NOVOLIPETSK STEEL

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS AT 30 JUNE 2018
AND FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2018
(UNAUDITED)

CONTENTS

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 June 2018 and the related interim condensed consolidated statements of profit or loss and of comprehensive income for the three- and the six-month periods then ended, and of changes in equity and of cash flows for the six-month periods 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 statements 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 statements 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.

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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”.

30 July 2018
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 No. 5-G, 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 No. 1024800823123

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

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate No. 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 No. 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 (unaudited)
(millions of US dollars)

	Note	As at 30 June 2018	As at 31 December 2017
Assets			
Current assets			
Cash and cash equivalents	3	962	301
Short-term financial investments	4	380	1,284
Trade and other accounts receivable	5	1,473	1,215
Inventories	6	1,863	1,879
Other current assets		26	32
		4,704	**4,711**
Non-current assets			
Investments in joint ventures	4	140	205
Property, plant and equipment	7	5,109	5,549
Goodwill	8	245	265
Other intangible assets	8	148	164
Deferred income tax assets		112	84
Other non-current assets		13	18
		5,767	**6,285**
Total assets		**10,471**	**10,996**
Liabilities and equity			
Current liabilities			
Accounts payable and other liabilities	9	1,150	1,029
Dividends payable		487	537
Short-term borrowings	10	256	380
Current income tax liability		67	53
		1,960	**1,999**
Non-current liabilities			
Long-term borrowings	10	1,844	1,901
Deferred income tax liability		384	417
Other long-term liabilities		14	33
		2,242	**2,351**
Total liabilities		**4,202**	**4,350**
Equity attributable to NLMK shareholders			
Common stock		221	221
Additional paid-in capital		10	10
Accumulated other comprehensive loss		(6,206)	(5,631)
Retained earnings		12,229	12,029
		6,254	**6,629**
Non-controlling interests		**15**	**17**
Total equity		**6,269**	**6,646**
Total liabilities and equity		**10,471**	**10,996**

The interim condensed consolidated financial statements as set out on pages 5 to 22 were approved by the Group's management and authorised for issue on 30 July 2018.

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

	Note	For the six months ended 30 June 2018	For the six months ended 30 June 2017	For the three months ended 30 June 2018	For the three months ended 30 June 2017
Revenue	12, 15	5,906	4,699	3,112	2,544
Cost of sales		(3,833)	(3,202)	(2,018)	(1,798)
Gross profit		**2,073**	**1,497**	**1,094**	**746**
General and administrative expenses		(180)	(164)	(94)	(90)
Selling expenses		(426)	(380)	(214)	(195)
Other operating (expenses)/income, net		(3)	2	(2)	2
Taxes, other than income tax		(44)	(40)	(21)	(20)
Operating profit before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment		**1,420**	**915**	**763**	**443**
Loss on disposals of property, plant and equipment		(2)	-	(4)	-
Impairment of non-current assets		(2)	(15)	(2)	(12)
Share of results of joint ventures		(62)	(8)	(41)	(6)
Finance income		14	14	4	8
Finance costs		(39)	(37)	(20)	(19)
Foreign currency exchange gain, net	13	29	13	20	32
Other expenses, net		(10)	(35)	-	(15)
Profit before income tax		**1,348**	**847**	**720**	**431**
Income tax expense	14	(262)	(182)	(138)	(89)
Profit for the period		**1,086**	**665**	**582**	**342**
Profit attributable to:					
NLMK shareholders		**1,083**	**665**	**581**	**342**
Non-controlling interests		**3**	**-**	**1**	**-**
Earnings per share – basic and diluted:					
Earnings per share attributable to NLMK shareholders (US dollars)	11	0.1807	0.1110	0.0969	0.0571

Novolipetsk Steel

Interim condensed consolidated statement of comprehensive income (unaudited)

(millions of US dollars)

	For the six months ended 30 June 2018	For the six months ended 30 June 2017	For the three months ended 30 June 2018	For the three months ended 30 June 2017
Profit for the period	1,086	665	582	342
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment	(576)	182	(605)	(278)
Total comprehensive income/(loss) for the period	**510**	**847**	**(23)**	**64**
attributable to:				
NLMK shareholders	508	847	(23)	65
Non-controlling interests	2	-	-	(1)

