25. LEASE AND OTHER LONG-TERM LIABILITIES (CONTINUED)

Derivatives Not Designated as Hedging Instruments (continued)

In 2018, the Group concluded EUR/USD forward contracts, which were accounted for at fair value. In 2019 and 2018, the change in fair value of the derivatives $(4) million and $(2) million, respectively, together with a realised gain/(loss) on the currency forward transactions, amounting to $14 million and $9 million, respectively, was recognised within gain/(loss) on financial assets and liabilities in the consolidated statement of operations (Note 7).

26. TRADE AND OTHER PAYABLES

Trade and other payables consisted of the following as of 31 December:

US$ million	2019	2018	2017
Trade accounts payable	$ 982	$ 877	$ 822
Liabilities for purchases of property, plant and equipment, including VAT	132	98	89
Accrued payroll	162	140	158
Other payables	75	30	39
Other long-term obligations with current maturities (Note 25)	27	71	20
	$ 1,378	$ 1,216	$ 1,128

The maturity profile of the accounts payable is shown in Note 28.

At 31 December 2019, trade accounts payable included $156 million owed by the Group for purchases of scrap from Vtorresource-Pererabotka, a related party (Note 16). These amounts were classified as trade payables to third parties as Vtorresource-Pererabotka sold its receivables from the Group under factoring contracts to several banks with no recourse.

27. OTHER TAXES PAYABLE

Other taxes payable were mainly denominated in roubles and consisted of the following as of 31 December:

US$ million	2019	2018	2017
VAT	$ 67	$ 124	$ 129
Social insurance taxes	48	40	42
Property tax	7	10	12
Land tax	6	5	6
Personal income tax	8	6	7
Import/export tariffs	7	74	–
Other taxes, fines and penalties	10	7	16
	$ 153	$ 266	$ 212

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable.

To manage credit risk related to cash, the Group maintains its available cash, mainly in US dollars and euros, in reputable international banks and major Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

The Group's trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities. In 2019, the major customers were Russian Railways (4.2% of total sales) and Shang Chen Steel Co. (2.2%).

Part of the Group's sales is made on terms of letter of credit. In addition, the Group requires prepayments from certain customers. The Group does not require collateral in respect of trade and other receivables, except when a customer applies for credit terms which are longer than normal. In this case, the Group requires bank guarantees or other collateral. The Group has developed standard credit terms and constantly monitors the status of accounts receivable collection and the creditworthiness of the customers.

Certain of the Group's long-standing Russian customers for auxiliary products, such as heat and electricity, represent municipal enterprises and governmental organisations that experience financial difficulties. The significant part of allowance for expected credit losses consists of receivables from such customers. The Group has no practical ability to terminate the supply to these customers and negotiates with regional and municipal authorities the terms of recovery of these receivables.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit Risk (continued)

At 31 December the maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below.

US$ million	2019	2018	2017
Restricted deposits at banks (Notes 13 and 18)	**$ 10**	$ 9	$ 21
Financial instruments included in other non-current and current assets (Notes 13 and 18)	**17**	66	61
Long-term and short-term investments (Notes 13 and 18)	**–**	32	65
Trade and other receivables (Notes 13 and 15)	**550**	852	754
Loans receivable	**33**	30	31
Receivables from related parties (Notes 13 and 16)	**10**	12	19
Cash and cash equivalents (Note 19)	**1,423**	1,067	1,466
	$ 2,043	$ 2,068	$ 2,417

Receivables from related parties in the table above do not include prepayments in the amount of$Nil, $Nil and $1 million as of 31 December 2019, 2018 and 2017, respectively.

The ageing analysis of trade and other receivables, loans receivable and receivables from related parties at 31 December is presented in the table below.

