



**NOVOLIPETSK STEEL**

**INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT 30 SEPTEMBER 2017  
AND FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2017  
(UNAUDITED)**

**Novolipetsk Steel**  
**Interim condensed consolidated financial statements**  
**as at 30 September 2017 and 31 December 2016 and**  
**for the three and the nine months ended 30 September 2017 and 30 September 2016 (unaudited)**

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## ***Report on Review of Interim Condensed Consolidated Financial Statements***

To the Shareholders and Board of Directors of Novolipetsk Steel:

### **Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Novolipetsk Steel and its subsidiaries (together – the “Group”) as of 30 September 2017 and the related interim condensed consolidated statements of profit or loss and of comprehensive income for the three and nine-month periods then ended, and of changes in equity and of cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

AO PricewaterhouseCoopers Audit

26 October 2017

Moscow, Russian Federation

Signed on the original: A. S. Ivanov

A.S. Ivanov, certified auditor (licence no. № 01-000531), AO PricewaterhouseCoopers Audit

Audited entity: Novolipetsk Steel

State registration certificate № 5, issued by the Administration of Levoberezhny district of the city of Lipetsk on 28 January 1993.

Certificate of inclusion in the Unified State Register of Legal Entities issued on 9 July 2002 under registration № 1024800823123

2, Metallurgov sq., Lipetsk, 398040, Russian Federation

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations



**Novolipetsk Steel**  
**Interim condensed consolidated statement of financial position**  
*(millions of US dollars)*

	Note	As at 30 September 2017	As at 31 December 2016
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	598	610
Short-term financial investments	5	1,299	970
Trade and other accounts receivable	6	1,130	955
Inventories	7	1,797	1,549
Other current assets		22	19
		<b>4,846</b>	<b>4,103</b>
<b>Non-current assets</b>			
Long-term financial investments	5	185	164
Investments in associates and other companies accounted for using the equity method of accounting	5	162	181
Property, plant and equipment	8	5,439	5,328
Goodwill	9	264	253
Other intangible assets	9	133	126
Deferred income tax assets		99	62
Other non-current assets		36	22
		<b>6,318</b>	<b>6,136</b>
<b>Total assets</b>		<b>11,164</b>	<b>10,239</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Accounts payable and other liabilities	10	1,071	888
Dividends payable		334	361
Short-term borrowings	11	653	468
Current income tax liability		46	12
		<b>2,104</b>	<b>1,729</b>
<b>Non-current liabilities</b>			
Long-term borrowings	11	1,902	1,801
Deferred income tax liability		453	386
Other long-term liabilities		13	13
		<b>2,368</b>	<b>2,200</b>
<b>Total liabilities</b>		<b>4,472</b>	<b>3,929</b>
<b>Equity attributable to NLMK shareholders</b>			
Common stock		221	221
Additional paid-in capital		10	10
Accumulated other comprehensive loss		(5,681)	(5,978)
Retained earnings		12,126	12,039
		<b>6,676</b>	<b>6,292</b>
<b>Non-controlling interests</b>		<b>16</b>	<b>18</b>
<b>Total equity</b>		<b>6,692</b>	<b>6,310</b>
<b>Total liabilities and equity</b>		<b>11,164</b>	<b>10,239</b>

The interim condensed consolidated financial statements as set out on pages 5 to 21 were approved on 26 October 2017.



**Novolipetsk Steel**  
**Interim condensed consolidated statement of profit or loss**  
*(millions of US dollars, unless otherwise stated)*