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

	NLMK shareholders					
	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Non-controlling interest	Total equity
Balance at 1 January 2017	**221**	**10**	**(5,978)**	**12,039**	**18**	**6,310**
Profit for the period	-	-	-	665	-	665
Cumulative translation adjustment	-	-	182	-	-	182
Total comprehensive income	**-**	**-**	**182**	**665**	**-**	**847**
Acquisition of non-controlling interest	-	-	-	-	(1)	(1)
Dividends to shareholders	-	-	-	(607)	(3)	(610)
Balance at 30 June 2017	**221**	**10**	**(5,796)**	**12,097**	**14**	**6,546**
Balance at 1 January 2018	**221**	**10**	**(5,631)**	**12,029**	**17**	**6,646**
Profit for the period	-	-	-	1,083	3	1,086
Cumulative translation adjustment	-	-	(575)	-	(1)	(576)
Total comprehensive income	**-**	**-**	**(575)**	**1,083**	**2**	**510**
Acquisition of non-controlling interest	-	-	-	(1)	(3)	(4)
Dividends to shareholders	-	-	-	(882)	(1)	(883)
Balance at 30 June 2018	**221**	**10**	**(6,206)**	**12,229**	**15**	**6,269**

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

	Note	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Cash flows from operating activities			
Profit for the period		**1,086**	**665**
Adjustments to reconcile profit for the period to net cash provided by operating activities:			
Depreciation and amortisation		307	306
Loss on disposals of property, plant and equipment		2	-
Finance income		(14)	(14)
Finance costs		39	37
Share of results of joint ventures		62	8
Income tax expense		262	182
Impairment of non-current assets		2	15
Foreign currency exchange gain, net		(29)	(13)
Change in impairment allowance for inventories and accounts receivable		-	14
Changes in operating assets and liabilities			
Increase in trade and other accounts receivable		(350)	(200)
Increase in inventories		(92)	(133)
(Increase)/decrease in other operating assets		(1)	12
Increase in trade and other accounts payable		145	9
Cash provided by operating activities		**1,419**	**888**
Income tax paid		(270)	(128)
Net cash provided by operating activities		**1,149**	**760**
Cash flows from investing activities			
Purchases and construction of property, plant and equipment		(247)	(206)
Proceeds from sale of property, plant and equipment		1	6
Placement of bank deposits		(292)	(266)
Withdrawal of bank deposits		1,180	553
Interest received		16	11
Acquisition of non-controlling interest		(3)	-
Net cash provided by investing activities		**655**	**98**
Cash flows from financing activities			
Proceeds from borrowings		342	563
Repayment of borrowings		(502)	(485)
Interest paid		(31)	(32)
Dividends to NLMK shareholders		(928)	(737)
Dividends to non-controlling interests		(1)	-
Net cash used in financing activities		**(1,120)**	**(691)**
Net increase in cash and cash equivalents		**684**	**167**
Effect of exchange rate changes on cash and cash equivalents		(23)	(17)
Cash and cash equivalents at the beginning of the year	3	301	610
Cash and cash equivalents at the end of the period	3	**962**	**760**

(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 International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”, should be read in conjunction with the audited consolidated financial statements of the Group as at, and for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The functional currency of all of the Group’s Russian entities is considered to be the Russian ruble (“RUR”). The functional currency of the majority of the foreign subsidiaries is their local currency. The Group uses US dollars (“USD”) as presentation currency of these Interim condensed consolidated financial statements. All amounts in the financial statements rounded to the nearest million for users’ convenience.

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

	2018	2017
Russian ruble to US dollar		
For the 1st quarter	56.8803	58.8366
For the 2nd quarter	61.7998	57.1451
As at 30 June	62.7565	59.0855
As at 31 December		57.6002
Russian ruble to Euro		
For the 1st quarter	69.8727	62.6474
For the 2nd quarter	73.7505	62.7892
As at 30 June	72.9921	67.4993
As at 31 December		68.8668

(millions of US dollars)

3 Cash and cash equivalents

	As at 30 June 2018	As at 31 December 2017
Cash		
Russian rubles	18	11
US dollars	112	63
Euros	430	70
Other currencies	4	4
Deposits		
Russian rubles	65	98
US dollars	281	19
Euros	45	24
Other currencies	7	-
Other cash equivalents	-	12
	962	**301**

4 Investments

	As at 30 June 2018	As at 31 December 2017
Short-term financial investments		
Bank deposits, including:		
- Russian rubles	11	6
- US dollars	58	1,051
- Euros	87	-
- Other currencies	6	-
Total bank deposits	162	1,057
Loans to related parties (Note 16(c))	217	222
Other short-term financial investments	1	5
	380	**1,284**

The estimated fair value of financial investments approximates their carrying value.

