azovstal Iron and Steel Works are working at approximately 72% of their capacity. In March 2015, after a one-month suspension of operations, PJSC Yenakiieve Iron and Steel Works, located within an area not controlled by the Ukrainian government, recommenced production. PJSC Khartsyzsk Pipe Plant has been idle starting June 2015 due to a lack of orders.

As of the date of this report, the official NBU exchange rate of the hryvnia against the US dollar was UAH25.34 per US$1, compared with UAH24.00 per US$1 as at 31 December 2015 and UAH15.77 per US$1 as at 1 January 2015. The devaluation of the Ukrainian hryvnya (UAH) during 2015 had a short-term positive impact on Group's financial results given that revenues are mostly US$-denominated and costs are partially UAH-denominated.

The prices of steel, coal and iron ore experienced both volatility and an overall decline during 2014 and 2015. The average benchmark price for hot-rolled coil (Metal Expert HRC CIS export FOB Black Sea) decreased by 32% year-on-year in the first three quarters of 2015. In the fourth quarter of 2015 its price continued to decrease reaching the lowest level over the last 12 years. The trend in iron ore prices has been generally downwards since the start of 2014. Benchmark (Platts 62% Fe CFR China) prices decreased from US$136 per dry tonne in December 2013 to US$69 per dry tonne in December 2014 and further decreased to US$39 per dry tonne in December 2015, the lowest level in the last 10 years.

2 OPERATING ENVIRONMENT OF THE GROUP CONTINUED

These events in Ukraine and in commodity markets increase uncertainties, including the Group's assessment of the fair value of property, plant and equipment and the recoverable amount of property, plant and equipment, goodwill and other intangible assets under impairment testing for assets located in Ukraine (Notes 8 and 10).

As of 31 December 2015, the Group had significant balances receivable from and prepayments made to the State mainly including prepaid income taxes and VAT recoverable (Notes 12 and 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.

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

3 GOING CONCERN

In March 2015, the Group sought approval for a partial deferral of principal payments to May 2015 in respect of the 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 was obliged to target a broader restructuring and consequently did not make the necessary principal payment, triggering default and cross defaults under its bank and non-bank loans and borrowings, as well as bonds. This has resulted in a reclassification from non-current loans and borrowings to current loans and borrowing of US$1,585 million as of 31 December 2015. The amount of liability to bond holders and PXF lenders is disclosed in Note 19.

Discussions with creditors are currently ongoing with a view to agreeing a rescheduling plan, including a repayment extension.

In April 2015, the Group launched consent solicitations with respect to its bonds (totalling US$1,145 million as of 31 December 2015). Following bondholders' meetings for the 2015, 2017 and 2018 bonds, the majority of bondholders agreed to waive existing and related potential events of default until the end of January 2016. Moreover, 2015 bondholders agreed to extend the maturity of the 2015 bonds from 20 May 2015 to 31 January 2016 in exchange for a redemption of 25% of principal (a payment of approximately US$28.4 million was made by the Group in July 2015). Following the launch by the Group of a scheme of arrangement procedure on 29 January 2016 a competent English Court sanctioned a moratorium of the Group on taking enforcement action or initiation of insolvency proceedings by holders of 2016, 2017 and 2018 bonds of Metinvest B.V. until 27 May 2016.

Further in December 2015 the Group concluded and signed on December 1, 2015 (expiring 29 January 2016) a standstill agreement with its PXF lenders which provides for a forbearance on the taking of enforcement action or the initiation of insolvency proceedings by the PXF lenders. The standstill period has been extended and is valid until 27 May 2016, but can be terminated at any time by resolution of two-thirds of lenders. Lenders have agreed to support the liquidity of the Group by permitting the reduced payment of accrued interest to 30% starting from 31 January 2016. Since the date of default and up to the date of this report, the Group continues to pay interest on its loans and borrowings.

Management has prepared monthly cash flow projections for the remainder of 2016 and for the first four months of 2017. Additionally, management has performed a high-level liquidity analysis for the remainder of 2017 through to 2020 and considers that there is sufficient liquidity to maintain operations under the current circumstances. Based on cash flow projections, liquidity and other factors analysis, management plans to negotiate with the lenders a mutually acceptable schedule of repayment of borrowings and interest.

Although management remains in discussions with its lenders, it has not yet concluded a restructuring agreement. Thus there is an uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Group's ability to continue as a going concern is crucially dependent on the following conditions:

- willingness of the Group's lenders not to demand early repayment of borrowings in default;
- ability of the Group to negotiate with the lenders a mutually acceptable and feasible debt repayment schedule. The cash flow projections prepared by management assumes for a period of at least the next 12 months payment of 30% of accrued interest as well as no principal repayment of borrowings and seller's notes;
- absence of further deterioration of the situation on global iron ore and steel markets from that observed in December 2015 and January 2016. Monthly production and sales volumes for 2016 and 2017 were assumed to be consistent with the beginning of 2016; and
- absence of escalation of the conflict in the Eastern Ukraine (Note 2).

Despite these material uncertainties with respect to the repayment of the current loans and the debt restructuring, based on cash flow projections performed and an anticipated favourable outcome of the discussions with its lenders, management considers that the application of the going concern assumption for the preparation of this 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 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 expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the IFRS consolidated financial statements are disclosed in Note 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.

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

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

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

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

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

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

Purchases of subsidiaries from parties under common control and merger reserve in equity

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

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Transactions with non-controlling interests

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

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.

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

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

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

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

Segment reporting

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

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 hryvnya (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 2015	31 December 2014
US$/UAH	**24.00**	15.77
EUR/UAH	**26.22**	19.23

Monetary assets and liabilities are translated into functional currency at the official exchange rate at the respective balance sheet dates. Translation at year-end does not apply to non-monetary items. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

Exchange restrictions in Ukraine are limited to compulsory receipt of foreign accounts receivable within 90 days of sales, need for exporters to sell 75% of foreign currency revenue and restrictions on the purchase of foreign currency on the inter-bank market. At present, the UAH is not a freely convertible currency outside of Ukraine.

Property, plant and equipment

Property, plant and equipment are stated using the revaluation model. Fair values are based on valuations by external independent valuers. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Subsequent additions to property, plant and equipment are recorded at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. As at 31 December 2014 and 31 December 2013 property, plant and equipment are stated at revalued amounts less accumulated depreciation and provision for impairment, if required.

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

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period.

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

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

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

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

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

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

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Classification of financial assets
The Group classifies financial assets as loans and receivables.

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

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

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

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

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

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

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

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

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

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

Inventories

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

Trade and other receivables

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

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

Prepayments

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least 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.

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Dividends

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

Loans and borrowings

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

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

Trade and other payables

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

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 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 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 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.

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Revenue recognition

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

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

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

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

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

The Group also engages in sale and purchase transactions the objective of which is to manage cash flows. Such transactions are not revenue generating to the Group and accordingly such sales and purchases are presented on a net basis with any gain or loss presented in other operating income/(expenses). Accounts receivable and payable from such transactions are presented gross.

(b) Interest income

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

(c) Sale of services

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

(d) Dividend income

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

(e) Commission income

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

Value added tax (VAT)

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

Recognition of expenses

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

Finance income and costs

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

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

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Changes in presentation

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

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 cash-generating unit is the ability to measure independent cash flows for that unit. Within the Group's identified cash-generating units a significant proportion of their output is input to another cash-generating unit. Therefore judgement is needed in determining a cash-generating unit.

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

Changes in the above estimates and judgments could have a material effect on the results of the impairment tests. The estimates used to assess the impairments are impacted by the uncertainty caused by events in Eastern Ukraine and decline on the global commodity markets, 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.

Impairment of trade and other accounts receivable

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

As discussed in Note 14, during the 2015 the Group has recognised impairment of trade receivables from some of its key customers in the total amount of US$255 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 of and collection history with the customer. In the current environment there is significant judgement in estimating the expected payment date, the discount rate and whether penalty interest will be collected.

Changes in the above estimates and judgments could have a material effect on the results of the impairment tests. In particular, had the discount rates used (15% for US$-denominated receivables for Ukrainian and CIS customers) be higher by 1 pp, the impairment loss would be US$3 million higher; had the expected repayment dates be further delayed by one year, the impairment loss would be US$29 million higher.

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 about the operating environment in Note 2).

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the 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.

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.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

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 30).

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.

Revaluation of property, plant and equipment

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

As most of the Group's property, plant and equipment is of specialised nature, its fair value is determined using depreciated replacement cost (Level 3) or, where it is available, the market value (Level 2). For some assets which were revalued as of previous balance sheet date, the fair values as of reporting date were obtained using indexation of their carrying amounts for relevant cumulative price indices or changes in foreign exchange rates (Level 3).