	Note	For the nine months ended 30 September 2017	For the nine months ended 30 September 2016	For the three months ended 30 September 2017	For the three months ended 30 September 2016
Revenue	15	7,250	5,671	2,551	2,225
Cost of sales		(4,956)	(3,784)	(1,754)	(1,384)
<b>Gross profit</b>		<b>2,294</b>	<b>1,887</b>	<b>797</b>	<b>841</b>
General and administrative expenses		(244)	(234)	(80)	(84)
Selling expenses		(577)	(524)	(197)	(193)
Other operating income		3	13	1	10
Taxes, other than income tax		(60)	(51)	(20)	(19)
<b>Operating profit before equity share in net losses of associates and other companies accounted for using the equity method of accounting, impairment and write-off of assets</b>		<b>1,416</b>	<b>1,091</b>	<b>501</b>	<b>555</b>
Gain/(loss) on disposals of property, plant and equipment		1	1	1	(7)
Impairment losses and write-off of assets		(15)	(8)	-	(2)
Share in net losses of associates and other companies accounted for using the equity method		(30)	(50)	(22)	(12)
Losses on investments		(2)	-	(2)	-
Finance income		22	31	9	9
Finance costs		(68)	(87)	(31)	(23)
Foreign currency exchange gain/(loss), net	13	15	(94)	2	(1)
Other expenses, net		(40)	(40)	(6)	(11)
<b>Profit before income tax</b>		<b>1,299</b>	<b>844</b>	<b>452</b>	<b>508</b>
Income tax expense		(276)	(214)	(95)	(121)
<b>Profit for the period</b>		<b>1,023</b>	<b>630</b>	<b>357</b>	<b>387</b>
Profit attributable to:					
<b>NLMK shareholders</b>		<b>1,022</b>	<b>627</b>	<b>355</b>	<b>385</b>
<b>Non-controlling interests</b>		<b>1</b>	<b>3</b>	<b>2</b>	<b>2</b>
<b>Earnings per share – basic and diluted:</b>					
Earnings per share attributable to NLMK shareholders (US dollars)	12	0.1705	0.1046	0.0592	0.0642



**Novolipetsk Steel**  
**Interim condensed consolidated statement of comprehensive income**  
*(millions of US dollars)*

		<b>For the nine months ended</b>	<b>For the nine months ended</b>	<b>For the three months ended</b>	<b>For the three months ended</b>
	<b>Note</b>	<b>30 September 2017</b>	<b>30 September 2016</b>	<b>30 September 2017</b>	<b>30 September 2016</b>
Profit for the period		1,023	630	357	387
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Cumulative translation adjustment		298	789	116	97
<b>Total comprehensive income for the period</b>		<b>1,321</b>	<b>1,419</b>	<b>473</b>	<b>484</b>
attributable to:					
NLMK shareholders		1,319	1,414	471	481
Non-controlling interests		2	5	2	3



**Novolipetsk Steel**  
**Interim condensed consolidated statement of changes in equity**  
*(millions of US dollars)*

	Note	NLMK shareholders				Non-controlling interest	Total equity
		Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings		
<b>Balance at 31 December 2015</b>		<b>221</b>	<b>10</b>	<b>(6,988)</b>	<b>11,883</b>	<b>12</b>	<b>5,138</b>
Profit for the period		-	-	-	627	3	630
Cumulative translation adjustment		-	-	787	-	2	789
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>787</b>	<b>627</b>	<b>5</b>	<b>1,419</b>
Dividends to shareholders	12	-	-	-	(422)	-	(422)
<b>Balance at 30 September 2016</b>		<b>221</b>	<b>10</b>	<b>(6,201)</b>	<b>12,088</b>	<b>17</b>	<b>6,135</b>
<b>Balance at 31 December 2016</b>		<b>221</b>	<b>10</b>	<b>(5,978)</b>	<b>12,039</b>	<b>18</b>	<b>6,310</b>
Profit for the period		-	-	-	1,022	1	1,023
Cumulative translation adjustment		-	-	297	-	1	298
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>297</b>	<b>1,022</b>	<b>2</b>	<b>1,321</b>
Acquisition of non-controlling interest		-	-	-	-	(1)	(1)
Dividends to shareholders	12	-	-	-	(935)	(3)	(938)
<b>Balance at 30 September 2017</b>		<b>221</b>	<b>10</b>	<b>(5,681)</b>	<b>12,126</b>	<b>16</b>	<b>6,692</b>