(millions of US dollars)

4 Investments (continued)

Investments in joint ventures

	As at 30 June 2018 Ownership	As at 31 December 2017 Ownership	As at 30 June 2018	As at 31 December 2017
NLMK Belgium Holdings S.A. (“NBH”)	51.0%	51.0%	130	194
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.0%	50.0%	10	11
			140	**205**

Management has analysed the performance of NBH in the six months ended 30 June 2018 and believes that no changes are necessary to the estimates made in the consolidated financial statements as at 31 December 2017 of the recoverable amount of this asset.

5 Trade and other accounts receivable

	As at 30 June 2018	As at 31 December 2017
Financial assets		
Trade accounts receivable	1,205	996
Allowance for impairment of trade accounts receivable	(24)	(23)
Other accounts receivable	27	29
Allowance for impairment of other accounts receivable	(18)	(20)
	1,190	982
Non-financial assets		
Advances given to suppliers	68	58
Allowance for impairment of advances given to suppliers	(4)	(3)
VAT and other taxes receivable	218	177
Accounts receivable from employees	1	1
	283	233
	1,473	**1,215**

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

As at 30 June 2018 and 31 December 2017, accounts receivable with a carrying value of $216 and $160, respectively, served as collateral for certain borrowings (Note 10).

(millions of US dollars)

6 Inventories

	As at 30 June 2018	As at 31 December 2017
Raw materials	795	830
Work in process	569	603
Finished goods and goods for resale	558	514
	1,922	1,947
Impairment allowance for inventories	(59)	(68)
	1,863	**1,879**

As at 30 June 2018 and 31 December 2017, inventories with a carrying value of $483 and $423, respectively, served as collateral for certain borrowings (Note 10).

7 Property, plant and equipment

	As at 30 June 2018	As at 31 December 2017
Land	117	128
Buildings	1,922	2,057
Land and buildings improvements	2,150	2,328
Machinery and equipment	6,120	6,533
Vehicles	269	279
Construction in progress	924	855
	11,502	12,180
Accumulated depreciation and impairment	(6,393)	(6,631)
	5,109	**5,549**

The amount of borrowing costs capitalised was $16 and $12 for the six months ended 30 June 2018 and 30 June 2017, respectively. The capitalisation rate was 3.2% and 1.9% for the six months ended 30 June 2018 and 30 June 2017, respectively.

The amount of borrowing costs capitalised was $9 and $6 for the three months ended 30 June 2018 and 30 June 2017, respectively. The capitalisation rate was 1.7% and 1.0% for the three months ended 30 June 2018 and 30 June 2017, respectively.

Management has analysed the performance of key cash generating units in the six months ended 30 June 2018 and believes that no changes to the estimates made as at 31 December 2017 regarding impairment of fixed assets and goodwill are required.

(millions of US dollars)

8 Intangible assets

	As at 30 June 2018	As at 31 December 2017
Goodwill	258	279
Mineral rights	322	351
Industrial intellectual property	54	53
Beneficial contracts	9	9
	643	692
Accumulated amortization and impairment	(250)	(263)
	393	**429**

As at 30 June 2018, the Group reclassified software from "Other non-current assets" into category "Industrial intellectual property" within "Other intangible assets". Reclassification was made for users' convenience and did not result in changes of estimated useful life and depreciation charges. Comparative amounts as at 31 December 2017 also were corrected.

