NLMK

NOVOLIPETSK STEEL

INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

AS AT 31 MARCH 2018
AND FOR THE THREE MONTHS ENDED 31 MARCH 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 31 March 2018 and the related interim condensed consolidated statements of profit or loss and of comprehensive income for the three-month period then ended, and of changes in equity and of cash flows for the three-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 these 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.

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”.

23 April 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

Interim condensed consolidated statement of financial position (unaudited)

(millions of US dollars)

	Note	As at 31 March 2018	As at 31 December 2017
Assets			
Current assets			
Cash and cash equivalents	3	732	301
Short-term financial investments	4	984	1,284
Trade and other accounts receivable	5	1,306	1,215
Inventories	6	1,854	1,879
Other current assets		33	32
		4,909	**4,711**
Non-current assets			
Investments in joint ventures	4	190	205
Property, plant and equipment	7	5,572	5,549
Goodwill	8	267	265
Other intangible assets	8	163	164
Deferred income tax assets		111	84
Other non-current assets		18	18
		6,321	**6,285**
Total assets		**11,230**	**10,996**
Liabilities and equity			
Current liabilities			
Accounts payable and other liabilities	9	1,173	1,029
Dividends payable		4	537
Short-term borrowings	10	481	380
Current income tax liability		72	53
		1,730	**1,999**
Non-current liabilities			
Long-term borrowings	10	1,884	1,901
Deferred income tax liability		427	417
Other long-term liabilities		14	33
		2,325	**2,351**
Total liabilities		**4,055**	**4,350**
Equity attributable to NLMK shareholders			
Common stock		221	221
Additional paid-in capital		10	10
Accumulated other comprehensive loss		(5,602)	(5,631)
Retained earnings		12,530	12,029
		7,159	**6,629**
Non-controlling interests		**16**	**17**
Total equity		**7,175**	**6,646**
Total liabilities and equity		**11,230**	**10,996**

The interim condensed consolidated financial statements as set out on pages 5 to 21 were approved by the Group's management and authorised for issue on 23 April 2018.

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

	Note	For the three months ended 31 March 2018	For the three months ended 31 March 2017
Revenue	12, 15	2,794	2,156
Cost of sales		(1,815)	(1,404)
Gross profit		**979**	**752**
General and administrative expenses		(86)	(74)
Selling expenses		(212)	(186)
Other operating expenses, net		(1)	-
Taxes, other than income tax		(23)	(20)
Operating profit before share of results of joint ventures, impairment of non-current assets and income on disposals of property, plant and equipment		**657**	**472**
Gain on disposals of property, plant and equipment		2	-
Impairment of non-current assets		-	(3)
Share of results of joint ventures		(21)	(2)
Finance income		10	6
Finance costs		(19)	(18)
Foreign currency exchange gain/(loss), net	13	9	(19)
Other expenses, net		(10)	(21)
Profit before income tax		**628**	**415**
Income tax expense	14	(124)	(93)
Profit for the period		**504**	**322**
Profit attributable to:			
NLMK shareholders		**502**	**322**
Non-controlling interests		**2**	**-**
Earnings per share – basic and diluted:			
Earnings per share attributable to NLMK shareholders (US dollars)	11	0.0838	0.0537

(millions of US dollars)

	For the three months ended 31 March 2018	For the three months ended 31 March 2017
Profit for the period	504	322
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Cumulative translation adjustment	29	459
Total comprehensive income for the period	**533**	**781**
attributable to:		
NLMK shareholders	531	780
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	-	-	-	322	-	322
Cumulative translation adjustment	-	-	458	-	1	459
Total comprehensive income	**-**	**-**	**458**	**322**	**1**	**781**
Balance at 31 March 2017	**221**	**10**	**(5,520)**	**12,361**	**19**	**7,091**
Balance at 1 January 2018	**221**	**10**	**(5,631)**	**12,029**	**17**	**6,646**
Profit for the period	-	-	-	502	2	504
Cumulative translation adjustment	-	-	29	-	-	29
Total comprehensive income	**-**	**-**	**29**	**502**	**2**	**533**
Acquisition of non-controlling interest	-	-	-	(1)	(3)	(4)
Balance at 31 March 2018	**221**	**10**	**(5,602)**	**12,530**	**16**	**7,175**

