Effect of Russian rouble devaluation on book value

Under IAS 21, the financial information of each subsidiary is prepared in its functional currency and then translated into the Group reporting currency (the US dollar) for consolidation and presentation purposes. Changes in the carrying values of each subsidiary's assets and liabilities when translated into US dollars are recognised as a translation difference directly in other comprehensive income/(loss). Thus any significant depreciation or appreciation of the subsidiaries' functional currencies has a significant effect on the carrying values of subsidiaries' and the Group's equity.

At the beginning of 2015, EVRAZ had approximately US$4 billion net asset exposure in Russian roubles (RUB (the functional currency of Russian subsidiaries)) and Ukrainian hryvnia (UAH (the functional currency of the Ukrainian subsidiaries)). These net assets mostly represented the historic cost of property, plant and equipment of the RUB and UAH functional currency subsidiaries less related rouble and hryvnia nominated liabilities.

Rouble-denominated bonds are not a part of these net assets, as at the issuance they were economically swapped into fixed rate US dollar borrowings.

During 2015, there was a 23% depreciation of the Russian rouble and a 34% depreciation of the Ukrainian hryvnia against the US dollar. This depreciation led to a decline of approximately c. US$1.0 billion in the US dollar equivalent of the carrying values of net assets (primarily property, plant and equipment) of these subsidiaries and a corresponding decline in the Group's consolidated equity.

Management believes that the market value of the respective property, plant and equipment measured in US dollars is significantly higher than its carrying value. This is also the case for their US dollar-measured cash-generating capacity, as determined by IAS 36 discounted cash flows value-in-use methodology (VIU). The change in the value-in-use in 2015 was largely due to the shift in the product mix, stemming from lower domestic demand caused by sanctions and associated economic instability in the local markets of the assets involved. Other contributors included a decrease in the weighted average cost of capital and adjustments to long-term forecasts for global steel, iron ore and coal prices.

Even though IAS 16 allows the use of a fair value option for accounting for property, plant and equipment, the fair value accounting is rarely used in metals and mining industries and it is complicated for a capital extensive business. Moreover, the use of fair value model for accounting for property, plant and equipment would decrease the comparability of EVRAZ financial statements.

The schedule below provides the value in use of property, plant and equipment of the major Russian and Ukrainian subsidiaries, and their carrying values:

Country	Country	Carrying value[1] of PP&E as of 31 December 2014	Value in use[2] of PP&E as of 31 December 2014	Carrying value[1] of PP&E as of 31 December 2015	Value in use[2] of PP&E as of 31 December 2015	Hypothetical net of tax increase in carrying value of equity as of 31 December 2015 if VIU were used to value PP&E
NTMK	Russia	632	3,023	470	1,333	690
ZSMK	Russia	824	3,127	633	1,336	562
Raspadskaya	Russia	1,316	1,588	883	1,511	502
Yuzhkuzbassugol	Russia	704	965	502	1,637	908
KGOK	Russia	175	348	148	1,337	951
DMZ	Ukraine	115	157	73	113	32
Sukha Balka	Ukraine	145	179	91	96	4
TOTAL		**3,911**	**9,387**	**2,800**	**7,363**	**3,649**

[1]As reported in the Group's consolidated financial statements under IFRS
[2]Calculated in accordance with IAS 36 for the impairment test at 31 December 2015. More details are provided in Note 6 "Impairment of Assets" and Note 2 "Significant Accounting Policies" in the Group's consolidated financial statements under IFRS