**Novolipetsk Steel**  
**Interim condensed consolidated statement of cash flows**  
*(millions of US dollars)*

	Note	For the nine months ended 30 September 2017	For the nine months ended 30 September 2016
<b>Cash flows from operating activities</b>			
<b>Profit for the period</b>		<b>1,023</b>	<b>630</b>
<b>Adjustments to reconcile profit for the period to net cash provided by operating activities:</b>			
Depreciation and amortization		453	332
Gain on disposals of property, plant and equipment		(1)	(1)
Losses on investments		2	-
Finance income		(22)	(31)
Finance costs		68	87
Share in net losses of associates and other companies accounted for using the equity method		30	50
Income tax expense		276	214
Impairment losses and write-off of assets		15	8
Foreign currency exchange (gain)/loss, net		(15)	94
Change in impairment allowance for inventories and accounts receivable		9	(3)
<b>Changes in operating assets and liabilities</b>			
Increase in trade and other accounts receivable		(122)	(46)
(Increase)/decrease in inventories		(183)	63
Increase in other operating assets		(2)	(11)
Increase in trade and other accounts payable		117	126
<b>Cash provided by operating activities</b>		<b>1,648</b>	<b>1,512</b>
Income tax paid		(225)	(179)
<b>Net cash provided by operating activities</b>		<b>1,423</b>	<b>1,333</b>
<b>Cash flows from investing activities</b>			
Purchases and construction of property, plant and equipment		(326)	(384)
Proceeds from sale of property, plant and equipment		7	8
Placement of bank deposits, net		(314)	(26)
Interest received		17	21
Acquisition of non-controlling interest		(1)	-
<b>Net cash used in investing activities</b>		<b>(617)</b>	<b>(381)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		987	757
Repayment of borrowings		(800)	(1,012)
Interest paid		(48)	(64)
Dividends to NLMK shareholders		(958)	(479)
Dividends to non-controlling interests		(2)	-
<b>Net cash used in financing activities</b>		<b>(821)</b>	<b>(798)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(15)</b>	<b>154</b>
Effect of exchange rate changes on cash and cash equivalents		3	30
Cash and cash equivalents at the beginning of the year	4	610	343
<b>Cash and cash equivalents at the end of the period</b>	4	<b>598</b>	<b>527</b>
<b>Supplemental disclosures of cash flow information:</b>			
<b>Cash (paid)/received during the period:</b>			
Placements of bank deposits		(1,151)	(818)
Withdrawals of bank deposits		837	792
<b>Non-cash investing activities:</b>			
Conversion of debt to equity		-	139

**Novolipetsk Steel**  
**Notes to the interim condensed consolidated financial statements**  
*(millions of US dollars)*

**1 Background**

Novolipetsk Steel (the “Parent Company” or “NLMK”) and its subsidiaries (together – the “Group”) is one of the world’s leading steelmakers with facilities that allow it to operate an integrated steel production cycle. The Group is a vertically integrated steel company and the largest steel producer in Russia. The Group also operates in the mining segment.

The Group’s main operations are in the Russian Federation, the European Union and the USA and are subject to the legislative requirements of the subsidiaries’ state and regional authorities. The Parent Company’s registered office is located at 2, Metallurgov sq., 398040, Lipetsk, Russian Federation.

**2 Basis of preparation**

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2016, which have been prepared in accordance with IFRS.

The functional currency of all of the Group’s Russian entities is considered to be the Russian ruble. The functional currency of the majority of the foreign subsidiaries is their local currency. The Group uses US dollars as presentation currency of these Interim condensed consolidated financial statements. All amounts in the financial statements rounded to the nearest million for users’ convenience (in prior period financial statements all amounts were rounded to the nearest million decimal). This adjustment did not result in significant changes in comparative data.

The Central Bank of the Russian Federation’s Russian ruble to US dollar closing rates of exchange as at the reporting dates and the period weighted average exchange rates for corresponding quarters of reporting periods are indicated below.

