



NOVOLIPETSK STEEL

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT 30 SEPTEMBER 2018
AND FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2018
(UNAUDITED)**



Novolipetsk Steel
Interim condensed consolidated financial statements as at 30 September 2018 and
for the three and the nine months ended 30 September 2018 (unaudited)

CONTENTS

Report on review of interim condensed consolidated financial statements	3
Interim condensed consolidated statement of financial position	5
Interim condensed consolidated statement of profit or loss	6
Interim condensed consolidated statement of comprehensive income	7
Interim condensed consolidated statement of changes in equity	8
Interim condensed consolidated statement of cash flows	9
Notes to the interim condensed consolidated financial statements	10



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



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 October 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 № 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 № 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 (unaudited)
(millions of US dollars)

	Note	As at 30 September 2018	As at 31 December 2017
Assets			
Current assets			
Cash and cash equivalents	3	1,196	301
Short-term financial investments	4	327	1,284
Trade and other accounts receivable	5	1,402	1,215
Inventories	6	1,863	1,879
Other current assets		15	32
		4,803	4,711
Non-current assets			
Investments in joint ventures	4	80	205
Property, plant and equipment	7	4,937	5,549
Goodwill	8	236	265
Other intangible assets	8	141	164
Deferred income tax assets		119	84
Other non-current assets		11	18
		5,524	6,285
Total assets		10,327	10,996
Liabilities and equity			
Current liabilities			
Accounts payable and other liabilities	9	1,096	1,029
Dividends payable		483	537
Short-term borrowings	10	429	380
Current income tax liability		52	53
		2,060	1,999
Non-current liabilities			
Long-term borrowings	10	1,694	1,901
Deferred income tax liability		364	417
Other long-term liabilities		14	33
		2,072	2,351
Total liabilities		4,132	4,350
Equity attributable to NLMK shareholders			
Common stock		221	221
Additional paid-in capital		10	10
Accumulated other comprehensive loss		(6,450)	(5,631)
Retained earnings		12,398	12,029
		6,179	6,629
Non-controlling interests			
		16	17
Total equity		6,195	6,646
Total liabilities and equity		10,327	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 23 October 2018.



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

	Note	For the nine months ended 30 September 2018	For the nine months ended 30 September 2017	For the three months ended 30 September 2018	For the three months ended 30 September 2017
Revenue	12, 15	9,033	7,250	3,127	2,551
Cost of sales		(5,762)	(4,956)	(1,929)	(1,754)
Gross profit		3,271	2,294	1,198	797
General and administrative expenses		(267)	(244)	(87)	(80)
Selling expenses		(634)	(577)	(208)	(197)
Other operating (expenses)/income, net		(3)	3	-	1
Taxes, other than income tax		(68)	(60)	(24)	(20)
Operating profit before share of results of joint ventures, impairment of non-current assets and (loss)/gain on disposals of property, plant and equipment		2,299	1,416	879	501
(Loss)/gain on disposals of property, plant and equipment		(5)	1	(3)	1
Impairment of non-current assets		(3)	(15)	(1)	-
Share of results of joint ventures		(115)	(30)	(53)	(22)
Losses on investments, net		(2)	(2)	(2)	(2)
Finance income		17	22	3	9
Finance costs		(55)	(68)	(16)	(31)
Foreign currency exchange gain/(loss), net	13	21	15	(8)	2
Other expenses, net		(16)	(40)	(6)	(6)
Profit before income tax		2,141	1,299	793	452
Income tax expense	14	(407)	(276)	(145)	(95)
Profit for the period		1,734	1,023	648	357
Profit attributable to:					
NLMK shareholders		1,729	1,022	646	355
Non-controlling interests		5	1	2	2
Earnings per share – basic and diluted:					
Earnings per share attributable to NLMK shareholders (US dollars)	11	0.2885	0.1705	0.1078	0.0592