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

- choice of information sources for construction costs analysis (actual costs recently incurred by the Group, specialised reference materials and handbooks, estimates for cost of construction of various equipment, etc.);
- determination of comparatives for replacement cost of certain equipment, as well as corresponding adjustments required to take into account differences in technical characteristics and condition of new and existing equipment;
- selection of market data when determining market value where it is available; and
- determination of applicable cumulative price indices or changes in foreign exchange rates which would most reliably reflect the change in fair value of assets revalued using indexation of carrying amounts.

The fair values obtained using depreciated replacement cost and indexation of carrying amounts are validated using discounted cash flow models (income approach, Level 3), and are adjusted if the values obtained using income approach are lower than those obtained using depreciated replacement cost or indexation of carrying amounts (i.e. there is economic obsolescence). Key inputs into discounted cash flow models are consistent with the assumptions used for goodwill impairment testing (Note 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 is disclosed further in Note 10.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

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 and decline on the global commodity markets, 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.

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.

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.

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 loans and other payables of Metinvest B.V. totalled US$2,720 million as at 31 December 2015 (31 December 2014: US$2,945 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

There are no new standards and amendments to the standards which are relevant to the Group and became effective for the annual periods beginning on 1 January 2015.

The following new standard and amendment 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, and have not been early adopted by the Group:
- Annual improvements to IFRSs 2012. The improvements consist of changes to seven standards, three 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 Group is not expecting any impact of the above amendments on its financial statements.

The following new standards relevant to the Group have been issued, but are not effective yet:
- IFRS 9, Financial Instruments;
- IFRS 15, Revenue from Contracts with Customers;
- IFRS 16, Leases;
- Amendments to IFRS 10 and IAS 28;
- Annual improvements to IFRSs 2014;
- Amendments to IAS 7; and
- Disclosure initiative amendments to IAS 1.

The Group is currently assessing the possible impact of adoption of the above standards but it is not currently expected that it will be significant. IFRS 16 will require the Group to recognise in the balance sheet assets taken in an operating lease and the related lease liabilities.

Other new or revised standards or interpretations that will become effective for annual periods starting after 1 January 2016 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 operating 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, including UCC – comprising the production, enrichment and sale of coal by the Group's US operations. UCC operating segment has been aggregated with the Group's other Mining operations into the Mining reportable segment.

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

7 SEGMENT INFORMATION CONTINUED

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, since 1 January 2015, 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.

Starting from 1 January 2015, management has changed the method of measurement of adjusted EBITDA so that both realised and unrealised foreign exchange gains and losses are now excluded from adjusted EBITDA. The effect of this change on adjusted EBITDA for the year ended 31 December 2015 is to decrease it by US$115 million (compared with previous method of measurement). The comparative figures for adjusted EBITDA for 2014 are unchanged in the tables below, as those amounts were provided to chief operating decision-maker in 2014. Should the new method of measurement been applied for the year ended 31 December 2014, adjusted EBITDA of Metallurgical segment would have been higher by US$89 million (amounting to US$1,212 million), adjusted EBITDA of Mining segment would have been lower by US$536 million (amounting to US$1,218 million) and total adjusted EBITDA would have been lower by US$391 million (amounting to US$2,311 million).

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)	34	301
Share in EBITDA of joint ventures	153	59	–	–	212
Adjusted EBITDA including share in EBITDA of joint ventures	486	88	(95)	34	513
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					(635)
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)

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

Notes to the Abbreviated Consolidated Financial Statements – 31 December 2015 continued
All tabular amounts in millions of US dollars

7 SEGMENT INFORMATION CONTINUED

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

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

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

Analysis of revenue by category:

	Metallurgical	Mining	Total
2014			
Sales of own products:	6,226	2,358	8,584
– Steel products	5,662	–	5,662
– Iron ore products	–	2,127	2,127
– Coal and coke	320	176	496
– Other	244	55	299
Resale of purchased goods:	1,939	42	1,981
– Steel products	1,667	–	1,667
– Coal and coke	24	42	66
– Other	248	–	248
Total	8,165	2,400	10,565

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

	Metallurgical	Mining	Total
2015			
Ukraine	**1,151**	**468**	**1,619**
Rest of Europe	**2,090**	**165**	**2,255**
Middle East and Northern Africa (MENA)	**1,266**	**39**	**1,305**
Southeast 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**

7 SEGMENT INFORMATION CONTINUED

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

As at 31 December 2015 94% of the Group's non-current assets, other than financial instruments and deferred tax assets, were located in Ukraine (as at 31 December 2014: 93%).

8 GOODWILL

The movements of goodwill were as follows:

	2015	2014
Book amount as at 1 January, net	**754**	1,005
Impairment	**(74)**	(102)
Currency translation differences	**(79)**	(149)
Book amount as at 31 December, net	**601**	754

Management allocates and monitors goodwill at the following groups of CGUs which represent operating segments:

	31 December 2015	31 December 2014
Metallurgical	**544**	594
Mining	**57**	86
UCC	**–**	74
Total	**601**	754

After conducting the 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 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; first year of forecast is based on the Group's approved business plan for the year.

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

All tabular amounts in millions of US dollars

8 GOODWILL CONTINUED

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

	2015	2014
Metallurgical		
Post-tax discount rate (US$)	**13.10%**	16.0% for 2015–2016 and 12.6% for 2017 onwards
EBITDA margins	**2016: 14%, 2017: 18%, further – from 16% to 17%**	10% to 18%
Growth rate in perpetual period	**3%**	3%
Mining		
Post-tax discount rate (US$)	**13.68%**	16.0% for 2015–2016 and 12.6% for 2017 onwards
EBITDA margins	**2016: 15%, 2017: 22%, further – from 21% to 27%**	25% to 40%
Growth rate in perpetual period	**3%**	3%

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

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

Forecasted iron ore prices for Fe 62% fines (CFR North China) are US$52 per tonne in 2016, US$56 per tonne in 2017 and recover at 2.8% p.a. to US$70 per tonne in 2025 (31 December 2014: range from US$80 per tonne in 2016 to US$98 per tonne in 2024). Forecasted prices for other iron ore products and prices at other markets were determined based on respective discounts or premiums for Fe content, applicable transportation costs and historic discounts or premiums usual for those markets.

Forecasted coal prices used in the impairment test for all CGUs for low volatile hard coking coal (FOB Queensland) start from US$89 per tonne in 2016, recover to US$108 per tonne in 2018 and grow at 1.3% p.a. on average thereafter (31 December 2014: start from US$129 per tonne in 2015 per tonne and grow at 2.5% on average thereafter). Forecasted prices for other types of coal and prices at other markets were determined based on respective historic discounts for differences in quality of each particular coal type and estimated transportation costs.

Forecasted prices for hot-rolled coils at Ukrainian ports are estimated to gradually increase from current levels (Note 2) to US$458 per tonne in 2025 (31 December 2014: from US$464 in 2015 to US$593 per tonne in 2024). Forecasted prices for other steel products are based on historic discounts or premiums to prices for hot-rolled coils.

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

For entities of the Metallurgical segment which have been affected by the conflict in the Eastern Ukraine, the production volumes used in the model for 2016 are consistent with those achieved in the beginning of 2016 as described in Note 2, and subsequently gradually increasing in 2017 and 2018 to approximately 75-85% of the plants' capacity (31 December 2014: 80-95% of the plants' capacity) and remaining stable onwards. Iron ore mining entities are expected to continue production at or close to full capacity (31 December 2014: full capacity).

Exchange rate of 24 UAH for 1 US$ in 2016 with gradual increase to 27.8 UAH for 1 US$ in 2025 was used in the impairment test for all CGUs as of 31 December 2015 (31 December 2014: from 16 UAH for 1 US$ in 2015 to 21.4 UAH for 1 US$ in 2024).