	<u>2017</u>	<u>2016</u>
For the 3 <sup>rd</sup> quarter	59.0195	64.6245
For the nine months ended 30 September	58.3344	68.3667
As at 30 September	58.0169	63.1581
As at 31 December	<u>60.6569</u>	<u>60.6569</u>

**3 Significant accounting policies**

The accounting policies applied are consistent with those of the consolidated financial statements for the year ended 31 December 2016 except for the estimation of income tax expenses using the effective tax rate method (Note 14). Amendments to IFRSs effective for the year ending 31 December 2017 did not have a significant impact on the Group.

**Novolipetsk Steel**  
**Notes to the interim condensed consolidated financial statements**  
*(millions of US dollars)*

**4 Cash and cash equivalents**

	<b>As at</b> <b>30 September 2017</b>	<b>As at</b> <b>31 December 2016</b>
<b>Cash</b>		
Russian rubles	19	11
US dollars	170	89
Euros	95	52
Other currencies	2	2
<b>Deposits</b>		
Russian rubles	55	49
US dollars	205	394
Euros	49	11
Other currencies	1	1
<b>Other cash equivalents</b>	<u>2</u>	<u>1</u>
	<b>598</b>	<b>610</b>

**5 Investments**

**Short-term and long-term financial investments**

	<b>As at</b> <b>30 September 2017</b>	<b>As at</b> <b>31 December 2016</b>
<b>Short-term financial investments</b>		
Loans to related parties (Note 16(c))	78	66
Bank deposits, including:	1,214	898
- Russian rubles	109	1
- US dollars	1,105	855
- Euros	-	42
Other short-term financial investments	<u>7</u>	<u>6</u>
	<u>1,299</u>	<u>970</u>
<b>Long-term financial investments</b>		
Loans to related parties (Note 16(c))	184	164
Other long-term financial investments	<u>1</u>	<u>-</u>
	<u>185</u>	<u>164</u>
	<b>1,484</b>	<b>1,134</b>

## 5 Investments (continued)

### *Investments in associates and other companies accounted for using the equity method of accounting*

	As at 30 September 2017 Ownership	As at 31 December 2016 Ownership	As at 30 September 2017	As at 31 December 2016
NLMK Belgium Holdings S.A. ("NBH")	51.0%	51.0%	152	171
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.0%	50.0%	10	10
			<b>162</b>	<b>181</b>

Management has analysed the performance of NBH in the nine months ended 30 September 2017 and believes that no changes are necessary to the estimates made in the consolidated financial statements as at 31 December 2016 of the recoverable amount of this asset.

## 6 Trade and other accounts receivable

	As at 30 September 2017	As at 31 December 2016
<b>Financial assets</b>		
Trade accounts receivable	931	693
Allowance for impairment of trade accounts receivable	(21)	(24)
Other accounts receivable	29	25
Allowance for impairment of other accounts receivable	(20)	(18)
	<b>919</b>	<b>676</b>
<b>Non-financial assets</b>		
Advances given to suppliers	63	54
Allowance for impairment of advances given to suppliers	(3)	(2)
VAT and other taxes receivable	149	225
Accounts receivable from employees	2	2
	<b>211</b>	<b>279</b>
	<b>1,130</b>	<b>955</b>

The carrying amounts of trade and other accounts receivable approximate their fair values.

As at 30 September 2017 and 31 December 2016, accounts receivable with a carrying value of \$171 and \$122, respectively, served as collateral for certain borrowings (Note 11).

**Novolipetsk Steel**  
**Notes to the interim condensed consolidated financial statements**  
*(millions of US dollars)*

**7 Inventories**

	<u>As at 30 September 2017</u>	<u>As at 31 December 2016</u>
Raw materials	765	705
Work in process	638	460
Finished goods and goods for resale	460	443
	1,863	1,608
Impairment allowance for inventories	(66)	(59)
	<u><b>1,797</b></u>	<u><b>1,549</b></u>

As at 30 September 2017 and 31 December 2016, inventories with a carrying value of \$549 and \$296, respectively, served as collateral for certain borrowings (Note 11).