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

	For the nine months ended 30 September 2018	For the nine months ended 30 September 2017	For the three months ended 30 September 2018	For the three months ended 30 September 2017
Profit for the period	1,734	1,023	648	357
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment	(821)	298	(245)	116
Total comprehensive income for the period	913	1,321	403	473
attributable to:				
NLMK shareholders	910	1,319	402	471
Non-controlling interests	3	2	1	2



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

	NLMK shareholders				Non-controlling interest	Total equity
	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings		
Balance at 1 January 2017	221	10	(5,978)	12,039	18	6,310
Profit for the period	-	-	-	1,022	1	1,023
Cumulative translation adjustment	-	-	297	-	1	298
Total comprehensive income	-	-	297	1,022	2	1,321
Acquisition of non-controlling interest	-	-	-	-	(1)	(1)
Dividends to shareholders	-	-	-	(935)	(3)	(938)
Balance at 30 September 2017	221	10	(5,681)	12,126	16	6,692
Balance at 1 January 2018	221	10	(5,631)	12,029	17	6,646
Profit for the period	-	-	-	1,729	5	1,734
Cumulative translation adjustment	-	-	(819)	-	(2)	(821)
Total comprehensive income	-	-	(819)	1,729	3	913
Acquisition of non-controlling interest	-	-	-	(1)	(3)	(4)
Dividends to shareholders	-	-	-	(1,359)	(1)	(1,360)
Balance at 30 September 2018	221	10	(6,450)	12,398	16	6,195



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

	Note	For the nine months ended 30 September 2018	For the nine months ended 30 September 2017
Cash flows from operating activities			
Profit for the period		1,734	1,023
Adjustments to reconcile profit for the period to net cash provided by operating activities:			
Depreciation and amortisation	15	443	453
Loss/(gain) on disposals of property, plant and equipment		5	(1)
Losses on investments, net		2	2
Finance income		(17)	(22)
Finance costs		55	68
Share of results of joint ventures		115	30
Income tax expense	14	407	276
Impairment of non-current assets		3	15
Foreign currency exchange gain, net	13	(21)	(15)
Change in impairment allowance for inventories and accounts receivable		(4)	9
Changes in operating assets and liabilities			
Increase in trade and other accounts receivable		(301)	(122)
Increase in inventories		(149)	(183)
Decrease/(increase) in other operating assets		3	(2)
Increase in trade and other accounts payable		140	117
Cash provided by operating activities		2,415	1,648
Income tax paid		(435)	(225)
Net cash provided by operating activities		1,980	1,423
Cash flows from investing activities			
Purchases and construction of property, plant and equipment		(430)	(326)
Proceeds from sale of property, plant and equipment		2	7
Purchases of investments and loans given, net		(48)	-
Placement of bank deposits		(304)	(1,151)
Withdrawal of bank deposits		1,291	837
Interest received		19	17
Acquisition of subsidiary, net of cash and cash equivalent acquired		(4)	-
Acquisition of non-controlling interest		(4)	(1)
Net cash provided by/(used in) investing activities		522	(617)
Cash flows from financing activities			
Proceeds from borrowings		434	987
Repayment of borrowings		(570)	(800)
Interest paid		(44)	(48)
Dividends to NLMK shareholders		(1,410)	(958)
Dividends to non-controlling interests		(1)	(2)
Net cash used in financing activities		(1,591)	(821)
Net increase/(decrease) in cash and cash equivalents		911	(15)
Effect of exchange rate changes on cash and cash equivalents		(16)	3
Cash and cash equivalents at the beginning of the year	3	301	610
Cash and cash equivalents at the end of the period	3	1,196	598



Novolipetsk Steel

Notes to the interim condensed consolidated financial statements (unaudited)

(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.