Metallurgical segment

As at 31 December 2015 the Metallurgical segment's recoverable amount is US$5,223 million and exceeds its total carrying amount by US$671 million (31 December 2014: recoverable amount of US$6,014 million, exceeded carrying value by US$1,139 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:

8 GOODWILL CONTINUED

	31 December 2015	31 December 2014
Volumes of production/sales		
Decrease in all the periods by 5.2%	**Recoverable amount equals carrying amount**	–
Decrease in all the periods by 9%	**Impairment of US$501 million required**	Recoverable amount equals carrying amount
Steel prices		
Decrease in all the periods by 1.4%	**Recoverable amount equals carrying amount**	–
Decrease in all the periods by 2.6%	**Impairment of US$603 million required**	Recoverable amount equals carrying amount
Decrease in all the periods by 4%	**Impairment of US$1,227 million required**	Impairment of US$647 million required
Iron ore prices		
Increase in all the periods by 7.5%	**Recoverable amount equals carrying amount**	Recoverable amount exceeds carrying amount by US$182 million
Increase in all the periods by 10%	**Impairment of US$226 million required**	Impairment of US$137 million required
Coal prices		
Increase in all the periods by 9%	**Recoverable amount equals carrying amount**	Impairment of US$64 million required
Increase in all the periods by 15%	**Impairment of US$450 million required**	Impairment of US$871 million required
UAH/US$ exchange rates		
Increase in all the periods by UAH1	**Carrying amount increases by US$696 million**	Carrying amount increases by US$1,441 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**	Recoverable amount equals carrying amount
Growth rate in perpetual period	**No reasonable changes would lead to impairment**	No reasonable changes would lead to impairment

Mining segment

As at 31 December 2015 the recoverable amount of the Mining segment is US$1,571 million (31 December 2014: US$2,537 million) and exceeds its total carrying amount by US$93 million (31 December 2014: US$400 million). The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill related to this group of CGUs:

	31 December 2015	31 December 2014
Iron ore prices		
Decrease in all the periods by 0.8%	**Recoverable amount equals carrying amount**	–
Decrease in all the periods by 5%	**Impairment of US$480 million required**	Recoverable amount equals carrying amount
Decrease in all the periods by 10%	**Impairment of US$1,053 million required**	Impairment of US$381 million required
UAH/US$ exchange rates		
Increase in all the periods by UAH1	**Carrying amount increases by US$190 million**	Carrying amount increases by US$305 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**	Recoverable amount equals carrying amount
Growth rate in perpetual period	**No reasonable changes would lead to impairment**	No reasonable changes would lead to impairment

UCC

As at 31 December 2015 goodwill in UCC impaired to US$0 million (as at 31 December 2014 amount of goodwill in UCC was US$74 million).

As at 31 December 2015 recoverable amount of UCC was estimated at US$195 million (31 December 2014: US$603 million). Total impairment charge of US$399 million (31 December 2014: US$209 million) has been recorded for UCC, out of which US$74 million (31 December 2014: US$103 million) were recorded against goodwill, US$270 million (31 December 2014: US$106 million) – against coal reserves and mining permits of separate mines (Note 9) and US$54 million (31 December 2014: US$3 million) – against property, plant and equipment (Note 10).

The discount rate used for the impairment testing of UCC was 13.27% (31 December 2014: 12.99%). Change of discount rate by 1 pp leads to change of the recoverable amount by US$23 million (31 December 2014: US$64 million).

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 tonne 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$73 million (31 December 2014: US$152 million). No other reasonable changes to the assumptions used would result in material change of the recoverable amounts of UCC as of 31 December 2015 and 2014.

All tabular amounts in millions of US dollars

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 2014				
Cost	418	726	112	1,256
Accumulated amortisation and impairment	(31)	(272)	(41)	(344)
Net carrying amount	387	454	71	912
Additions	–	–	24	24
Impairment (Note 8)	(106)	(3)	–	(109)
Currency translation differences	–	(207)	(38)	(245)
Amortisation	(6)	(34)	(8)	(48)
As at 31 December 2014				
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**

The iron ore license is being amortised using the units-of-production method over its remaining useful life of approximately 10 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 to 30 years.

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 2014	83	3,400	4,957	138	937	9,515
Additions	–	–	–	–	589	589
Transfers	–	77	285	16	(378)	–
Disposals	–	(6)	(22)	(4)	(4)	(36)
Reclassification to inventory	–	–	–	–	(15)	(15)
Elimination against gross carrying amount upon revaluation	–	(203)	(591)	(15)	–	(809)
Revaluation	–	899	1,955	16	32	2,902
Currency translation differences	(11)	(1,749)	(2,328)	(62)	(479)	(4,629)
As at 31 December 2014	72	2,418	4,256	89	682	7,517
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**

10 PROPERTY, PLANT AND EQUIPMENT CONTINUED

	Land	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
Accumulated depreciation and impairment						
As at 1 January 2014	–	(381)	(853)	(48)	(21)	(1,303)
Charge for the year	–	(212)	(579)	(21)	–	(812)
Disposals	–	3	18	3	2	26
Elimination against gross carrying amount upon revaluation	–	203	591	15	–	809
Impairment	–	(125)	(63)	(3)	(15)	(206)
Currency translation differences	–	176	314	17	–	507
As at 31 December 2014	–	(336)	(572)	(37)	(34)	(979)
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)**
Net book value as at						
31 December 2014	72	2,082	3,684	52	648	6,538
31 December 2015	**50**	**1,612**	**2,704**	**36**	**420**	**4,822**

During 2015 and 2014, management performed assessments whether the carrying amounts of items of property, plant and equipment are materially different from their fair values. Where the material differences were identified as probable, the Group determined the fair value of its property, plant and equipment through a combination of independent appraisers and internal assessments. The Group aims to revalue a class of property, plant and equipment simultaneously; in case of revaluing a class on a rolling basis, the Group completes the revaluation within a short period and keeps revaluations up-to-date. Substantially all the property, plant and equipment balance was either revalued or tested for impairment (whenever impairment indicators existed) during both 2015 and 2014.

As at 30 June 2015, the Group decided to revalue its property, plant and equipment mainly due to significant inflation in Ukraine and further devaluation of UAH against US$ and EUR during the six months ended 30 June 2015. This revaluation resulted in the revaluation surplus of US$859 million recorded in other comprehensive income and US$9 million recorded in profit or loss (being reversal of previously recognised impairment or devaluation). No uplift was recorded in respect of property, plant and equipment located in the area not controlled by the government of Ukraine due to uncertainties as discussed in Note 2.

Fair values of items of property, plant and equipment located in Ukraine were estimated as follows: carrying amounts were adjusted to account for relevant cumulative price indices (for construction works and materials, different types of equipment, etc.) in Ukraine since the date of the latest revaluation of such items; and the resulting fair values were validated using discounted cash flow forecasts (income approach), and were adjusted if the values obtained using income approach are lower than those obtained using indexation of carrying amounts.

Further, a revaluation of US$27 million and an impairment of US$23 million was recognised as a result of fair valuation of Ferriera Valsider S.p.A. as of 31 December 2015 (book value of 58 million spread over plant and machinery, buildings and structures and land as of 31 December 2015). A revaluation exercise was considered unnecessary for other property, plant and equipment balances located outside of Ukraine as management estimated that their fair value as of 31 December 2015 were not materially different from their cumulative carrying amount of US$421 million.

Given that in the second half of 2015 the inflation and devaluation in Ukraine were not significant (2% and 12%, respectively), management concluded that the further material uplift in fair values of the property, plant and equipment compared to 30 June 2015 is highly unlikely. Instead, significant further deterioration of the steel and iron ore markets' current situation and the outlook (Note 2) represented an impairment indicator for Group's non-current assets (including goodwill, other intangible assets and PPE) in the metallurgical and mining businesses. Therefore, management has performed impairment testing of property, plant and equipment and other intangible assets such as mining licences at the level of individual CGUs (being individual plants) and, subsequently, impairment testing of goodwill at the level of Metallurgical, Mining and UCC segments (Note 8).

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 that used for impairment testing of goodwill by 0.59%-0.87% pp for metallurgical CGUs (resulting discount rates for individual metallurgical CGUs being 13.69%-13.97%) and 0.29% pp for mining CGUs (resulting discount rates for individual mining CGUs being 13.97%).

All tabular amounts in millions of US dollars

10 PROPERTY, PLANT AND EQUIPMENT CONTINUED

The specific risk of future severe physical damage or loss of control over entities located within or in close proximity to the areas not controlled by the Ukrainian government were not taken into account when building cash flow projections nor was this included within the discount rate in either goodwill or CGU impairment testing. If a 20% probability that this risk crystallises was applied with respect to the CGUs located within the territories not controlled by the Ukrainian government and 10% for CGUs in close proximity to it, all other factors remaining constant, then impairment of US$18 million (31 December 2014: US$464 million) of property, plant and equipment would need to be recognised.

Mining segment – 2014 impairment losses and 2015 update

Resulting from the test an impairment loss of US$215 million and a revaluation reserve reversal of US$249 million have been recognised in 2014 on two CGUs being iron ore mining (US$316 million in aggregate) and coal mining (US$145 million in aggregate) operations in Ukraine. These impairments were largely driven by decrease in iron ore and coal prices in 2014. These conditions continued to be in place in 2015 and resulted in an additional impairment charge of US$7 million. An increase of iron ore prices by 13% (31 December 2014: 15%) would increase recoverable amount of iron ore mining CGU to its carrying amount before impairment. No reasonably possible change in any of the assumptions of the impairment model of coal mining CGU would change the amount of impairment.