US$ million	2019		2018		2017	
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Not past due	**$ 446**	**$ (1)**	$ 770	$ (1)	$ 671	$ (1)
Past due	**193**	**(45)**	166	(41)	187	(53)
less than 6 months	**107**	**(1)**	109	–	114	(2)
between 6 months and 1 year	**31**	**–**	9	–	20	(10)
over 1 year	**55**	**(44)**	48	(41)	53	(41)
	$ 639	**$ (46)**	$ 936	$ (42)	$ 858	$ (54)

In the years ended 31 December 2019, 2018 and 2017, the movement in allowance for expected credit losses was as follows:

US$ million	2019	2018	2017
At 1 January	**$ (42)**	$ (54)	$ (47)
Charge for the year	**(3)**	1	(10)
Utilised	**2**	3	4
Disposal of subsidiaries	**–**	–	1
Translation difference	**(3)**	8	(2)
At 31 December	**$ (46)**	$ (42)	$ (54)

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group prepares a rolling 12-month financial plan which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities as they arise. The Group exercises a daily monitoring of cash proceeds and payments. The Group maintains credit lines and overdraft facilities that can be drawn down to meet short-term financing needs. If necessary, the Group refinances its short-term debt by long-term borrowings. The Group also uses forecasts to monitor potential and actual financial covenants compliance issues (Note 22). Where compliance is at risk, the Group considers options including debt repayment, refinancing or covenant reset. The Group has developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity Risk (continued)

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments.

31 December 2019

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed-rate debt							
Loans and borrowings							
Principal	$ –	$ 5	$ 5	$ 1,002	$ 2,304	$ 10	$ 3,326
Interest	–	97	134	184	249	–	664
Lease liabilities	–	9	26	38	40	22	135
Other long-term financial liabilities	–	16	8	11	16	–	51
Amounts payable under put options for shares in subsidiaries	–	–	69	–	–	–	69
Total fixed-rate debt	–	127	242	1,235	2,609	32	4,245
Variable-rate debt							
Loans and borrowings							
Principal	–	26	16	30	386	885	1,343
Interest	–	14	45	59	125	16	259
Total variable-rate debt	–	40	61	89	511	901	1,602
Non-interest bearing debt							
Trade and other payables	228	883	78	–	–	–	1,189
Payables to related parties	1	13	–	–	–	–	14
Total non-interest bearing debt	229	896	78	–	–	–	1,203
	$ 229	$ 1,063	$ 381	$ 1,324	$ 3,120	$ 933	$ 7,050

31 December 2018

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed-rate debt							
Loans and borrowings							
Principal	$ –	$ –	$ 226	$ 710	$ 2,452	$ 17	$ 3,405
Interest	–	84	148	194	211	–	637
Finance lease liabilities	–	–	3	–	1	5	9
Other long-term financial liabilities	–	13	53	9	8	3	86
Amounts payable under put options for shares in subsidiaries							
Principal	–	–	60	–	–	–	60
Interest	–	–	9	–	–	–	9
Total fixed-rate debt	–	97	499	913	2,672	25	4,206
Variable-rate debt							
Loans and borrowings							
Principal	3	2	65	13	1,014	–	1,097
Interest	–	15	45	59	107	–	226
Total variable-rate debt	3	17	110	72	1,121	–	1,323
Non-interest bearing debt							
Trade and other payables	129	864	12	–	–	–	1,005
Payables to related parties	94	26	–	–	–	–	120
Total non-interest bearing debt	223	890	12	–	–	–	1,125
	$ 226	$ 1,004	$ 621	$ 985	$ 3,793	$ 25	$ 6,654

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity Risk (continued)