	<u>2018</u>	<u>2017</u>
Russian ruble to US dollar		
For the 1 st quarter	56.8803	58.8366
For the 2 nd quarter	61.7998	57.1451
For the 3 rd quarter	65.5323	59.0195
As at 30 September	65.5906	58.0169
As at 31 December		57.6002
Russian ruble to Euro		
For the 1 st quarter	69.8727	62.6474
For the 2 nd quarter	73.7505	62.7892
For the 3 rd quarter	76.1837	69.2860
As at 30 September	76.2294	68.4483
As at 31 December		<u>68.8668</u>



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

3 Cash and cash equivalents

	As at 30 September 2018	As at 31 December 2017
Cash		
Russian rubles	15	11
US dollars	72	63
Euros	294	70
Swiss francs	169	-
Other currencies	4	4
Deposits		
Russian rubles	43	98
US dollars	30	19
Euros	259	24
Hong Kong dollars	234	-
Swiss francs	50	-
Other cash equivalents	<u>26</u>	<u>12</u>
	<u>1,196</u>	<u>301</u>

4 Investments

	As at 30 September 2018	As at 31 December 2017
Short-term financial investments		
Bank deposits, including:		
- Russian rubles	11	6
- US dollars	-	1,051
- Euros	46	-
- Other currencies	5	-
Total bank deposits	<u>62</u>	<u>1,057</u>
Loans to related parties (Note 16(c))	265	222
Other short-term financial investments	<u>-</u>	<u>5</u>
	<u>327</u>	<u>1,284</u>

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



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

4 Investments (continued)

Investments in joint ventures

	As at 30 September 2018 Ownership	As at 31 December 2017 Ownership	As at 30 September 2018	As at 31 December 2017
NLMK Belgium Holdings S.A. ("NBH") (Note 16(e))	49.0%	51.0%	70	194
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.0%	50.0%	10	11
			80	205

Management has analysed the performance of NBH in the nine months ended 30 September 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 September 2018	As at 31 December 2017
Financial assets		
Trade accounts receivable	1,149	996
Allowance for impairment of trade accounts receivable	(23)	(23)
Other accounts receivable	32	29
Allowance for impairment of other accounts receivable	(18)	(20)
	1,140	982
Non-financial assets		
Advances given to suppliers	77	58
Allowance for impairment of advances given to suppliers	(4)	(3)
VAT and other taxes receivable	188	177
Accounts receivable from employees	1	1
	262	233
	1,402	1,215

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

As at 30 September 2018 and 31 December 2017, accounts receivable with a carrying value of \$254 and \$160, respectively, served as collateral for certain borrowings (Note 10).



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

6 Inventories

	As at 30 September 2018	As at 31 December 2017
Raw materials	843	830
Work in process	546	603
Finished goods and goods for resale	527	514
	<u>1,916</u>	<u>1,947</u>
Impairment allowance for inventories	(53)	(68)
	<u>1,863</u>	<u>1,879</u>

As at 30 September 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 30 September 2018	As at 31 December 2017
Land	112	128
Buildings	1,848	2,057
Land and buildings improvements	2,054	2,328
Machinery and equipment	5,931	6,533
Vehicles	266	279
Construction in progress	989	855
	<u>11,200</u>	<u>12,180</u>
Accumulated depreciation and impairment	(6,263)	(6,631)
	<u>4,937</u>	<u>5,549</u>

The amount of borrowing costs capitalised was \$27 and \$24 for the nine months ended 30 September 2018 and 30 September 2017, respectively. The capitalisation rate was 4.9% and 2.8% for the nine months ended 30 September 2018 and 30 September 2017, respectively.

The amount of borrowing costs capitalised was \$11 and \$12 for the three months ended 30 September 2018 and 30 September 2017, respectively. The capitalisation rate was 1.7% and 1.0% for the three months ended 30 September 2018 and 30 September 2017, respectively.

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to \$725 and \$629 as at 30 September 2018 and 31 December 2017, respectively.

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



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

8 Intangible assets

	As at 30 September 2018	As at 31 December 2017
Goodwill	250	279
Mineral rights	308	351
Industrial intellectual property	51	53
Beneficial contracts	9	9
	<u>618</u>	<u>692</u>
Accumulated amortization and impairment	<u>(241)</u>	<u>(263)</u>
	<u>377</u>	<u>429</u>

As at 30 September 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 for \$25.