During 2015 US$28 million of borrowing costs were capitalised, and the capitalisation rate was 8% (2014: US$23 million, capitalisation rate 7%).

As at 31 December 2015 and 2014 no buildings, plant and machinery were pledged to third parties as collateral for loans and borrowings.

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's investment in joint ventures and associates were as follows as at 31 December 2015 and 2014:

			2015		2014	
Name	Type of relationship	Segment	**% of ownership**	**Carrying value**	% of ownership	Carrying value
PJSC Southern Iron Ore Enrichment Works	Joint venture	Mining	**45.9%**	**298**	45.9%	345
Zaporozhstal Group	Joint venture	Metallurgical	**49.9%**	**458**	49.9%	522
PJSC Zaporozhogneupor	Associate	Metallurgical	**45.4%**	**2**	45.4%	4
PrJSC Yenakievskiy Koksohimprom	Associate	Metallurgical	**50.0%**	**7**	50.0%	6
IMU	Associate	Metallurgical	**49.9%**	**7**	49.9%	13
Black Iron (Cyprus) Limited	Associate	Mining	**49.0%**	**6**	49.0%	14
Other	Associate	Mining	**n/a**	**1**	n/a	2
Total				**779**		906

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

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

PJSC Southern Iron Ore Enrichment Works

On 14 July 2014 the Company acquired a 44.8% ownership interest in PJSC Southern Iron Ore Enrichment Works. This ownership interest, together with the acquisition of non-controlling interests in two already consolidated subsidiaries made in consideration of an additional share in the Company together with a change in the ownership rights assigned to each share (see Note 16). Additional 1.1% of ownership interest in PJSC Southern Iron Ore Enrichment Works had been acquired in a separate transaction earlier in the year.

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

As of the date of acquisition, this investment was classified as a joint venture due to the fact that decisions about relevant activities require participation of and unanimous consent from both Metinvest and another major shareholder of PJSC Southern Iron Ore Enrichment Works.

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

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

Zaporozhstal Group

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

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

As at 31 December 2015 and 2014, Metinvest's investment in Zaporizhstal Group was classified as a joint venture 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 Zaporizhstal Group.

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

	2015	2014
Carrying amount at 1 January	**906**	786
Acquisition of share in PJSC Southern Iron Ore Enrichment Works	**–**	369
Acquisition of share in Black Iron (Cyprus) Limited	**–**	20
Impairment of share in Black Iron (Cyprus) Limited	**(4)**	–
Share of after tax results of joint ventures and associates	**131**	142
Share of other comprehensive income of joint ventures and associates	**72**	123
Currency translation difference	**(326)**	(534)
Carrying amount at 31 December	**779**	906

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

- JSC Zaporozhogneupor, Ukrainian producer of refractories, with revenues of US$46 million and net loss of US$1 million in 2015 (2014: US$54 and US$6, respectively) and total assets of US$24 million as at 31 December 2015 (31 December 2014: US$29 million);
- Yenakievskiy Koksohimprom, Ukrainian producer of coke which sources majority of its coal consumption from the Group and sells majority of its coke output to the Group's steel plants; Yenakievskiy Koksohimprom had revenues of US$72 million and net profit of US$7 million in 2015 (2014: US$83 and US$4, respectively) and total assets of US$76 million as at 31 December 2015 (31 December 2014: US$46 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.

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

	Zaporozhstal Group		PJSC Southern Iron Ore Enrichment Works	
	31 December 2015	31 December 2014	**31 December 2015**	31 December 2014
Balance sheet:				
Non-current assets	**864**	1,077	**318**	488
Cash and cash equivalents	**17**	12	**9**	5
Other current assets	**459**	470	**396**	392
Total current assets	**476**	482	**405**	397
Trade and other payables and provisions	**366**	74	**–**	–
Other non-current financial liabilities	**113**	109	**35**	53
Total non-current liabilities	**479**	183	**35**	53
Trade and other payables and provisions	**108**	448	**21**	80
Other current financial liabilities	**33**	186	**18**	–
Total current liabilities	**141**	634	**39**	80
Net assets	**720**	742	**649**	752

All tabular amounts in millions of US dollars

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

	Zaporozhstal Group		PJSC Southern Iron Ore Enrichment Works	
	31 December 2015	31 December 2014	**31 December 2015**	31 December 2014
Profit or loss for the year ended (selected items):				
Revenue	**1,463**	1,862	**483**	316
Depreciation and amortisation	**(77)**	(75)	**(37)**	(26)
Interest income	**–**	–	**1**	4
Interest expense	**(32)**	(147)	**(5)**	(3)
Income tax expense	**(15)**	(16)	**(41)**	(46)
Profit or loss	**106**	111	**169**	190
Statement of comprehensive income for the year ended:				
Other comprehensive income	**145**	245	**3**	–
Total comprehensive income	**251**	346	**172**	190
Dividends received by the Group during the year ended	**–**	–	**–**	–

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

As at 31 December 2015, Zaporozhstal had a contingent liability with potential maximum outflow of US$13 million (31 December 2014: nil). 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 2015	31 December 2014	**31 December 2015**	31 December 2014
Net assets	**720**	742	**649**	752
Group's ownership, %	**49.9%**	49.9%	**45.9%**	45.9%
Group's interest in net assets	**359**	370	**298**	345
Goodwill	**99**	152	**–**	–
Carrying value	**458**	522	**298**	345

12 INCOME TAX PREPAID

	31 December 2015	31 December 2014
Non-current portion	**105**	108
Current portion	**66**	110
Total income tax prepaid	**171**	218

Group's income tax prepayments originated mainly on principal Ukrainian production subsidiaries due to legislative requirement of advance payment of corporate profit tax. The classification of prepayments as of 31 December 2015 is based on Group management's assessment of taxable profits of subsidiaries and amounts of expected cash refunds from the State during 2016.

Starting from 1 January 2016 changes to Ukrainian Tax Code were enforced, including the cancellation of required advance payments of corporate profit tax.

13 INVENTORIES

	31 December 2015	31 December 2014
Finished goods and work in progress	**367**	566
Raw materials	**255**	409
Ancillary materials, spare parts and consumables	**114**	210
Goods for resale	**30**	37
Total inventories	**766**	1,222

In 2015, inventory write-down expense was US$21 million (2014: US$16 million).

As at 31 December 2015, inventories totalling US$69 million (31 December 2014: US$151 million) have been pledged as collateral for borrowings (Note 19).

14 TRADE AND OTHER RECEIVABLES

	31 December 2015	31 December 2014
Non-current assets:		
Trade receivables	**201**	–
Loans issued to related party (US$-denominated, 9% effective interest rate, mature during 2017)	**11**	20
Loans issued to joint venture (US$-denominated, 11% effective interest rate, mature in 2016)	**–**	98
Other non-current financial assets	**7**	11
Other non-current non-financial assets	**10**	10
Total non-current assets	**229**	139
Current financial assets:		
Trade receivables and receivables on commission sales	**757**	1,544
Loans issued to joint venture (US$-denominated, 11% effective interest rate, mature in 2016)	**101**	3
Loans issued to SMART (US$-denominated, 9% effective interest rate, mature in 2015 and 2016)	**75**	70
Loans issued to SCM (US$-denominated, 9% effective interest rate, mature in 2015 and 2016)	**22**	11
Other receivables	**56**	80
Total current financial assets	**1,011**	1,708
Current non-financial assets:		
Recoverable value added tax	**148**	225
Prepayments made	**142**	45
Prepaid expenses and other non-financial receivables	**64**	64
Total current non-financial assets	**354**	334
Total current assets	**1,365**	2,042
Total trade and other receivables (including non-current assets)	**1,594**	2,181

The increased prepayments made are 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 2015, VAT refunds of US$479 million were received by the Group. Although there are certain delays with refund of part of this balance amounting to US$43 million related to the subsidiaries located in the non-controlled territory, the Group has a proved right for refund of this amount and considers this balance as fully recoverable.

During 2015, trade accounts receivable in the amount of US$491 million has been sold to a third party (2014: US$175 million). As at 31 December 2015 amount of such unsettled receivables was US$67 million (31 December 2014: US$71 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 2014: 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.