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

	Note	For the three months ended 31 March 2018	For the three months ended 31 March 2017
Cash flows from operating activities			
Profit for the period		**504**	**322**
Adjustments to reconcile profit for the period to net cash provided by operating activities:			
Depreciation and amortisation		155	146
Gain on disposals of property, plant and equipment		(2)	-
Finance income		(10)	(6)
Finance costs		19	18
Share of results of joint ventures		21	2
Income tax expense		124	93
Impairment of non-current assets		-	3
Foreign currency exchange (gain)/loss, net		(9)	19
Changes in operating assets and liabilities			
Increase in trade and other accounts receivable		(78)	(136)
Decrease/(increase) in inventories		34	(188)
(Increase)/decrease in other operating assets		(2)	9
Increase in trade and other accounts payable		104	82
Cash provided by operating activities		**860**	**364**
Income tax paid		(123)	(54)
Net cash provided by operating activities		**737**	**310**
Cash flows from investing activities			
Purchases and construction of property, plant and equipment		(131)	(96)
Proceeds from sale of property, plant and equipment		2	2
Placement of bank deposits		(242)	(121)
Withdrawal of bank deposits		549	224
Interest received		10	5
Acquisition of non-controlling interest		(3)	-
Net cash provided by investing activities		**185**	**14**
Cash flows from financing activities			
Proceeds from borrowings		308	314
Repayment of borrowings		(241)	(276)
Interest paid		(17)	(11)
Dividends to NLMK shareholders		(545)	(367)
Net cash used in financing activities		**(495)**	**(340)**
Net increase/(decrease) in cash and cash equivalents		**427**	**(16)**
Effect of exchange rate changes on cash and cash equivalents		4	16
Cash and cash equivalents at the beginning of the year	3	301	610
Cash and cash equivalents at the end of the period	3	**732**	**610**

(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 weighted 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
As at 31 March	57.2649	56.3779
As at 31 December		57.6002
Russian ruble to Euro		
For the 1st quarter	69.8727	62.6474
As at 31 March	70.5618	60.5950
As at 31 December		68.8668

(millions of US dollars)

3 Cash and cash equivalents

	As at 31 March 2018	As at 31 December 2017
Cash		
Russian rubles	20	11
US dollars	71	63
Euros	550	70
Other currencies	4	4
Deposits		
Russian rubles	39	98
US dollars	34	19
Euros	-	24
Other currencies	1	-
Other cash equivalents	13	12
	732	**301**

The cash and cash equivalents as at 31 March 2018 and 31 December 2017 include $12 and $12, respectively, which are subject to regulatory restrictions and are therefore not available for general use by the entities within the Group.

4 Investments

	As at 31 March 2018	As at 31 December 2017
Short-term financial investments		
Bank deposits, including:		
- Russian rubles	12	6
- US dollars	629	1,051
- Euros	105	-
- Other currencies	4	-
Total bank deposits	750	1,057
Loans to related parties (Note 16(c))	229	222
Other short-term financial investments	5	5
	984	**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 31 March 2018 Ownership	As at 31 December 2017 Ownership	As at 31 March 2018	As at 31 December 2017
NLMK Belgium Holdings S.A. ("NBH")	51.0%	51.0%	179	194
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.0%	50.0%	11	11
			190	**205**

Management has analysed the performance of NBH in the three months ended 31 March 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 31 March 2018	As at 31 December 2017
Financial assets		
Trade accounts receivable	1,034	996
Allowance for impairment of trade accounts receivable	(24)	(23)
Other accounts receivable	30	29
Allowance for impairment of other accounts receivable	(20)	(20)
	1,020	982
Non-financial assets		
Advances given to suppliers	58	58
Allowance for impairment of advances given to suppliers	(4)	(3)
VAT and other taxes receivable	231	177
Accounts receivable from employees	1	1
	286	233
	1,306	**1,215**

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

As at 31 March 2018 and 31 December 2017, accounts receivable with a carrying value of $188 and $160, respectively, served as collateral for certain borrowings (Note 10).

(millions of US dollars)

6 Inventories

	As at 31 March 2018	As at 31 December 2017
Raw materials	696	830
Work in process	645	603
Finished goods and goods for resale	579	514
	1,920	1,947
Impairment allowance for inventories	(66)	(68)
	1,854	**1,879**

As at 31 March 2018 and 31 December 2017, inventories with a carrying value of $475 and $423, respectively, served as collateral for certain borrowings (Note 10).

7 Property, plant and equipment

	As at 31 March 2018	As at 31 December 2017
Land	128	128
Buildings	2,084	2,057
Land and buildings improvements	2,347	2,328
Machinery and equipment	6,614	6,533
Vehicles	286	279
Construction in progress	920	855
	12,379	12,180
Accumulated depreciation and impairment	(6,807)	(6,631)
	5,572	**5,549**

The amount of borrowing costs capitalized was $8 and $6 for the three months ended 31 March 2018 and 31 March 2017, respectively. The capitalisation rate was 1.5% and 1.0% for the three months ended 31 March 2018 and 31 March 2017, respectively.