**8 Property, plant and equipment**

	<u>As at 30 September 2017</u>	<u>As at 31 December 2016</u>
Land	126	121
Buildings	1,939	1,799
Land and buildings improvements	2,285	2,113
Machinery and equipment	6,355	5,994
Vehicles	272	266
Construction in progress	920	858
	11,897	11,151
Accumulated depreciation and impairment	(6,458)	(5,823)
	<u><b>5,439</b></u>	<u><b>5,328</b></u>

As at 30 September 2017, the Group clarified classification of fixed assets in accordance with the System of National Accounts (2008 SNA). Accordingly fixed assets from the group "Other" were reclassified between groups "Buildings", "Land and buildings improvements", "Machinery and equipment" and "Vehicles" with no changes of estimated useful life and depreciation charges. Comparative amounts as at 31 December 2016 were also reclassified.

The amount of borrowing costs capitalized was \$24 and \$29 for the nine months ended 30 September 2017 and 30 September 2016, respectively. The capitalisation rate was 2.8% and 3.1% for the nine months ended 30 September 2017 and 30 September 2016, respectively.

The amount of borrowing costs capitalized was \$12 and \$9 for the three months ended 30 September 2017 and 30 September 2016, respectively. The capitalisation rate was 1.0% and 0.9% for the three months ended 30 September 2017 and 30 September 2016, respectively.

Management has analysed the performance of key cash generating units in the nine months ended 30 September 2017 and believes that no changes to the estimates made as at 31 December 2016 regarding impairment of fixed assets and goodwill are required.

**Novolipetsk Steel**  
**Notes to the interim condensed consolidated financial statements**  
*(millions of US dollars)*

**9 Intangible assets**

	<b>As at 30 September 2017</b>	<b>As at 31 December 2016</b>
Goodwill	279	267
Mineral rights	348	333
Beneficial contracts	9	9
Other intangible assets	7	-
	<u>643</u>	<u>609</u>
Accumulated amortization and impairment	(246)	(230)
	<u><b>397</b></u>	<u><b>379</b></u>

**10 Trade and other accounts payable**

	<b>As at 30 September 2017</b>	<b>As at 31 December 2016</b>
<b>Financial liabilities</b>		
Trade accounts payable	617	522
Other accounts payable	32	16
	<u>649</u>	<u>538</u>
<b>Non-financial liabilities</b>		
Accounts payable and accrued liabilities to employees	169	179
Advances received	169	130
Taxes payable other than income tax	84	41
	<u>422</u>	<u>350</u>
	<u><b>1,071</b></u>	<u><b>888</b></u>

The estimated fair value of the trade and other accounts payable approximates their carrying value.

**Novolipetsk Steel**  
**Notes to the interim condensed consolidated financial statements**  
*(millions of US dollars)*

**11 Borrowings**

<b>Rates</b>	<b>Currency</b>	<b>Maturity</b>	<b>As at 30 September 2017</b>	<b>As at 31 December 2016</b>
<b>Bonds</b>				
From 8.05% to 11.10%	RUR	2017	180	168
From 4.00% to 4.95%	USD	2018-2024	1,501	1,318
<b>Loans</b>				
LIBOR+2.00%	USD	2017-2021	191	332
From EURIBOR+0.90% to EURIBOR+2.00%	EUR	2017-2022	683	451
			<b>2,555</b>	<b>2,269</b>
Less: short-term loans and current maturities of long-term loans and bonds			(653)	(468)
<b>Long-term borrowings</b>			<b>1,902</b>	<b>1,801</b>

The carrying amounts and fair value of long-term bonds are as follows:

	<b>As at 30 September 2017</b>		<b>As at 31 December 2016</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Bonds	1,346	1,379	1,307	1,325

The fair value of borrowings except bonds approximates their carrying amount. The fair values of bonds are based on future cash flows discounted using an applicable rate and are within level 2 of the fair value hierarchy.