31 December 2017

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed-rate debt							
Loans and borrowings							
Principal	$ –	$ –	$ 4	$ 269	$ 2,580	$ 799	$ 3,652
Interest	–	90	179	252	416	22	959
Finance lease liabilities	–	–	1	4	1	6	12
Other long-term financial liabilities	–	14	3	20	15	4	56
Amounts payable under put options for shares in subsidiaries							
Principal	–	–	–	60	–	–	60
Interest	–	–	–	4	–	–	4
Total fixed-rate debt	–	104	187	609	3,012	831	4,743
Variable-rate debt							
Loans and borrowings							
Principal	–	1	57	408	1,013	202	1,681
Interest	–	19	57	64	113	4	257
Total variable-rate debt	–	20	114	472	1,126	206	1,938
Non-interest bearing debt							
Financial instruments included in long-term liabilities	–	–	1	–	1	–	2
Trade and other payables	143	770	37	–	–	–	950
Payables to related parties	237	18	–	–	–	–	255
Total non-interest bearing debt	380	788	38	–	1	–	1,207
	$ 380	$ 912	$ 339	$ 1,081	$ 4,139	$ 1,037	$ 7,888

Payables to related parties in the tables above do not include contract liabilities in the amount of $5 million, $2 million and $1 million as of 31 December 2019, 2018 and 2017, respectively.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on risk.

Interest Rate Risk

The Group borrows on both a fixed and variable rate basis and has other interest-bearing liabilities, such as finance lease liabilities and other obligations.

The Group incurs interest rate risk on liabilities with variable interest rates. The Group's treasury function performs analysis of current interest rates. In case of changes in market fixed or variable interest rates management may consider the refinancing of a particular debt on more favourable terms.

The Group does not have any financial assets with variable interest rates.

Fair Value Sensitivity Analysis for Fixed Rate Instruments

The Group does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect the Group's profits.

The Group does not account for any fixed rate financial assets as assets available for sale. Therefore, a change in interest rates at the reporting date would not affect the Group's equity.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market Risk (continued)

Interest Rate Risk (continued)

Cash Flow Sensitivity Analysis for Variable Rate Instruments

Based on the analysis of exposure during the years presented, reasonably possible changes in floating interest rates at the reporting date would affect profit before tax ("PBT") by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

In estimating reasonably possible changes the Group assessed the volatility of interest rates during the reporting periods.

US$ million	2019		2018		2017	
	Basis points	Effect on PBT	Basis points	Effect on PBT	Basis points	Effect on PBT
		US$ millions		*US$ millions*		*US$ millions*
Liabilities denominated in US dollars						
Decrease in LIBOR	(17)	2	(17)	$ 2	(11)	$ 2
Increase in LIBOR	17	(2)	17	(2)	11	(2)
Liabilities denominated in euro						
Decrease in EURIBOR	(6)	–	(1)	–	(1)	–
Increase in EURIBOR	6	–	1	$ –	1	$ –
Liabilities denominated in roubles						
Decrease in Bank of Russia key rate	(75)	–	(100)	–	(225)	–
Increase in Bank of Russia key rate	50	–	50	$ –	300	$ –

Currency Risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than the functional currencies of the respective Group's subsidiaries. The currencies in which these transactions are denominated are primarily US dollars, Canadian dollars and euro. The Group does not have formal arrangements to mitigate currency risks of the Group's operations. However, management believes that the Group is partly secured from currency risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

The Group's exposure to currency risk determined as the net monetary position in the respective currencies was as follows at 31 December:

US$ million	2019	2018	2017
USD/RUB	$ 2,750	$ 2,886	$ 2,589
EUR/RUB	467	265	(276)
EUR/USD	(77)	7	(11)
USD/CAD	(907)	(723)	(892)
EUR/CZK	(11)	(12)	(6)
USD/CZK	17	(20)	5
USD/UAH	–	(119)	(199)
RUB/UAH	–	–	(4)
USD/KZT	(164)	(170)	(163)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market Risk (continued)

Currency Risk (continued)

Sensitivity Analysis

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax. In estimating reasonably possible changes the Group assessed the volatility of foreign exchange rates during the reporting periods.