Management has analysed the performance of key cash generating units in the three months ended 31 March 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 31 March 2018	As at 31 December 2017
Goodwill	281	279
Mineral rights	353	351
Industrial intellectual property	58	53
Beneficial contracts	9	9
	701	692
Accumulated amortization and impairment	(271)	(263)
	430	**429**

As at 31 March 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 31 March 2018	As at 31 December 2017
Financial liabilities		
Trade accounts payable	633	524
Other accounts payable	126	106
	759	630
Non-financial liabilities		
Accounts payable and accrued liabilities to employees	186	156
Advances received	108	153
Taxes payable other than income tax	120	90
	414	399
	1,173	**1,029**

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

10 Borrowings

Rates	Currency	Maturity	As at 31 March 2018	As at 31 December 2017
Bonds				
From 4.00% to 4.95%	USD	2019-2024	1,356	1,501
Loans				
From LIBOR+1.20% to LIBOR+1.50%	USD	2021	352	94
From EURIBOR+0.90% to EURIBOR+2.00%	EUR	2019-2022	657	686
			2,365	**2,281**
Less: short-term loans and current maturities of long-term loans and bonds			(481)	(380)
Long-term borrowings			**1,884**	**1,901**

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

	As at 31 March 2018		As at 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,346	1,344	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 31 March 2018 and 31 December 2017, the total amount of the Group companies' collateral was $663 and $583, respectively (Notes 5 and 6).

11 Earnings per share

	For the three months ended 31 March 2018	For the three months ended 31 March 2017
Profit for the period attributable to NLMK shareholders (millions of US dollars)	502	322
Weighted average number of shares	5,993,227,240	5,993,227,240
Basic and diluted earnings per share (US dollars)	**0.0838**	**0.0537**

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

(millions of US dollars)

12 Revenue

(a) Revenue by type

	For the three months ended 31 March 2018	For the three months ended 31 March 2017
Revenue from sale of goods		
Flat products	1,371	1,233
Pig iron, slabs and billets	785	451
Long products and metalware	283	177
Coke and other chemical products	73	53
Scrap	21	17
Other products	63	54
Total revenue from sale of goods	**2,596**	**1,985**
Revenue from transportation services	198	171
	2,794	**2,156**

(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 three months ended 31 March 2018	For the three months ended 31 March 2017
Russia	969	710
European Union	594	413
North America	541	448
Middle East, including Turkey	323	336
Central and South America	121	81
CIS	112	88
Asia and Oceania	36	43
Other regions	98	37
	2,794	**2,156**

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

13 Foreign exchange differences

	For the three months ended 31 March 2018	For the three months ended 31 March 2017
Foreign exchange loss on cash and cash equivalents	-	(27)
Foreign exchange gain/(loss) on financial investments	3	(120)
Foreign exchange (loss)/gain on debt financing	(4)	119
Foreign exchange gain on other assets and liabilities	10	9
	9	**(19)**

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 months ended 31 March 2018 and 31 March 2017 are 19% and 21%, respectively. The lower tax rate expected for 2018 was 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 three months ended 31 March 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 deconsoli-dation adjust-ments	Total
Revenue from external customers	3	1,471	418	431	138	504	-	(171)	2,794
Intersegment revenue	335	698	42	-	-	21	(1,075)	(21)	-
Gross profit	237	705	90	42	8	18	(98)	(23)	979
Operating profit/(loss)*	222	433	44	26	(7)	(28)	(56)	23	657
Profit/(loss) for the period	181	384	31	25	(8)	(32)	(83)	6	504
Segment assets	2,139	8,052	1,244	1,014	351	1,706	(1,815)	(1,461)	11,230
Segment liabilities	(388)	(4,028)	(580)	(516)	(321)	(1,517)	2,328	967	(4,055)
Depreciation and amortization	(32)	(90)	(17)	(14)	(2)	(20)	-	20	(155)

** 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 31 March 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	4	1,170	220	399	106	370	-	(113)	2,156
Intersegment revenue	234	544	46	-	-	27	(824)	(27)	-
Gross profit	158	508	39	74	15	36	(42)	(36)	752
Operating profit/(loss)*	139	284	1	54	4	(2)	(10)	2	472
Profit/(loss) for the period	102	200	(6)	54	2	(4)	(28)	2	322
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	(28)	(84)	(18)	(14)	(2)	(18)	-	18	(146)

** 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 three months ended 31 March 2018	For the three months ended 31 March 2017
Sales		
NBH group companies	333	257
Purchases		
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	89	86
NBH group companies	21	27
Other related parties	1	1

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 11.9% and 11.9% of the total sales of the Group for the three months ended 31 March 2018 and 31 March 2017, respectively.

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

	As at 31 March 2018	As at 31 December 2017
Accounts receivable and advances given		
NBH group companies	320	289
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	12	26
Accounts payable		
NBH group companies	26	25
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	21	5

(c) Financial transactions

As at 31 March 2018 and 31 December 2017, loans issued to NBH group companies amounted to $229 and $222, respectively. No new loans were issued during the reporting period.

(d) Financial guarantees issued

As at 31 March 2018 and 31 December 2017, guarantees issued by the Group for borrowings of NBH group companies amounted to $310 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 31 March 2018	As at 31 December 2017
Less than 1 year	259	105
From 1 to 2 years	51	199
	310	**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.

As at 1 January 2018 and for financial assets initially recognized 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 is 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 recognized 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.