In September 2017, the Group issued Eurobonds of \$500 with an annual coupon rate of 4.00% maturing in 2024 for refinancing of its current debt and general corporate purposes. This issue did not change major terms of loan agreements of the Group.

**Collateral**

As at 30 September 2017 and 31 December 2016, the total amount of the Group companies' collateral was \$720 and \$418, respectively (Notes 6 and 7).

**12 Earnings per share**

	<b>For the nine months ended 30 September 2017</b>	<b>For the nine months ended 30 September 2016</b>
Profit for the period attributable to NLMK shareholders (millions of US dollars)	1,022	627
Weighted average number of shares	5,993,227,240	5,993,227,240
<b>Basic and diluted earnings per share (US dollars)</b>	<b>0.1705</b>	<b>0.1046</b>

**Novolipetsk Steel**  
**Notes to the interim condensed consolidated financial statements**  
*(millions of US dollars)*

**12 Earnings per share (continued)**

	<b>For the three months ended 30 September 2017</b>	<b>For the three months ended 30 September 2016</b>
Profit for the period attributable to NLMK shareholders (millions of US dollars)	355	385
Weighted average number of shares	5,993,227,240	5,993,227,240
<b>Basic and diluted earnings per share (US dollars)</b>	<b>0.0592</b>	<b>0.0642</b>

The Parent Company does not have potentially dilutive financial instruments outstanding.

In September 2017, the Parent Company declared dividends for the second quarter of 2017 of 3.20 Russian rubles per share in the total amount of \$328 (at the historical rate as of the announcement date).

In June 2017, the Parent Company declared dividends for the fourth quarter of 2016 of 3.38 Russian rubles per share in the total amount of \$358 and for the three months ended 31 March 2017 of 2.35 Russian rubles per share in the total amount of \$249 (at the historical rate as of the announcement date).

In September 2016, the Parent Company declared dividends for the second quarter of 2016 of 1.08 Russian rubles per share in the total amount of \$103 (at the historical rate as of the announcement date).

In June 2016, the Parent Company declared dividends for the fourth quarter of 2015 of 2.43 Russian rubles per share in the total amount of Russian rubles of \$218 and for the first quarter of 2016 of 1.13 Russian rubles per share in the total amount of \$102 (at the historical rate as of the announcement date).

**13 Foreign exchange differences**

	<b>For the nine months ended 30 September 2017</b>	<b>For the nine months ended 30 September 2016</b>
Foreign exchange loss on cash and cash equivalents	-	(65)
Foreign exchange loss on financial investments	(44)	(329)
Foreign exchange gain on debt financing	16	289
Foreign exchange gain on other assets and liabilities	43	11
	<b>15</b>	<b>(94)</b>
	<b>For the three months ended 30 September 2017</b>	<b>For the three months ended 30 September 2016</b>
Foreign exchange loss on cash and cash equivalents	-	(6)
Foreign exchange loss on financial investments	(27)	(27)
Foreign exchange gain on debt financing	18	25
Foreign exchange gain on other assets and liabilities	11	7
	<b>2</b>	<b>(1)</b>



#### **14 Income tax**

Income tax expense is recognised based on management's estimate of the effective annual income tax rate expected for the full financial year. The expected effective annual income tax rates used for the nine months ended 30 September 2017 and 30 September 2016 are 21% and 26%, respectively. The lower tax rate expected for 2017 was the result of decrease in share of unrecognised carried forward losses of foreign subsidiaries. Income before income tax used for the calculation of the income tax charge for the nine months ended 30 September 2017 based on estimated annual income tax rate was adjusted for share in net losses of associates and other companies accounted for using the equity method, and for losses from non-taxable translation adjustment in the total amount of \$47.

#### **15 Segment information**

The Group has six reportable business segments: Mining, Russian flat products, Russian long products, NLMK USA, NLMK DanSteel and Plates Distribution Network, and Investments in NBH. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above six segments meet the criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

The Group management determines intersegmental sales and transfers, as if the sales or transfers were to third parties. The Group management evaluates performance of the segments based on segment revenues, gross profit, operating profit before equity share in net losses of associates and other companies accounted for using the equity method of accounting, impairment and write-off of assets, and profit for the period.

