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.

30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed for additional taxes, penalties and interest. In Russia the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on its best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities which were identified by management at the end of the reporting period as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these financial statements could be up to approximately $70 million.

Contractual Commitments

At 31 December 2019, the Group had contractual commitments for the purchase of production equipment and construction works for an approximate amount of $379 million.

In 2010, the Group concluded a contract with PraxAir (Note 2, *Accounting Judgements*) for the construction of an air separation plant and for the supply of oxygen and other gases produced by PraxAir at this plant for a period of 20 years (extended to 25 years in 2015, when the construction was completed). This supply contract does not fall within the scope of IFRS 16 "Leases". At 31 December 2019, the Group has committed expenditure of $551 million over the life of the contract.

In 2018, the Group concluded a contract with Air Liquide for the construction of an air separation plant and for the supply of oxygen and other gases produced by Air Liquide at this plant for a period of 20 years. The contractual price comprises a fixed component and a variable component. The total amount of the fixed component approximates $400 million, which is payable within 20 years starting upon commencement of production in 2021 in proportion to the amounts of the variable component. The variable component is determined based on the actual purchase of gases and is estimated at $406 million during the life of the contract. Based on management's assessment this supply contract does not fall within the scope of IFRS 16 "Leases" as the Group has no access to the equipment and has no rights either to operate the assets, or to design them in order to predetermine the way of their usage. Also it is expected that more than an insignificant amount of the assets' output will be sold to the parties unrelated to the Group. In addition, Air Liquide will construct the system of trunk and auxiliary pipelines, distribution stations and other equipment for products delivery, which will be leased by the Group for a period of 20 years and accounted for under IFRS 16. The cost of construction of the products delivery system is estimated at $106 million.

In 2019, the Group concluded a contract with Xcel Energy Inc. for the supply of electricity for a period of 22 years. The Group is committed to purchase from 1 January 2022 at least 500,000 MWh annually on a take-or-pay basis at rates ranging from 3.90 to 4.90 cents/kWh. The rates can be adjusted for gas prices. The total amount of this commitment at the unadjusted rates approximates $440 million.

Social Commitments

The Group is involved in a number of social programmes aimed to support education, healthcare and social infrastructure development in towns where the Group's assets are located. The Group budgeted to spend approximately $20 million under these programmes in 2020.

Environmental Protection

In the course of its operations, the Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement.

The Group has a number of environmental claims and proceedings which are at a stage of investigation. Environmental provisions in relation to these proceedings that were recognised at 31 December 2019 amounted to $18 million. Preliminary estimates available of the incremental costs indicate that such costs could be up to $186 million. The Group has insurance agreements, which will provide reimbursement of the costs to be actually incurred up to $228 million, of which $18 million relate to the accrued environmental provisions and have been recognised in receivables at 31 December 2019. Management believes that an economic outflow of the additional costs is not probable and any pending environmental claims or proceedings will not have a material adverse effect on its financial position and results of operations.

In addition, the Group has committed to various environmental protection programmes covering periods from 2020 to 2025, under which the Group will perform works aimed at reductions in environmental pollution and contamination. As of 31 December 2019, the costs of implementing these programmes are estimated at $199 million.

30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Legal Proceedings

The Group has been and continues to be the subject of legal proceedings, none of which has had, individually or in aggregate, a significant effect on its operations or financial position.

The Group exercises judgement in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. As of 31 December 2019, possible legal risks approximate $22 million.

Issued Guarantees

In June 2018, EVRAZ plc and EVRAZ West-Siberian Metallurgical Plant issued a joint guarantee in the amount of up to 30 billion roubles ($486 million at the exchange rate as of 31 December 2019) to nine companies owned by Sibuglemet to compensate any direct losses caused by the failure to perform the agreed management services provided by one the Group's subsidiaries to these entities. Sibuglemet is a producer of coking coal and operator of coal refineries in the Kemerovo region of Russia.

The management company committed to perform all management functions including, inter alia, all the decisions required to carry out the day-to-day operations of these coal companies, their investment and procurement activities. The guarantee expires on 31 December 2025.

31. AUDITOR'S REMUNERATION

The remuneration of the Group's auditor in respect of the services provided to the Group was as follows.

US$ million	2019	2018	2017
Audit of the parent company of the Group	$ 1	$ 1	$ 1
Audit of the subsidiaries	2	2	2
Total audit fees	3	3	3
Other services	1	1	1
	$ 4	$ 4	$ 4

32. MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is provided below.

		Non-controlling interests		
Subsidiary	Country of incorporation	2019	2018	2017
Raspadskaya	Russia	11.83%	16.16%	18.05%
New CF&I (subsidiary of EVRAZ Inc NA)	USA	10.00%	10.00%	10.00%

US$ million	2019	2018	2017
Accumulated balances of material non-controlling interests			
Raspadskaya	$ 162	$ 170	$ 149
New CF&I (subsidiary of EVRAZ Inc NA)	105	103	99
Others	(15)	(16)	(6)
	252	257	242
Profit allocated to material non-controlling interests			
Raspadskaya	35	74	51
New CF&I (subsidiary of EVRAZ Inc NA)	2	4	1
Others	2	(14)	8
	$ 39	$ 64	$ 60