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 2018.

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	**2018**	**2017**	**2016**
Liabilities for purchases of property, plant and equipment, excluding VAT	**$ 92**	$ 80	$ 71
Loans provided in the form of payments by banks for property, plant and equipment	**6**	8	46

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. During the first half of 2018, growing global demand and supply optimisation in China supported positive steel and raw material price growth but markets remain volatile.

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. On 31 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., but not including rail steel. In addition, effective 25 October 2018, the Canadian government imposed provisional safeguard measures on certain categories of steel products by adding a 25% surtax in cases, where the level of imports from trading partners exceeds historical norms. The provisional safeguards will be in place for 200 days, during which the Canadian International Trade Tribunal will conduct an inquiry and determine whether final safeguards are warranted.

30. Commitments and Contingencies (continued)

Operating Environment of the Group (continued)

The Group has cross-border transactions between U.S. and Canadian subsidiaries. The entities of the Steel North America segment import steel for further processing and final products for selling to domestic customers. After the introduction of the tariffs, U.S. and Canadian subsidiaries must pay tariffs on imported steel and final products. The Group has applied for "product exclusions" for imports to exempt from tariffs with the governments of the United States and Canada where justified and possible. The Group has received an exclusion from the Canadian retaliatory tariffs for one of the products. No outcomes have been decided on for other product exclusions by either government as of the date of authorisation of these consolidated financial statements for issue.

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.

Taxation

Russian and Ukrainian 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 and Ukraine 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 $58 million.

Contractual Commitments

At 31 December 2018, the Group had contractual commitments for the purchase of production equipment and construction works for an approximate amount of $250 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 IFRIC 4 "Determining whether an Arrangement Contains a Lease". At 31 December 2018, the Group has committed expenditure of $530 million over the life of the contract.

30. Commitments and Contingencies (continued)

Contractual Commitments (continued)

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 $373 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 $339 million during the life of the contract. Based on management's assessment this supply contract does not fall within the scope of IFRIC 4 "Determining whether an Arrangement Contains a Lease" 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 $102 million.

In 2018, the Group entered into an agreement with Brunswick Rail, according to which it will lease gondola cars for 4 years. The Group classified this contract as an operating lease under IAS 17. In 2019, upon adoption of IFRS 16, the Group will recognise a right-of-use asset and the related lease liabilities amounting to $60 million in respect of this contract.

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 $27 million under these programmes in 2019.

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 2018 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 2018. 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 2019 to 2024, under which the Group will perform works aimed at reductions in environmental pollution and contamination. As of 31 December 2018, the costs of implementing these programmes are estimated at $121 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 2018, possible legal risks approximate $20 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 ($432 million at the exchange rate as of 31 December 2018) 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	**2018**	**2017**	**2016**
Audit of the parent company of the Group	**$ 1**	$ 1	$ 2
Audit of the subsidiaries	**2**	2	2
Total audit fees	**3**	3	4
Other services	**1**	1	–
	$ 4	$ 4	$ 4