	2019		2018		2017	
	Change in exchange rate	Effect on PBT	Change in exchange rate	Effect on PBT	Change in exchange rate	Effect on PBT
	%	*US$ millions*	%	*US$ millions*	%	*US$ millions*
USD/RUB	(7.78)	(230)	(13.87)	(468)	(10.01)	(282)
	7.78	200	13.87	350	10.01	241
EUR/RUB	(7.50)	(35)	(13.54)	(36)	(11.35)	31
	7.50	35	13.54	36	11.35	(31)
CAD/RUB	(8.84)	–	(16.08)	–	(12.03)	–
	8.84	–	16.08	–	12.03	–
EUR/USD	(5.02)	4	(7.35)	(1)	(7.36)	1
	5.02	(4)	7.35	1	7.36	(1)
USD/CAD	(4.58)	42	(6.76)	49	(6.76)	61
	4.58	(42)	6.76	(49)	6.76	(60)
EUR/CZK	(2.23)	–	(2.96)	–	(3.08)	–
	2.23	–	2.96	–	3.08	–
USD/CZK	(5.98)	(1)	(8.54)	2	(7.95)	–
	5.98	1	8.54	(2)	7.95	–
USD/UAH	(7.68)	–	(5.86)	7	(5.78)	12
	7.68	–	5.86	(7)	5.78	(11)
RUB/UAH	(10.82)	–	(15.04)	–	(11.99)	–
	10.82	–	15.04	–	11.99	–
USD/KZT	(4.20)	7	(8.43)	14	(6.30)	10
	4.20	(7)	8.43	(14)	6.30	(10)

In addition to the effects of changes in the exchange rates disclosed above, the Group is exposed to currency risk on derivatives (Note 25). The impact of currency risk on the fair value of these derivatives is disclosed below.

	2019		2018		2017	
	Change in exchange rate	Effect on PBT	Change in exchange rate	Effect on PBT	Change in exchange rate	Effect on PBT
	%	*US$ millions*	%	*US$ millions*	%	*US$ millions*
USD/RUB	(7.78)	30	(13.87)	36	(10.01)	66
	7.78	(25)	13.87	(27)	10.01	(49)

Fair Value of Financial Instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data (unobservable inputs).

The carrying amounts of financial instruments, such as cash, short-term and long-term investments, short-term accounts receivable and payable, short-term loans receivable and payable and promissory notes, approximate their fair value.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Fair Value of Financial Instruments (continued)

At 31 December the Group held the following financial instruments measured at fair value:

	2019			2018			2017		
US$ million	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value									
Derivatives not designated as hedging instruments (Notes 13, 25)	–	17	–	–	–	–	–	3	–
Hedging instruments (Note 25)	–	–	–	–	–	–	–	1	–
Financial assets measured at fair value through other comprehensive income (Note 13)	–	–	–	–	–	–	33	–	–
Liabilities measured at fair value									
Derivatives not designated as hedging instruments (Note 25)	–	6	–	–	5	–	–	–	–
Hedging instruments (Note 25)	–	–	–	–	46	–	–	3	–

During the reporting period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows financial instruments for which carrying amounts differ from fair values at 31 December.

US$ million	2019		2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Long-term fixed-rate bank loans	**$ 56**	**$ 57**	$ 269	$ 266	$ 427	$ 442
Long-term variable-rate bank loans	**1,309**	**1,330**	1,084	1,092	1,668	1,665
USD-denominated						
6.50% notes due 2020	**–**	**–**	708	723	707	752
8.25% notes due 2021	**776**	**825**	777	826	774	873
6.75% notes due 2022	**513**	**555**	513	535	512	560
5.375% notes due 2023	**759**	**819**	759	754	757	792
5.25% notes due 2024	**705**	**770**	–	–	–	–
Rouble-denominated						
12.95% rouble bonds due 2019	**–**	**–**	216	222	260	280
12.60% rouble bonds due 2021	**250**	**268**	223	241	269	302
7.95% rouble bonds due 2024	**333**	**346**	–	–	–	–
	$ 4,701	**$ 4,970**	$ 4,549	$ 4,659	$ 5,374	$ 5,666