9 Trade and other accounts payable

	As at 30 September 2018	As at 31 December 2017
Financial liabilities		
Trade accounts payable	563	524
Other accounts payable	117	106
	<u>680</u>	<u>630</u>
Non-financial liabilities		
Accounts payable and accrued liabilities to employees	189	156
Advances received	123	153
Taxes payable other than income tax	104	90
	<u>416</u>	<u>399</u>
	<u>1,096</u>	<u>1,029</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 (unaudited)
(millions of US dollars)

10 Borrowings

<u>Rates</u>	<u>Currency</u>	<u>Maturity</u>	<u>As at 30 September 2018</u>	<u>As at 31 December 2017</u>
Bonds				
From 4.00% to 4.95%	USD	2019-2024	1,355	1,501
Loans				
LIBOR+1.50%	USD	2021	188	94
From EURIBOR+0.90% to EURIBOR+1.60%	EUR	2019-2022	580	686
			2,123	2,281
Less: short-term loans and current maturities of long-term loans and bonds			(429)	(380)
Long-term borrowings			1,694	1,901

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

	<u>As at 30 September 2018</u>		<u>As at 31 December 2017</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Bonds	1,200	1,147	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 September 2018 and 31 December 2017, the total amount of the Group companies' collateral was \$729 and \$583, respectively (Notes 5 and 6).

11 Earnings per share

	<u>For the nine months ended 30 September 2018</u>	<u>For the nine months ended 30 September 2017</u>	<u>For the three months ended 30 September 2018</u>	<u>For the three months ended 30 September 2017</u>
Profit for the period attributable to NLMK shareholders	1,729	1,022	646	355
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)	0.2885	0.1705	0.1078	0.0592

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

In September 2018, the Parent Company declared dividends for the second quarter of 2018 of 5.24 Russian rubles per share in the total amount of \$477 (at the historical rate as of the announcement date).

Novolipetsk Steel
Notes to the interim condensed consolidated financial statements (unaudited)
(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 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).

12 Revenue
(a) Revenue by type

	For the nine months ended 30 September 2018	For the nine months ended 30 September 2017	For the three months ended 30 September 2018	For the three months ended 30 September 2017
Revenue from sale of goods				
Flat products	4,751	3,984	1,676	1,350
Pig iron, slabs and billets	2,383	1,567	756	602
Long products and metalware	904	730	368	267
Coke and other chemical products	192	187	57	69
Scrap	58	49	18	12
Other products	158	200	60	68
Total revenue from sale of goods	8,446	6,717	2,935	2,368
Revenue from transportation services	587	533	192	183
	9,033	7,250	3,127	2,551

(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 nine months ended 30 September 2018	For the nine months ended 30 September 2017	For the three months ended 30 September 2018	For the three months ended 30 September 2017
Russia	3,111	2,753	1,118	1,116
European Union	1,745	1,261	489	388
North America	1,919	1,454	682	520
Middle East, including Turkey	1,075	846	339	226
Central and South America	478	296	185	103
CIS	287	307	96	106
Asia and Oceania	137	167	55	25
Other regions	281	166	163	67
	9,033	7,250	3,127	2,551

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

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

13 Foreign exchange differences

	For the nine months ended 30 September 2018	For the nine months ended 30 September 2017	For the three months ended 30 September 2018	For the three months ended 30 September 2017
Foreign exchange gain on cash and cash equivalents	33	-	15	1
Foreign exchange gain/(loss) on financial investments	183	(44)	58	(27)
Foreign exchange (loss)/gain on debt financing	(173)	16	(68)	18
Foreign exchange (loss)/gain on other assets and liabilities	(22)	43	(13)	10
	21	15	(8)	2

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 nine months ended 30 September 2018 and 30 September 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.