All tabular amounts in millions of US dollars

14 TRADE AND OTHER RECEIVABLES CONTINUED

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

	31 December 2015		31 December 2014	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Provision for impairment at 1 January	**77**	**27**	56	25
Net impairment during the year	**263**	**29**	50	10
Currency translation differences	**(11)**	**(7)**	(29)	(8)
Provision for impairment at 31 December	**329**	**49**	77	27

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

	31 December 2015		31 December 2014	
	Trade receivables and receivables on commission sales	Other financial receivables	Trade receivables and receivables on commission sales	Other financial receivables
Key customers	**20**	**–**	18	–
SCM and other related companies, including associates and joint ventures	**54**	**145**	73	244
Balances covered by bank letters of credit	**77**	**–**	202	–
Balances insured	**147**	**–**	249	–
Existing and new counterparties with no history of default	**75**	**24**	69	36
Balances renegotiated with SCM and other related companies, including associates and joint ventures	**27**	**26**	28	–
Balances renegotiated with key customers	**46**	**–**	12	–
Total fully performing (not past due)	**446**	**195**	651	280
Past due:				
– less than 30 days overdue	**81**	**53**	162	–
– 30 to 90 days overdue	**54**	**12**	91	–
– 90 to 180 days overdue	**58**	**2**	73	2
– 180 to 360 days overdue	**64**	**3**	33	2
– over 360 days overdue	**34**	**8**	16	9
Total past due, but not impaired	**291**	**78**	375	13
Total individually impaired	**550**	**49**	595	27
Less impairment provision	**(329)**	**(49)**	(77)	(27)
Total	**958**	**273**	1,544	293

As at 31 December 2015, 10% of receivables overdue but not impaired related to key customers (2014: 12%) and 69% to SCM and other related parties (2014: 61%). 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 reassessed the recoverable amounts of receivables from these entities. As a result, during 2015 the Group has increased the impairment provision related to these receivables from US$62 million as of 31 December 2014 to US$317 million as of 31 December 2015 and classified US$201 million of these balances as non-current assets (Note 5).

As at 31 December 2015, trade and other receivables totalling US$99 million (31 December 2014: US$175 million) have been pledged as collateral for borrowings (Note 19).

15 CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Current accounts	**176**	105
Bank deposits up to three months	**4**	9
Total cash and cash equivalents	**180**	114

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 2015	31 December 2014
As rated by Moody's:		
– A1	**53**	–
– A2	**2**	35
– A3	**–**	1
– Baa2	**12**	3
– Ba1	**–**	2
– Ba2	**21**	–
– Ca	**–**	60
Not rated – Ukrainian banks	**71**	1
Not rated – other banks	**21**	12
Total cash and cash equivalents	**180**	114

As at 31 December 2015, amounts in not rated Ukrainian banks (31 December 2014: banks rated Ca) relate to First Ukrainian International Bank (a related party which is under common control of SCM).

16 SHARE CAPITAL AND SHARE PREMIUM

	Number of outstanding shares			Ordinary shares	Share premium	Total
	Class A	Class B	Class C			
At 31 December 2014	6,750	2,251	474	0	6,225	6,225
At 31 December 2015	**6,750**	**2,251**	**474**	**0**	**6,225**	**6,225**

As at 31 December 2015, the issued share capital comprised 6,750 ordinary class A shares (2014: 6,750), 2,251 ordinary class B shares (2014: 2,251) and 474 class C shares (2014: 474) 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.

In 2014, as a result of the acquisition of 44.8% of PJSC Southern Iron Ore Enrichment Works, an additional 14.1% interest in PJSC Ingulets Iron Ore Enrichment Works and 16% interest PJSC Northern Iron Ore Enrichment Works (Notes 11 and 18) and the issuance of additional share and share rights, management recognised Share premium of US$764 million on these transactions, being the fair value of shares contributed.

All tabular amounts in millions of US dollars

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 2014	(13)	2,269	(2,995)	(2,349)	(3,088)
Total comprehensive income for the period	–	2,381	–	(5,028)	(2,647)
Depreciation transfer, net of tax	–	(256)	–	–	(256)
Acquisition of subsidiaries from parties under common control	–	–	(43)	–	(43)
Balance as at 31 December 2014	(13)	4,394	(3,038)	(7,377)	(6,034)
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)**

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

Retained earnings of the Group represent the earnings of the Group entities from the date they have been established or acquired by the entities under common control. Company subsidiaries distribute profits as dividends or transfer them to reserves on the basis of their statutory financial statements prepared in accordance with local GAAP as appropriate. Ukrainian legislation identifies the basis of distribution as retained earnings only, however, this legislation and other statutory laws and regulations are open to legal interpretation. Since December 2014, there has been a temporary ban for Ukrainian entities to pay dividends abroad, which has been prolonged till 8 June 2016 (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 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 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**	**–**
PJSC Ingulets Iron Ore Enrichment Works	**0.2%**	**–**	**(1)**	**1**	**–**
Ferriera Valsider S.p.A.	**30.0%**	**(8)**	**3**	**24**	**–**
Total		**(6)**	**(43)**	**145**	**–**
As at 31 December 2014					
PJSC Azovstal Iron and Steel Works	3.9%	2	(6)	51	–
PJSC Avdiivka Coke Plant	7.5%	(6)	(7)	31	–
JSC Zaporozhkoks	49.0%	(3)	(19)	33	–
PJSC Northern Iron Ore Enrichment Works	3.6%	32	(117)	54	–
PJSC Ingulets Iron Ore Enrichment Works	0.2%	32	(92)	2	1
Ferriera Valsider S.p.A.	30.0%	(2)	(4)	29	
Total		55	(245)	199	1

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 2015 and 2014:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Net assets
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**
PJSC Ingulets Iron Ore Enrichment Works	**994**	**650**	**1,091**	**57**	**496**
Ferriera Valsider S.p.A.	**179**	**123**	**210**	**11**	**81**
As at 31 December 2014					
PJSC Azovstal Iron and Steel Works	1,044	1,402	970	179	1,297
PJSC Avdiivka Coke Plant	186	483	207	44	418
JSC Zaporozhkoks	137	64	123	11	67
PJSC Northern Iron Ore Enrichment Works	946	1,110	365	201	1,490
PJSC Ingulets Iron Ore Enrichment Works	1,083	1,083	983	272	911
Ferriera Valsider S.p.A.	252	72	226	1	97

	Revenue	Profit/(Loss)	Total comprehensive (loss)/income
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)**
PJSC Ingulets Iron Ore Enrichment Works	**610**	**(149)**	**(415)**
Ferriera Valsider S.p.A.	**398**	**(26)**	**(16)**
Year ended 31 December 2014			
PJSC Azovstal Iron and Steel Works	1,900	55	(119)
PJSC Avdiivka Coke Plant	568	(76)	(177)
JSC Zaporozhkoks	312	(6)	(44)
PJSC Northern Iron Ore Enrichment Works	1,101	164	(527)
PJSC Ingulets Iron Ore Enrichment Works	984	173	(744)
Ferriera Valsider S.p.A.	482	(8)	(22)

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 partial consideration for the 2014 increase in shares and change in rights to the Smart Group the Company obtained additional 14% in Ingulets Iron Ore Enrichment works and 16% in Northern Iron Ore Enrichment works (both subsidiaries of the Group) resulting in a reduction in non-controlling interest of US$558 million in 2014. The difference of US$154 million between the carrying value of non-controlling interest derecognised and consideration transferred (i.e. share premium recognised – Note 16) was recognised in 2014 as a reduction in the equity attributable to the parent's shareholders (reflected directly in retained earnings).

In 2011 and 2014, the Company issued guaranteed bonds with aggregate amount of US$1,146 million outstanding which were in default as at 31 December 2015 (Notes 3 and 19). The bonds are guaranteed on a joint and several basis by the Group's subsidiaries PJSC Avdiivka Coke Plant, PJSC Ingulets Iron Ore Enrichment Works, PJSC Khartsyzsk Pipe Plant, PJSC Northern Iron Ore Enrichment Works, PJSC Central Iron Ore Enrichment Works, PJSC Azovstal Iron and Steel Works, PJSC Yenakiieve Iron and Steel Works, PJSC 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.

All tabular amounts in millions of US dollars

18 MATERIAL NON-CONTROLLING INTERESTS IN SUBSIDIARIES CONTINUED

Also, Metinvest entered into a number of PXF loans for an aggregate amount of US$1,073 million which were in default as at 31 December 2015 (Notes 3 and 19). These loans are guaranteed by Ingulets GOK and PJSC Ilyich Iron and Steel Works. Also, as a condition of these loans, certain subsidiaries of Metinvest (PJSC Azovstal Iron and Steel Works, PJSC Yenakiieve Iron and Steel Works, PJSC Northern Iron Ore Enrichment Works, PJSC Ingulets Iron Ore Enrichment Works, Metinvest International S.A., PJSC 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 repayment schedule of the loans balances and extends to loans' maturity dates. The proceeds from such sales are transferred through special accounts of the lenders and banks will have rights to these proceeds only in case when Metinvest does not make a scheduled payment under the credit facilities. There are no other restrictions to these accounts. The amount of funds on such accounts as at 31 December 2015 is US$0 million (31 December 2014: US$0 million).