The fair value of the non-convertible bonds and notes was determined based on market quotations (Level 1). The fair value of long-term bank loans was calculated based on the present value of future principal and interest cash flows, discounted at the Group's market rates of interest at the reporting dates (Level 3). The discount rates used for valuation of financial instruments were as follows:

Currency in which financial instruments are denominated	2019	2018	2017
USD	2.5 – 3.8%	4.9 – 5.7%	3.6 – 4.5%
EUR	**–**	1.7 – 3.4%	1.7 – 3.9%
RUB	**–**	8.13%	7.97%

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital Management

Capital includes equity attributable to the equity holders of the parent entity. Revaluation surplus which is included in capital is not subject to capital management because of its nature.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of Directors reviews the Group's performance and establishes key performance indicators. There were no changes in the objectives, policies and processes during 2019.

The Group manages its capital structure and makes adjustments to it by the issue of new shares, dividend payments to shareholders, and the purchase of treasury shares. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividend payments taking into account cashflow and other constraints.

29. NON-CASH TRANSACTIONS

Transactions that did not require the use of cash or cash equivalents, not disclosed in the notes above, were as follows in the years ended 31 December:

US$ million	2019	2018	2017
Liabilities for purchases of property, plant and equipment, excluding VAT	**$ 142**	$ 92	$ 80
Loans provided in the form of payments by banks for property, plant and equipment	**–**	6	8

30. COMMITMENTS AND CONTINGENCIES

Operating Environment of the Group

The Group is one of the largest vertically integrated steel producers globally and the largest steel producer in Russia. The Group's major subsidiaries are located in Russia, the USA and Canada. Russia is considered to be a developing market with higher economic and political risks.

The unrest in the Southeastern region of Ukraine and the economic sanctions imposed by the USA and the European Union on Russia in 2014 and later on caused economic slowdown in Russia and reduced access to international capital markets. Further sanctions imposed on Russia could have an adverse impact on the Group's business.

Steel consumption is affected by the cyclical nature of demand for steel products and the sensitivity of that demand to worldwide general economic conditions.

In March 2018 the United States placed 25% tariffs on imports of most steel products from several countries, including Russia, while granting temporary exemptions for others, including Canada, Mexico, and the European Union. In May 2018, the U.S. announced the end of temporary exemptions for Canada, Mexico, and the European Union, putting 25% tariffs on imports from those jurisdictions effective 1 June 2018. In response, the government of Canada introduced 25% tariffs effective 1 July 2018 on selected steel products from the U.S. In addition, effective 25 October 2018, the Canadian government imposed provisional safeguard measures on imports from most countries (excluding the United States) of certain categories of steel products by adding a 25% surtax in cases, where the volume of imports from trading partners exceeded historical norms. Most of those provisional safeguards expired on 29 April 2019 following an inquiry by the Canadian International Trade Tribunal. In May 2019, the United States lifted the 25% tariffs on imports of steel products from Canada and Mexico. The Canadian government lifted its retaliatory tariffs on steel the same day.

Therefore, the Group's cross-border transactions between U.S. and Canadian subsidiaries no longer face the 25% Section 232 tariffs and Canadian retaliatory tariffs. The entities of the Steel North America segment import steel for further processing and final products for selling to domestic customers. U.S. Section 232 tariffs remain in place against other countries, including Russia, and U.S. subsidiaries still face those 25% tariffs on any imported steel from those countries.

In August 2018, the U.S. imposed a preliminary 24.38% antidumping duty on welded line pipe greater than 16-inch outside diameter exported from Canada into the United States. In April 2019, after completing its final investigation, the U.S. imposed a final antidumping duty of 12.32% that remains in place. A review of the duty rate at the U.S. Department of Commerce may be initiated in May 2020, which may lead to a revised rate in October 2021.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

The global economic climate continues to be unstable and this may negatively affect the Group's results and financial position in a manner not currently determinable.