Intersegmental operations and balances include elimination of intercompany dividends paid to Russian flat products segment by other segments and presented within the line "Profit / (loss) for the period" together with other intercompany elimination adjustments, including elimination of NBH liabilities to the Group companies. NBH deconsolidation adjustments include full elimination of sales of NBH with further recognition of the Group's sales to NBH and elimination of unrealised profits, recognition of investment in NBH and recognition of impairment and share in the loss of NBH.

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**15 Segment information (continued)**

Information on segments' profit or loss for the nine months ended 30 September 2017 and their assets and liabilities as at this date is as follows:

	<b>Mining</b>	<b>Russian flat products</b>	<b>Russian long products</b>	<b>NLMK USA</b>	<b>NLMK DanSteel and Plates Distribution Network</b>	<b>Investments in NBH</b>	<b>Inter-segmental operations and balances</b>	<b>NBH deconsolidation adjustments</b>	<b>Total</b>
Revenue from external customers	18	3,974	972	1,259	300	1,087	-	(360)	7,250
Intersegment revenue	678	1,629	259	-	1	59	(2,567)	(59)	-
Gross profit	434	1,616	185	179	37	56	(157)	(56)	2,294
Operating profit/(loss)*	387	908	44	125	2	(53)	(50)	53	1,416
Profit/(loss) for the period	296	1,118	30	122	(3)	(58)	(510)	28	1,023
Segment assets	2,186	8,291	1,231	989	321	1,625	(2,050)	(1,429)	11,164
Segment liabilities	(604)	(4,399)	(623)	(477)	(328)	(1,446)	2,509	896	(4,472)
Depreciation and amortization	(89)	(259)	(56)	(43)	(6)	(55)	-	55	(453)

Information on segments' profit or loss for the nine months ended 30 September 2016 and their assets and liabilities as at 31 December 2016 is as follows:

	<b>Mining</b>	<b>Russian flat products</b>	<b>Russian long products</b>	<b>NLMK USA</b>	<b>NLMK DanSteel and Plates Distribution Network</b>	<b>Investments in NBH</b>	<b>Inter-segmental operations and balances</b>	<b>NBH deconsolidation adjustments</b>	<b>Total</b>
Revenue from external customers	120	3,180	749	880	235	872	-	(365)	5,671
Intersegment revenue	302	980	178	-	1	30	(1,461)	(30)	-
Gross profit	265	1,404	177	138	27	44	(124)	(44)	1,887
Operating profit/(loss)*	192	804	64	94	(5)	(59)	(58)	59	1,091
Profit/(loss) for the period	140	498	58	89	(11)	(98)	(94)	48	630
Segment assets	1,903	7,429	1,171	742	285	1,406	(1,484)	(1,213)	10,239
Segment liabilities	(312)	(3,939)	(591)	(302)	(288)	(1,194)	1,932	765	(3,929)
Depreciation and amortization	(30)	(214)	(34)	(48)	(6)	(56)	-	56	(332)

\* Operating profit / (loss) before equity share in net losses of associates and other companies accounted for using the equity method of accounting, impairment and write-off of assets

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**15 Segment information (continued)**

Information on segments' profit or loss for the three months ended 30 September 2017 is as follows:

	<b>Mining</b>	<b>Russian flat products</b>	<b>Russian long products</b>	<b>NLMK USA</b>	<b>NLMK DanSteel and Plates Distribution Network</b>	<b>Investments in NBH</b>	<b>Inter-segmental operations and balances</b>	<b>NBH deconsolidation adjustments</b>	<b>Total</b>
Revenue from external customers	7	1,481	349	424	94	333	-	(137)	2,551
Intersegment revenue	202	451	111	-	1	5	(765)	(5)	-
Gross profit/(loss)	124	604	97	40	12	(10)	(80)	10	797
Operating profit/(loss)*	107	367	49	24	1	(40)	(47)	40	501
Profit/(loss) for the period	82	540	41	23	(1)	(42)	(306)	20	357
Depreciation and amortization	(26)	(86)	(19)	(14)	(2)	(19)	-	19	(147)