Novolipetsk Steel

Notes to the interim condensed consolidated financial statements (unaudited)

(millions of US dollars)

15 Segment information (continued)

Information on segments' profit or loss for the nine months ended 30 September 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 deconsolidation adjustments	Total
Revenue from external customers	17	4,685	1,279	1,630	394	1,346	-	(318)	9,033
Intersegment revenue	935	1,906	305	-	1	55	(3,147)	(55)	-
Gross profit	665	2,286	293	216	30	32	(166)	(85)	3,271
Operating profit/(loss)*	620	1,513	136	161	(16)	(112)	(62)	59	2,299
Profit/(loss) for the period	550	1,368	134	155	(20)	(121)	(285)	(47)	1,734
Segment assets	2,146	7,428	1,204	1,048	352	1,633	(2,043)	(1,441)	10,327
Segment liabilities	(461)	(4,251)	(523)	(418)	(330)	(1,543)	2,531	863	(4,132)
Depreciation and amortization	(88)	(258)	(47)	(43)	(7)	(57)	-	57	(443)

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

Information on segments' profit or loss for the nine months ended 30 September 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 deconsolidation adjustments	Total
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	2,041	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	(89)	(259)	(56)	(43)	(6)	(55)	-	55	(453)

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

Novolipetsk Steel
Notes to the interim condensed consolidated financial statements (unaudited)
(millions of US dollars)
15 Segment information (continued)

Information on segments' profit or loss for the three months ended 30 September 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	1,576	502	609	124	373	-	(64)	3,127
Intersegment revenue	281	549	131	-	1	17	(962)	(17)	-
Gross profit/(loss)	198	799	117	93	13	(1)	7	(28)	1,198
Operating profit/(loss)*	184	557	56	74	(1)	(46)	38	17	879
Profit/(loss) for the period	169	555	48	71	(4)	(46)	(109)	(36)	648
Depreciation and amortization	(27)	(79)	(14)	(14)	(2)	(19)	-	19	(136)

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

Information on segments' profit or loss for the three months ended 30 September 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	1,481	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)

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

Novolipetsk Steel
Notes to the interim condensed consolidated financial statements (unaudited)
(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 nine months ended 30 September 2018	For the nine months ended 30 September 2017	For the three months ended 30 September 2018	For the three months ended 30 September 2017
Sales				
NBH group companies	1,028	727	309	196
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	1	1	-	1
Purchases				
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	294	249	111	79
NBH group companies	55	59	17	5

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 11.4% and 10.0% of the total sales of the Group for the nine months ended 30 September 2018 and 30 September 2017, respectively, and 9.9% and 7.7% of the total sales of the Group for the three months ended 30 September 2018 and 30 September 2017, respectively.

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

	As at 30 September 2018	As at 31 December 2017
Accounts receivable and advances given		
NBH group companies	415	289
Universal Cargo Logistics Holding group companies (companies under the common control of the beneficial owner of the Group)	17	26
Accounts payable		
NBH group companies	37	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 September 2018 and 31 December 2017, loans issued to NBH group companies amounted to \$265 and \$222, respectively.

(d) Financial guarantees issued

As at 30 September 2018 and 31 December 2017, guarantees issued by the Group for borrowings of NBH group companies amounted to \$301 and \$304, respectively, which is the maximum potential amount of future payments to be made on demand of the holder of the guarantee.

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

16 Related party transactions (continued)

The maturity of the guaranteed obligations is as follows:

	As at 30 September 2018	As at 31 December 2017
Less than 1 year	301	105
From 1 to 2 years	-	199
	301	304

(e) Investments transactions

In September 2018, the Group completed the sale of 2% stake in share capital of NBH to Tubes de Haren et Nimy S.A., a subsidiary of NBH, for a cash consideration of \$5 and realising a loss of \$2 upon decrease of investment carrying value amounting to \$7. In a result of transaction, direct ownership of the Group in share capital of NBH decreased to 49.0%.

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.