9 Trade and other accounts payable

	As at 30 June 2018	As at 31 December 2017
Financial liabilities		
Trade accounts payable	572	524
Other accounts payable	132	106
	704	630
Non-financial liabilities		
Accounts payable and accrued liabilities to employees	186	156
Advances received	151	153
Taxes payable other than income tax	109	90
	446	399
	1,150	**1,029**

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

(millions of US dollars)

10 Borrowings

Rates	Currency	Maturity	As at 30 June 2018	As at 31 December 2017
Bonds				
From 4.00% to 4.95%	USD	2019-2024	1,355	1,501
Loans				
LIBOR+1.50%	USD	2021	133	94
From EURIBOR+0.90% to EURIBOR+1.60%	EUR	2019-2022	612	686
			2,100	**2,281**
Less: short-term loans and current maturities of long-term loans and bonds			(256)	(380)
Long-term borrowings			**1,844**	**1,901**

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

	As at 30 June 2018		As at 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,346	1,295	1,346	1,385

The fair value of borrowings approximates their carrying amount. The fair value of bonds is based on market price and is within level 1 of the fair value hierarchy.

Collateral

As at 30 June 2018 and 31 December 2017, the total amount of the Group companies' collateral was $699 and $583, respectively (Notes 5 and 6).

11 Earnings per share

	For the six months ended 30 June 2018	For the six months ended 30 June 2017	For the three months ended 30 June 2018	For the three months ended 30 June 2017
Profit for the period attributable to NLMK shareholders	1,083	665	581	342
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240	5,993,227,240
Basic and diluted earnings per share (US dollars)	**0.1807**	**0.1110**	**0.0969**	**0.0571**

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

(millions of US dollars)

11 Earnings per share (continued)

In June 2018, the Parent Company declared dividends for the fourth quarter of 2017 of 3.36 Russian rubles per share in the total amount of $326 and for the three months ended 31 March 2018 of 5.73 Russian rubles per share in the total amount of $556 (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).

12 Revenue

(a) Revenue by type

	For the six months ended 30 June 2018	For the six months ended 30 June 2017	For the three months ended 30 June 2018	For the three months ended 30 June 2017
Revenue from sale of goods				
Flat products	3,075	2,634	1,704	1,401
Pig iron, slabs and billets	1,627	965	842	514
Long products and metalware	536	463	253	286
Coke and other chemical products	135	118	62	65
Scrap	40	37	19	20
Other products	98	132	35	79
Total revenue from sale of goods	**5,511**	**4,349**	**2,915**	**2,365**
Revenue from transportation services	395	350	197	179
	5,906	**4,699**	**3,112**	**2,544**

(b) Revenue by geographical area

The allocation of total revenue by geographical area is based on the location of end customers who purchased the Group's products. The Group's total revenue from external customers by geographical area is as follows:

	For the six months ended 30 June 2018	For the six months ended 30 June 2017	For the three months ended 30 June 2018	For the three months ended 30 June 2017
Russia	1,993	1,637	1,024	927
European Union	1,256	873	662	460
North America	1,237	934	696	486
Middle East, including Turkey	736	620	413	284
Central and South America	293	193	172	112
CIS	191	201	79	113
Asia and Oceania	82	142	46	99
Other regions	118	99	20	63
	5,906	**4,699**	**3,112**	**2,544**

Apart from NBH Group (Note 16) the Group does not have customers with a share of more than 10% of the total revenue.

(millions of US dollars)

13 Foreign exchange differences

	For the six months ended 30 June 2018	For the six months ended 30 June 2017	For the three months ended 30 June 2018	For the three months ended 30 June 2017
Foreign exchange gain/(loss) on cash and cash equivalents	18	(1)	18	26
Foreign exchange gain/(loss) on financial investments	125	(17)	122	103
Foreign exchange loss on debt financing	(105)	(2)	(101)	(121)
Foreign exchange (loss)/gain on other assets and liabilities	(9)	33	(19)	24
	29	**13**	**20**	**32**

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 three and the six months ended 30 June 2018 and 30 June 2017 are 19% and 21%, respectively. The lower tax rate expected for 2018 was mainly the result of increase in share of profits of foreign subsidiaries for which the Group plan to utilise tax losses carried forward.

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 entities, 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 governance.

The Group management determines pricing for intersegmental sales, as if the sales were to third parties. The revenue from external parties is measured in the same way as in the consolidated statement of profit or loss. The Group management evaluates performance of the segments based on segment revenues, gross profit, operating profit before share of results of joint ventures, impairment of non-current assets and gain on disposals of property, plant and equipment, profit for the period and amount of total assets and total liabilities.