Information on segments' profit or loss for the three months ended 30 September 2016 is as follows:

	<b>Mining</b>	<b>Russian flat products</b>	<b>Russian long products</b>	<b>NLMK USA</b>	<b>NLMK DanSteel and Plates Distribution Network</b>	<b>Investments in NBH</b>	<b>Inter-segmental operations and balances</b>	<b>NBH deconsolidation adjustments</b>	<b>Total</b>
Revenue from external customers	57	1,256	334	328	70	276	-	(96)	2,225
Intersegment revenue	113	371	75	-	-	10	(559)	(10)	-
Gross profit	109	611	80	75	7	11	(41)	(11)	841
Operating profit/(loss)*	80	398	35	62	(4)	(21)	(16)	21	555
Profit/(loss) for the period	59	278	26	64	(6)	(24)	(22)	12	387
Depreciation and amortization	(10)	(76)	(12)	(17)	(2)	(19)	-	19	(117)

\* Operating profit / (loss) before equity share in net losses of associates and other companies accounted for using the equity method of accounting, impairment and write-off of assets

**16 Related party transactions**

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 or joint control over the other party in making operational or financial decisions as defined by IAS 24, "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group carries out operations with related parties on an arm's length.

**(a) Sales to and purchases from related parties**

	<b>For the nine months ended 30 September 2017</b>	<b>For the nine months ended 30 September 2016</b>
<b>Sales</b>		
NBH group companies	751	519
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	1	1
Other related parties	1	-
<b>Purchases</b>		
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	249	229
NBH group companies	59	30
Other related parties	3	5
	<b>For the three months ended 30 September 2017</b>	<b>For the three months ended 30 September 2016</b>
<b>Sales</b>		
NBH group companies	182	187
<b>Purchases</b>		
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	79	73
NBH group companies	5	10
Other related parties	1	2

NBH group companies together are the major customer of the Group. Sales to NBH group are performed by the Russian flat products segment and represent 10.4% and 9.2% of the total sales of the Group for the nine months ended 30 September 2017 and 30 September 2016, respectively, and 7.1% and 8.4% of the total sales of the Group for the three months ended 30 September 2017 and 30 September 2016, respectively.

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**16 Related party transactions (continued)**

**(b) Accounts receivable from and accounts payable to related parties**

	<b>As at</b>	<b>As at</b>
	<b>30 September 2017</b>	<b>31 December 2016</b>
<b>Accounts receivable and advances given</b>		
NBH group companies	287	199
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	18	34
	<u>18</u>	<u>34</u>
<b>Accounts payable</b>		
NBH group companies	28	16
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	13	3
	<u>13</u>	<u>3</u>

**(c) Financial transactions**

	<b>As at</b>	<b>As at</b>
	<b>30 September 2017</b>	<b>31 December 2016</b>
Loans, issued to NBH group companies	262	230
Deposits and current accounts in PJSC Bank ZENIT and PJSC Lipetskcombank (companies under the significant influence of the beneficial owner of the Group)	16	25
	<u>16</u>	<u>25</u>

**(d) Financial guarantees issued**

As at 30 September 2017 and 31 December 2016 guarantees issued by the Group for borrowings of NBH group companies amounted to \$293 and \$255, respectively, which is the maximum potential amount of future payments to be made on demand of the holder of the guarantee. No amount has been accrued in these interim condensed consolidated financial statements for the Group's obligation under these guarantees as the Group assesses probability of cash outflows related to these guarantees as low.

The maturity of the guaranteed obligations is as follows:

	<b>As at</b>	<b>As at</b>
	<b>30 September 2017</b>	<b>31 December 2016</b>
Less than 1 year	71	70
From 1 to 2 years	222	5
Over 2 years	-	180
	<u>293</u>	<u>255</u>