19 LOANS AND BORROWINGS

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

	31 December 2015	31 December 2014
Non-current		
Bank borrowings	**–**	476
Bonds issued	**–**	1,032
Non-bank borrowings from related parties	**–**	370
	–	1,878
Current		
Bank borrowings	**1,091**	714
Non-bank borrowings from related parties	**393**	–
Trade finance	**228**	416
Bonds issued	**1,146**	138
	2,858	1,268
Total loans and borrowings	**2,858**	3,146

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 2015		31 December 2014	
In % per annum	US$	EUR	US$	EUR
Bank borrowings	**6%**	**3%**	4%	3%
Bonds issued	**9%**	**–**	9%	–
Non-bank borrowings from related parties	**10%**	**–**	10%	–
Trade finance	**4%**	**–**	3%	–
Reported amount	**2,840**	**18**	3,124	22

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. As at 31 December 2015, the bank borrowing includes PXF in the amount US$1,073 million (31 December 2014: US$1,172 million).

As of 31 December 2015, the Group's 2018 bonds were traded on open markets with discount of approximately 57% (31 December 2014: 48%) to their nominal value, 2017 bonds were traded on open markets with discount of approximately 55% (31 December 2014: 48%) and 2016 bonds were traded on open markets with discount of approximately 58% (31 December 2014: 25%). As at 31 December 2015, the fair value of bonds was US$514 million (31 December 2014: US$676 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 2015 would be in the range of US$462 million to US$495 million (31 December 2014: US$629 million and US$906 million respectively). Despite the trading volumes are low and these quotations may not represent the fair value of the bonds and bank borrowings, that approach is the most appropriate in the distressed situation given the Company's default and cross-default clauses on its bank and non-bank loans and borrowings, as well as bonds a vast majority of which were reclassified to current debt.

20 SELLER'S NOTES

	31 December 2015	31 December 2014
Current portion	**88**	86
Total seller's notes	**88**	86

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

Seller's notes bear nominal interest rate of 7% p.a., and are recorded at an effective interest rate of 12.5% p.a. The repayment of the notes was initially due in 2015. In January 2015 the Group renegotiated terms of the seller's notes to be repaid in 12 equal monthly instalments during 2016. There are no cross-default provisions related to the seller's notes.

As of 31 December 2015 and 31 December 2014, the fair value of seller's notes approximated their carrying amount.

21 RETIREMENT BENEFIT OBLIGATIONS

The Group's defined benefit obligations relate to:

	31 December 2015	31 December 2014
State-defined early pensions for employees working in hazardous and unhealthy working conditions	**289**	434
Long-term employee benefits under collective bargaining agreements	**46**	39
Total defined benefit obligations	**335**	473

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.

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

	2015	2014
Defined benefit obligation as at 1 January	**473**	803
Current service cost	**10**	17
Remeasurements of the defined benefit liability resulting from:		
– changes in financial assumptions	**(18)**	16
– changes in demographic assumptions	**(1)**	3
– experience adjustments	**26**	19
Past service cost	**(10)**	–
Interest cost	**49**	70
Benefits paid	**(34)**	(61)
Currency translation difference	**(160)**	(394)
Defined benefit obligation as at 31 December	**335**	473

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

	2015	2014
Current service cost	**10**	17
Past service cost	**(10)**	–
Interest cost	**49**	70
Total	**49**	87

All tabular amounts in millions of US dollars

21 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The principal actuarial assumptions used were as follows:

	31 December 2015	31 December 2014
Nominal discount rate	**16.04%**	16.04%
Nominal salary increase	**0% in 2016, 12.9% – later**	12.9%–15.0%
Nominal pension entitlement increase (indexation)	**3.6%**	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 Group's subsidiaries) for 2012 and are consistent with the prior year.

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

	2015	2014
Nominal discount rate increase/decrease by 1 pp	**(23)/26**	(35)/40
Nominal salary increase/decrease by 1 pp	**8/(8)**	11/(12)
Nominal pension entitlement (indexation) increase/decrease by 1 pp	**7/(7)**	2/(11)
Inflation increase/decrease by 1 pp	**8/(9)**	10/(12)

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

As at 31 December 2015, the weighted average maturity of the Group's defined benefit obligations is 7.9 years and it varies across different Group's subsidiaries from six to 9.5 years (31 December 2014: 9.3 years, varying from six to 12 years). Payments in respect of defined benefit obligations expected to be made during the year ending 31 December 2016 are US$38 million.

22 OTHER NON-CURRENT LIABILITIES

	31 December 2015	31 December 2014
Asset retirement obligations	**74**	45
Long-term advances received from related parties (Note 29)	**15**	–
Tax liabilities under moratorium (Note 30)	**8**	12
Other non-current liabilities	**6**	10
Total other non-current liabilities	**103**	67

23 TRADE AND OTHER PAYABLES

	31 December 2015	31 December 2014
Trade payables and payables on sales made on commission	**984**	996
Dividends payable to shareholders of Metinvest B.V.	**88**	88
Dividends payable to non-controlling shareholders of Company's subsidiaries	**2**	3
Payables for acquired property, plant and equipment and other intangible assets	**54**	95
Other financial liabilities	**46**	37
Total financial liabilities	**1,174**	1,219
Prepayments received	**101**	114
Accruals for employees' unused vacations and other payments to employees	**51**	67
Income tax payable	**19**	9
Other taxes payable	**45**	73
Wages and salaries payable	**17**	20
Other allowances	**19**	16
Total trade and other payables	**1,426**	1,518

24 EXPENSES BY NATURE

	2015	2014
Raw materials including change in finished goods and work in progress	**1,476**	2,016
Goods for resale	**1,574**	1,935
Energy materials including gas, electricity and fuel	**1,005**	1,593
Wages and salaries	**507**	787
Transportation services	**957**	1,074
Repairs and maintenance expenses	**200**	296
Pension and social security costs	**111**	220
Pension costs – defined benefit obligations (Note 21)	**–**	17
Depreciation and amortisation	**615**	850
Impairment and devaluation of property, plant and equipment and other intangible assets (Notes 9 and 10)	**364**	315
Taxes and duties	**84**	149
Services and other costs	**325**	338
Total operating expenses	**7,218**	9,590
Classified in the income statement as		
– cost of sales	**6,087**	8,240
– distribution costs	**920**	1,063
– general and administrative expenses	**211**	287
Total operating expenses	**7,218**	9,590

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 income statement in the reporting period:

	2015	2014
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:

	2015	2014
Impairment of trade and other receivables (Note 14)	**(292)**	(60)
Impairment of goodwill (Note 8)	**(74)**	(102)
VAT on sales below cost	**(27)**	(8)
Maintenance of social infrastructure	**(12)**	(22)
Sponsorship and other charity and social payments	**(17)**	(39)
Impairment of share in Black Iron (Cyprus) Limited (Note 11)	**(4)**	–
Operating foreign exchange gains less losses, net	**124**	391
Gain on disposal of property, plant and equipment, net	**8**	8
Other income/(expense), net	**(6)**	(38)
Total other operating (expense)/income, net	**(300)**	130

All tabular amounts in millions of US dollars

26 FINANCE INCOME

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

	2015	2014
Interest income:		
– loans issued	**20**	20
– bank deposits	**3**	3
– imputed interest on other financial instruments	**3**	–
Other finance income	**–**	2
Total finance income	**26**	25

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

27 FINANCE COSTS

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

	2015	2014
Net foreign exchange loss	**372**	593
Interest expense:		
– borrowings	**86**	100
– bonds	**113**	118
– seller's notes	**6**	8
– imputed interest on seller's notes	**3**	10
Interest cost on retirement benefit obligations	**49**	70
Other finance costs	**6**	3
Total finance costs	**635**	902

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:

	2015	2014
Current tax	**28**	198
Deferred tax	**(189)**	13
Income tax (benefit)/expense	**(161)**	211

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries. In 2015 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2014: 18%). In 2015, the tax rate for Swiss operations was 10% (2014: 10%) and for European companies tax rate in 2015 varied from 10% to 34% (2014: varied from 10% to 31%). The tax rate for US operations was 35% (2014: 35%).