Elimination of intersegmental operations and balances represents elimination of intercompany dividends paid to Russian flat products segment by other segments and presented within "Profit for the period" line together with other intercompany elimination adjustments, including elimination of NBH's liabilities to the Group companies (Note 16). NBH deconsolidation adjustments include elimination of NBH's sales, recognition of the Group's sales to NBH and elimination of unrealised profits (Notes 16), elimination of NBH's assets and liabilities and recognition of the investment in joint venture, recognition of impairment and share of NBH's loss, and other consolidation adjustments.

(millions of US dollars)

15 Segment information (continued)

Information on segments' profit or loss for the six months ended 30 June 2018 and their assets and liabilities on this date is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Inter-segmental operations and balances	NBH deconsoli-dation adjust-ments	Total
Revenue from external customers	10	3,109	777	1,021	270	973	-	(254)	5,906
Intersegment revenue	654	1,357	174	-	-	38	(2,185)	(38)	-
Gross profit	467	1,487	176	123	17	33	(173)	(57)	2,073
Operating profit/(loss)*	436	956	80	87	(15)	(66)	(100)	42	1,420
Profit/(loss) for the period	381	813	86	84	(16)	(75)	(176)	(11)	1,086
Segment assets	2,128	7,438	1,308	1,037	351	1,667	(2,004)	(1,454)	10,471
Segment liabilities	(382)	(4,233)	(633)	(478)	(331)	(1,530)	2,476	909	(4,202)
Depreciation and amortization	(61)	(179)	(33)	(29)	(5)	(38)	-	38	(307)

** Operating profit/(loss) before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment.*

Information on segments' profit or loss for the six months ended 30 June 2017 and their assets and liabilities as at 31 December 2017 is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Inter-segmental operations and balances	NBH deconsoli-dation adjust-ments	Total
Revenue from external customers	11	2,493	623	835	206	754	-	(223)	4,699
Intersegment revenue	476	1,178	148	-	-	54	(1,802)	(54)	-
Gross profit	310	1,012	88	139	25	66	(77)	(66)	1,497
Operating profit/(loss)*	280	541	(5)	101	1	(13)	(3)	13	915
Profit/(loss) for the period	214	577	(11)	99	(2)	(16)	(204)	8	665
Segment assets	2,041	7,990	1,210	891	339	1,626	(1,728)	(1,373)	10,996
Segment liabilities	(479)	(4,288)	(580)	(367)	(303)	(1,412)	2,179	900	(4,350)
Depreciation and amortization	(63)	(173)	(37)	(29)	(4)	(36)	-	36	(306)

** Operating profit/(loss) before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment.*

(millions of US dollars)

15 Segment information (continued)

Information on segments' profit or loss for the three months ended 30 June 2018 is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	7	1,638	359	590	132	469	-	(83)	3,112
Intersegment revenue	319	659	132	-	-	17	(1,110)	(17)	-
Gross profit	230	782	86	81	9	15	(75)	(34)	1,094
Operating profit/(loss)*	214	523	36	61	(8)	(38)	(44)	19	763
Profit/(loss) for the period	200	429	55	59	(8)	(43)	(93)	(17)	582
Depreciation and amortization	(29)	(89)	(16)	(15)	(3)	(18)	-	18	(152)

** Operating profit/(loss) before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment.*

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

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	7	1,324	403	436	100	384	-	(110)	2,544
Intersegment revenue	242	634	102	-	-	27	(978)	(27)	-
Gross profit	152	505	49	65	10	30	(35)	(30)	746
Operating profit/(loss)*	141	257	(6)	47	(3)	(11)	7	11	443
Profit/(loss) for the period	112	376	(5)	45	(4)	(12)	(176)	6	342
Depreciation and amortization	(35)	(89)	(19)	(15)	(2)	(18)	-	18	(160)

** Operating profit/(loss) before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment.*

(millions of US dollars)

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

	For the six months ended 30 June 2018	For the six months ended 30 June 2017	For the three months ended 30 June 2018	For the three months ended 30 June 2017
Sales				
NBH group companies	719	531	386	274
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	1	-	1	-
Purchases				
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	183	170	94	84
NBH group companies	38	54	17	27

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 12.2% and 11.3% of the total sales of the Group for the six months ended 30 June 2018 and 30 June 2017, respectively, and 12.4% and 10.8% of the total sales of the Group for the three months ended 30 June 2018 and 30 June 2017, respectively.

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

	As at 30 June 2018	As at 31 December 2017
Accounts receivable and advances given		
NBH group companies	402	289
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	20	26
Accounts payable		
NBH group companies	27	25
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	10	5

(c) Financial transactions

As at 30 June 2018 and 31 December 2017, loans issued to NBH group companies amounted to $217 and $222, respectively. No new loans were issued during the reporting period.

(d) Financial guarantees issued

As at 30 June 2018 and 31 December 2017, guarantees issued by the Group for borrowings of NBH group companies amounted to $291 and $304, respectively, which is the maximum potential amount of future payments to be made on demand of the holder of the guarantee.

(millions of US dollars)

16 Related party transactions (continued)

The maturity of the guaranteed obligations is as follows:

	As at 30 June 2018	As at 31 December 2017
Less than 1 year	291	105
From 1 to 2 years	-	199
	291	**304**

17 Significant accounting policies

The accounting policies applied in these interim condensed consolidated financial statements are consistent with those of the consolidated financial statements for the year ended 31 December 2017 except for the adoption of amended Standards that are mandatory for financial annual periods beginning on 1 January 2018 and the estimation of income tax expenses using the effective tax rate method (Note 14).

IFRS 9 "Financial Instruments" (with amendments issued in July 2014).

For the periods starting 1 January 2018, the Group changed its accounting policy relating to classification and measurement of financial assets and liabilities in accordance with the core principles of the standard.

In a result of the change in accounting policy, financial assets of the Group were classified into the following categories:
- those to be measured subsequently at amortised cost;
- those to be measured subsequently at fair value through other comprehensive income or through profit or loss.

Debt instruments were classified into categories based on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest:
- debt instruments the payments on which represent solely payments of principal and interest and that are intended to collect payments are classified as those to be measured subsequently at amortised cost;
- debt instruments the payments on which represent solely payments of principal and interest and that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets are classified as those to be measured subsequently at fair value through other comprehensive income; and
- other financial assets are measured subsequently at fair value through profit or loss.

The Group does not have equity financial instruments.

To assess the expected credit loss on financial assets measured subsequently at amortised cost the Group has implemented the expected credit losses model in accordance with a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition.

For financial assets recognised as at 1 January 2018 and after that date the Group assessed expected credit losses using lifetime expected credit losses for cash and cash equivalents, trade and other accounts receivable and short-term financial investments since their terms are less than 12 months.

17 Significant accounting policies (continued)

The adoption of IFRS 9 did not significantly impact balance sheet classification of financial assets and liabilities in the interim condensed consolidated financial statements of the Group. The amount of expected credit losses as at 1 January 2018 does not materially differ from the amount of recognised provisions and allowances in the consolidated financial statements as at 31 December 2017 and therefore there is no quantitative effect of transition as of 1 January 2018. Financial assets and liabilities previously classified in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" within categories loans and receivables, investments held to maturity and other financial liabilities measured at amortised cost using the effective interest method, in accordance with IFRS 9 "Financial instruments" are classified as financial assets and financial liabilities carried at amortised cost. Measurement of cash and cash equivalents, trade and other receivables and payables, long-term and short-term loans and borrowings, held-to-maturity investments has not changed and these financial instruments are measured at amortised cost.

IFRS 15 "Revenue from Contracts with Customers" (with amendments issued in April 2016)

In accordance with the transition provisions in IFRS 15 the Group has elected the simplified transition method with the effect of transition to be recognised as at 1 January 2018. The Group applied the practical expedient available for the simplified transition method.

The Group changed its accounting policy relating to revenue recognition in accordance with the core principles of the standard. For the periods starting 1 January 2018, revenue from sale of goods and services is recognised when a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. If the Group agrees to transport goods to a specified location (typically under contracts based on certain Incoterms bases), revenue is split into two performance obligations – sale of goods and rendering of transportation services. Revenue from sale of goods is recognised at a point of time, when control over the goods is transferred to the customer, normally when the goods are shipped and the risks, rewards and legal title are passed. Revenue from rendering of transportation services is recognised over time as the transportation service is provided to the customer.

Apart from providing more extensive disclosures on the Group's revenue transactions (Note 12), including presentation of goods transportation services as a separate performance obligation and disaggregation of revenue by geographical area, the adoption of IFRS 15 did not have a significant impact on the financial position or financial performance of the Group. Therefore comparative information and opening equity as at 1 January 2018 were not restated.