28 INCOME TAX CONTINUED

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

	2015	2014
IFRS profit/(loss) before tax	**(1,164)**	370
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(340)**	(10)
Tax effect of items not deductible or assessable for taxation purposes:		
– impairment of non-current assets at UCC (Notes 8, 9 and 10)	**144**	36
– impairment of trade and other receivables	**22**	–
– other non-deductible expenses	**49**	78
– non-taxable income	**(10)**	(14)
Write-down/(reversal) of write-down of deferred tax assets, net	**(26)**	168
Indexation of tax base of PPE in Ukraine	**–**	(51)
Effect of other changes in estimates regarding realisability and timing of realisation of deferred tax balances	**–**	4
Income tax (benefit)/expense	**(161)**	211

The weighted average applicable tax rate was 29% in 2015 (2014: -2.7%). Variation in weighted average tax rate is mostly due to variation in profitability of Group's subsidiaries in Ukraine some of which are profitable and some are loss-making.

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 2015	Credited/ (Charged) to income statement	Credited/ (Charged) to other comprehensive 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	69	–	(36)	136
Retirement benefit obligations	82	2	1	(28)	57
Other	3	38	–	6	47
Gross deferred tax asset	346	14	1	(75)	286
Less offsetting with deferred tax liabilities	(257)	28	(2)	50	(181)
Recognised deferred tax asset	89	42	(1)	(25)	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)	2	(50)	181
Recognised deferred tax liability	(504)	147	(160)	169	(348)

Deferred tax asset on unused tax losses not recognised as at 31 December 2015 comprised US$48 million (31 December 2014: US$144 million). There are no expiry dates on tax losses carried forward. 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).

All tabular amounts in millions of US dollars

28 INCOME TAX CONTINUED

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

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

	2015			2014		
	Before tax	**Deferred tax charge**	**After tax**	Before tax	Deferred tax charge	After tax
Revaluation of property, plant and equipment	**886**	**(162)**	**724**	2,902	(521)	2,381
Remeasurement of retirement benefit obligation	**(7)**	**1**	**(6)**	(38)	7	(31)
Other comprehensive income	**879**	**(161)**	**718**	2,864	(514)	2,350

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.

Revisions were introduced to the Tax Code of Ukraine from 1 January 2015. Further revisions were introduced to the Tax Code from 1 January 2016 (Note 35). These changes were considered to be substantially enacted with respect of calculation of deferred taxes as at 31 December 2014 and 31 December 2015, respectively.

29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

For the purposes of these IFRS consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As at 31 December 2015 and 2014 significant balances outstanding with related parties are detailed below:

	31 December 2015					31 December 2014				
	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:	–	–	–	14	–	–	–	98	20	–
Long-term loans issued	–	–	–	13	–	–	–	98	20	–
Other non-current assets	–	–	–	1	–	–	–	–	–	–
Current trade and other receivables, including:	–	50	274	122	77	1	27	274	92	74
Trade receivables and receivables on commission sales	–	50	172	35	2	–	27	270	34	4
Prepayments made	–	–	–	30	–	–	–	1	4	–
Loans issued	–	–	101	22	75	–	–	3	11	70
Other financial receivables (short-term, non-interest-bearing)	–	–	1	35	–	1	–	–	43	–
Cash and cash equivalents	–	–	–	71	–	–	–	–	60	–

	31 December 2015					31 December 2014				
	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	–	–	–	15	–	–	–	1	1	–
Non-bank borrowings	–	–	–	292	101	–	–	–	278	92
Trade and other payables, including:	40	58	410	137	48	41	35	396	159	60
Dividends payable	40	–	–	–	48	40	–	–	–	48
Trade payables and payables on sales made on commission	–	41	402	99	–	–	32	394	118	–
Prepayments received	–	17	6	8	–	–	3	2	29	–
Other financial liabilities	–	–	2	30	–	1	–	–	12	12

All tabular amounts in millions of US dollars

29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES CONTINUED

Significant transactions (excluding purchases) with related parties during 2015 and 2014 are detailed below:

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 – other	–	11	3	6	20
Other finance income (expenses)	–	–	(28)	(9)	(37)

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

The following is a summary of purchases from related parties in 2015 and 2014:

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

29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES CONTINUED

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

Not included in the tables above are 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). Group's net gain on such transactions was US$3 million in 2015 (2014: US$9 million).

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

In 2015, the remuneration of key management personnel of the Group comprised current salaries and related bonuses totalling US$11.5 million (in 2014: US$10.9 million).

As at 31 December 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. 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 JSC Krasnodonugol. The majority of the creditors' claims summarised by the external manager relate to the Group thus are eliminated on consolidation. As at 31 December 2015, the amount of the financial liabilities recorded in these financial statements is US$15 million. US$8 million are presented as non-current liability related to the bankruptcy moratorium (Note 22).

30 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS CONTINUED

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Environmental matters

The enforcement of environmental regulation in Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations (including asset retirement obligations) under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Capital expenditure commitments

As at 31 December 2015, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling US$266 million (31 December 2014: US$166 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 2015 and 2014, 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, the vast majority of loans and borrowing were reclassified to current loans and borrowings (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; and property damage and business interruption policies in respect of its European and US assets.

31 FINANCIAL RISK MANAGEMENT

The Group activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out jointly by the internal control and risk management department and the central treasury department. These departments identify, evaluate and mitigate financial risks in close co-operation with the Group's operating units.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed through: (i) borrowings denominated in the relevant foreign currencies; and (ii) different treasury operations including forward, swap and other.

Foreign exchange risk is managed centrally by the Group treasury. The Group treasury has set up a policy to manage foreign exchange risk. The Group treasury sets limits on the level of exposure by currency and maximum amount of exposure. The subsidiaries have not entered into transactions designed to hedge against these foreign currency risks without permission of the Group treasury.

At 31 December 2015, if the UAH had strengthened/weakened by 50% against the US dollar with all other variables held constant, post-tax profit for the year would have been US$44 million higher/lower (2014: if the UAH strengthened/weakened by 50% against US$ dollar, post-tax profit for the year would have been US$190 million higher/lower), mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated trade receivables and foreign exchange gains/losses on translation of US dollar-denominated borrowings.

31 FINANCIAL RISK MANAGEMENT CONTINUED

(ii) Price risk

Metinvest's revenue is exposed to the market risk from price fluctuations related to the sale of its steel and iron ore products. The prices of the steel and iron ore products sold both within Ukraine and abroad are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of raw material inputs) and global economic growth. The prices of the products that Metinvest sells to third parties are also affected by supply/demand and global/Ukrainian economic growth. Adverse changes in respect of any of these factors may reduce the revenue that Metinvest receives from the sale of its steel or mined products.

Metinvest's exposure to commodity price risk associated with the purchases is limited as the Group is vertically integrated and is self sufficient for iron ore and certain portion of coking coal requirements.

No financial instruments are exposed to price risk.

(iii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are dependent on changes in market interest rates.

The Group's interest rate risk arises from long-term and short-term borrowings. Borrowings attracted at variable rates expose the Group to cash flow interest rate risk. Borrowings attracted at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a balanced borrowings portfolio of fixed and floating rate instruments. As at 31 December 2015, 54% of the total borrowings were provided to the Group at fixed rates (31 December 2014: 49%). During 2015 and 2014, 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 2015, if interest rates on US$ and EUR-denominated borrowings had been by 1 pp higher/lower (2014: 1 pp) with all other variables held constant, post-tax profit for the year would have been US$11 million lower/higher (2014: US$13 million).

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. When wholesale customers are independently rated, these ratings are used for credit quality assessment. Otherwise, if there is no independent rating, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

Financial assets, which potentially subject the Group to credit risk, consist principally of cash, loans, trade and other accounts receivable.

Cash is placed with major Ukrainian and international reputable financial institutions, which are considered at time of deposit to have minimal risk of default.

The Group has policies in place to ensure that provision of loans and sales of products/services are made to customers with an appropriate credit history. The Group's credit risk exposure is monitored and analysed on a case-by-case basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The carrying amount of loans, trade and other accounts receivable, net of provision for impairment, represents the maximum amount exposed to credit risk. Concentration of credit risk mainly relates to CIS and European countries where the major customers are located.

The maximum exposure to credit risk at 31 December 2015 is US$1,410 million (2014: US$1,951 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.

All tabular amounts in millions of US dollars

31 FINANCIAL RISK MANAGEMENT CONTINUED

(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 is in the process of renegotiating 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 their assets and the maturity of their liabilities and plans their liquidity depending on the expected repayment of various instruments. In case of insufficient or excessive liquidity in individual entities, the Group relocates resources and funds among the entities of the Group to achieve optimal financing of the business needs of each entity.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Cash flows from borrowings were calculated using spot rates.

At 31 December 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**	**–**	**–**	**–**

At 31 December 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings	750	326	184	8
Trade finance	416	–	–	–
Bonds	215	237	1,005	–
Non-bank borrowings	35	35	381	–
Seller's notes	92	–	–	–
Financial trade and other payables	1,219	–	–	–
Total	2,727	598	1,570	8

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 in order (Note 3) to extend the credit terms to match its long-term investment strategy.

32 CAPITAL RISK MANAGEMENT CONTINUED

	31 December 2015	31 December 2014
Total borrowings (Note 19)	**2,858**	3,146
Seller's notes (Note 20)	**88**	86
Less: cash and cash equivalents (Note 15)	**(180)**	(114)
Net debt	**2,766**	3,118
Total equity	**4,024**	6,762
Total capital	**6,790**	9,880
Gearing ratio	**41%**	32%

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. 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 the Notes 2 and 3, respectively.

Revisions to the Tax Code of Ukraine were adopted from 1 January 2016. The main changes affecting the Group were as follows:
– cancellation of advance payment of corporate profit tax which was based on taxable profit of previous period; and
– decrease of the rate of unified social contribution tax accrued on employee benefits from standard rates of 37-50% in previous years (depending on companies' accident risk level; lower rates could be applied in 2015 subject to companies' compliance with certain criteria) to 22% in 2016 onwards.

There were certain improvements in the global market prices for steel and iron ore in February-April 2016 compared to levels observed in December 2015 and January 2016.

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Glossary and Abbreviations

TECHNICAL METALS AND MINING TERMS

Air separation unit (ASU)
A unit that separates atmospheric air into its component elements, including oxygen or nitrogen, and often co-produces argon. In the steelmaking process, the unit provides the large volumes of oxygen needed to ignite carbon dissolved in steel and remove unwanted chemical elements.

Bars
A term used to refer to long bars with round, square, flat, angled and channelled cross-sections.

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.

Coils
Steel sheets that have been wound.

Coke
The basic fuel consumed in blast furnaces when smelting iron, coke is a processed form of coal.

Coking coal
A grade of coal that meets the requirements for making coke. It must have a low ash and sulphur content and form a coke that is capable of supporting the charge of iron ore and limestone in a blast furnace.

Cold-rolling
Cold-rolling occurs with the metal below its re-crystallisation temperature (usually at room temperature), which increases the strength via strain hardening by up to 20%. It also improves the surface finish and supports tighter tolerances. Cold-rolled products typically include sheets, coils and strips.

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
Steel in the primary form of hot molten metal.

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
A metal product commonly used as a raw material feed in steelmaking, usually containing iron and other metals that improve the physical and chemical properties of the final steel product.

Finished products
Products obtained by hot-rolling or cold-rolling semi-finished steel (blooms/billets/slabs). They comprise three broad categories, namely long and flat products and pipes.

Flat products
Steel products that are formed by rolling with smooth surfaces and a range of dimensions, varying in thickness and width. They are used in the automotive and white goods industries, in the production of large welded pipes and in shipbuilding, construction, infrastructure and boilers. They include hot-rolled plates, hot-rolled heavy plates and hot-rolled, cold-rolled and hot-dip galvanised coils and sheets.

Galvanised steel
Steel coated with a thin layer of zinc to provide corrosion resistance.

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 and reduce the risk of dangerous incidents, and to ensure safety throughout the production process.

Heavy plate
A steel sheet with a width of up to 5m and a thickness of at least 5mm. It is mainly used for construction, heavy machinery, shipbuilding or large-diameter pipes.

Hot-rolling
Hot-rolling is a process that is used to shape metal. Typically, semi-finished products are heated to above their re-crystallisation temperature and processed. After the grains deform, they re-crystallise.

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 steel plant using iron ore concentrate and pellets as the basic raw materials for the production of sinter, iron and crude steel, which is further rolled into finished products in-house. Conventionally, these plants also have captive coke ovens and the sensible heat of the outgoing gases from iron/coke making is used as fuel for various applications.

Iron ore
A mineral containing enough iron to be a commercially viable source of the element for use in making iron ore concentrate.

Iron ore concentrate
Iron ore containing the valuable minerals of an ore from which most of the waste material has been removed and was enriched by Fe.

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
A classification of steel products that includes hot-rolled sections (light, medium, heavy), debars, merchant bars, wire rods and rails that are 'long' rather than 'flat' and made from blooms or billets.

LOTOTO
Lock out, tag out, try out: a standard that is used to isolate hazardous energy during repair and maintenance work.

Lost-time injury frequency rate (LTIFR)
An internationally recognised safety indicator, the LTIFR is the ratio of lost-time injuries per million hours worked. It is calculated using the total number of incidents leading to the loss of one day/shift or more from work.

Mineral
A natural, inorganic, homogenous material that can be expressed by a chemical formula.

Mineral resources
The concentration of material of economic interest in or on the earth's crust.

Open-hearth furnace (OHF)
A broad, shallow hearth used to refine pig iron and scrap into steel. Heat is supplied from a large flame over the surface, and the refining takes seven to nine hours.

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 8–18mm (0.31–0.71") 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.

Pelletising machine
A pelletising machine has a rotatable matrix disc, a variety of vertically adjustable pressing rollers that control the position of the upper and lower plungers, a drive for adjusting the height of the rollers, a housing accommodating the drive and a bearing block supporting the pressing roller. It is connected with the housing and can be released.

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
A production process that removes from steel unwanted oxidised iron (scale) that is formed in the hot-rolling process. Pickling uses hydrochloric acid to remove scale, while other chemicals are used to prevent the acid from harming the steel itself.

Pig iron
Hot iron obtained directly from the blast furnace and cast in moulds.

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 extract iron from iron ore. Such machines usually have variable temperatures so that they can process different types of ore.

Rolled products
Steel products made with a desired thickness and shape by being passed through a set of rollers.

Glossary and Abbreviations continued

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
Blooms or billets that are hot-rolled in a rolling mill to form shapes including 'L', 'U' or 'T', among others. 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
A product category that includes pig iron, slabs, blooms and billets, the first solid forms in the steelmaking process. Slabs, blooms and billets are further processed to become more finished products.

Sinter
An aggregate that is normally produced from relatively coarse fine sinter ore, iron ore concentrate and various metallurgical return wastes used as an input/raw material in blast furnaces.

Slab
The most common type of semi-finished steel products. Slabs are produced with a thickness of 220-300mm, width of 1,250-2,100mm and length of 5,000-12,000mm.

Square billet
A semi-finished steel product with a square cross section of up to 150mm x 150mm. This product is either rolled or continuously cast and is further processed by rolling to make finished long products.

Wire
A broad range of products produced by cold and hot-rolling, or by drawing wire rod through a series of dies to reduce the diameter and 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
Formed from billets, wire rods in coils are an intermediate product with a uniform round cross-section dimension.

COMPANY ABBREVIATIONS

Avdiivka Coke
PJSC Avdiivka Coke Plant

Azovstal
PJSC Azovstal Iron and Steel Works

Central GOK
PJSC Central Iron Ore Enrichment Works

Donetsk Coke
PJSC Donetsk Coke Plant

Ferriera Valsider
Ferriera Valsider S.P.A.

Ilyich Steel
PJSC Ilyich Iron and Steel Works of Mariupol

Ingulets GOK
PJSC Ingulets Iron Ore Enrichment Works

Inkor Chemicals
Scientific and Manufacturing Association 'Inkor and Co' LLC

Khartsyzk Pipe
PJSC Khartsyzk Pipe Plant

Komsomolske Flux
PJSC Komsomolske Flux Plant

Krasnodon Coal
PJSC Krasnodon Coal Company

Metinvest
Metinvest Group

Metinvest Eurasia
Metinvest Eurasia LLC

Metinvest International
Metinvest International S.A.

Metinvest-Resource
Metinvest-Resource LLC

Metinvest-SMC
Metinvest-SMC LLC

Metinvest-Shipping
Metinvest-Shipping LLC

Metinvest Trametal
Metinvest Trametal S.P.A.

Metinvest-Ukraine
Metinvest Ukraine LLC

Northern GOK
PJSC Northern Iron Ore Enrichment Works

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 or Smart Group
A group of companies beneficially owned by Mr. Vadim Novinsky

Southern GOK
PJSC 'Yuzhniy GOK'

Spartan UK
Spartan UK Limited

United Coal
United Coal Company LLC

Yenakiieve Steel
PJSC Yenakiieve Iron and Steel Works, JV Metalen LLC and PJSC Makiivka Iron and Steel Works

Zaporizhia Coke
PJSC Zaporizhia Coke Plant

Zaporizhstal
PJSC Zaporizhstal Integrated Iron and Steel Works

OTHER TERMS

ACCA
Association of Chartered Certified Accountants

CAPEX
Capital expenditure

CFA®
Chartered Financial Analyst

CIS
Commonwealth of Independent States

CRU
Commodities Research Unit

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

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