NOVOLIPETSK STEEL

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

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Independent auditor's report

To the Shareholders and the Board of Directors of Novolipetsk Steel:

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Novolipetsk Steel and its subsidiaries (together – the "Group") as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statements of:
  - financial position as at 31 December 2017;
  - profit or loss for the year ended 31 December 2017;
  - comprehensive income for the year ended 31 December 2017;
  - changes in equity for the year ended 31 December 2017;
  - cash flows for the year ended 31 December 2017; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Our audit approach

Overview

- Overall Group materiality: 100 million US Dollars (USD), which represents 1% of the Group's consolidated revenue

- We conducted audit work at 12 components (entities or business activities, which prepare financial information that is included in the consolidated financial statements) in six countries
- The Group engagement team visited the Group companies in the Russian Federation and United States of America and also the joint venture located in Belgium
- Our audit scope covered 91% of the Group's consolidated revenues and 90% of the Group's consolidated total assets

- Key Audit Matter 1 - Management assessment of the carrying value of goodwill, intangible assets and property, plant and equipment
- Key Audit Matter 2 – Accounting for the investment in NLMK Belgium Holdings S.A. (hereinafter – NBH)
- Key Audit Matter 3 – Determination of the carrying value of the investment in NBH

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of the concept of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatements. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	USD 100 million (2016: USD 71 million)
How we determined it	1% of the Group's consolidated revenue
Rationale for the materiality benchmark applied	We chose revenue as the benchmark because, in our view, it is the benchmark which objectively best represents the performance of the Group over a period of time while financial results are volatile. We determined overall materiality as 1%, which in our experience is within the range of acceptable quantitative materiality thresholds applied for public companies in the relevant industry.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the accompanying consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion on these consolidated financial statements and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
1. Management's assessment of the carrying value of goodwill, intangible assets and property, plant and equipment *Refer to Notes 8 and 9 to the consolidated financial statements*	
The Group management performed an analysis of existence of indicators of impairment of the Group's property, plant and equipment (PP&E), intangible assets and goodwill as at 30 September 2017, that revealed: • high volatility on the market of finished products and raw materials (coal and ore); and • continuing recovery of the US economy followed by strong prices on steel products. The analysis triggered testing a number of the Group's cash-generating units (CGUs) for impairment or potential reversal of previously recognised impairment. The recoverable amount of PP&E, intangible assets and goodwill for each CGU subject to testing was calculated by management as of 30 September 2017 and updated based on the	We obtained, understood and evaluated management's impairment models. We involved our valuation experts to assist in the evaluation of the methodology, mathematical accuracy and assumptions used in the models. Specific work performed over the impairment test included: • comparing the key assumptions used within the impairment models to the historic performance of the respective CGUs and approved estimates; • benchmarking the key assumptions used within the impairment models, including price forecasts, inflation and discount rates, against external expert valuations, macroeconomic and industry forecasts, which corroborated their validity;

Key audit matter	How our audit addressed the Key audit matter
actual performance of the CGUs as of 31 December 2017. IFRS require management to assess the recoverable amount of each CGU subject to testing, as the higher of its value in use and its fair value less cost to sell. Management assessed the value in use for each such CGU using discounted cash flow models, and concluded that it is higher than fair value less cost to sell, as the assumptions of an average market participant for a similar company would generally be the same or, in some cases, even more conservative. Therefore the recoverable amount was determined as value in use. As a result of the testing performed, management concluded that no impairment or reversal of previously recognised impairment were required as of 31 December 2017. We focused on this area because of the significant judgmental factors involved in the calculation of recoverable amount of each CGU, and the significant carrying value of the assets in scope of the test.	• performing a sensitivity analysis over the key assumptions in order to assess their potential impact on impairment results and ranges of possible outcomes of the recoverable amounts; • examining management's assessment of the degree to which steel prices and sales volumes would need to reduce and the discount rates would need to increase, in isolation from other changes in assumptions, before an impairment arises on these CGUs; • validating the key assumptions used in the impairment models also as of 31 December 2017; • assessing compliance with the requirements of IFRS of the related disclosures in the consolidated financial statements. As a result of performing the above procedures, we have not identified any circumstances that would lead to material adjustments to the carrying value of goodwill, intangible assets and PP&E, recorded in the accompanying consolidated financial statements, or to the related disclosures.
2. Accounting for the investment in NBH *Refer to Notes 4 and 26(d) to the consolidated financial statements* NBH is a joint venture between the Group and Societe Wallonne de Gestion et de Participations S.A. (hereinafter – SOGEPA), which is accounted for using the equity method. Its carrying value as of 31 December 2017 was USD 194 million. In selecting the method of accounting for this investment, management made a judgement as to the assessment of joint control over NBH. We focused on this area because of its significance and the degree of judgement involved in classification of the investment in NBH. We also considered whether there were facts and circumstances which would trigger reassessment of the accounting treatment as required by IFRS.	Our audit work in respect of the management judgement as to existence of control / joint control / significant influence that impacts classification of the investment in NBH and the accounting method (consolidation or equity method), included: • inquiries of management of different levels both in Russia and in Belgium; • review of the shareholders' agreement and charter documents; • review of minutes of meetings of NBH Board of directors and shareholders' meetings to corroborate the assertion on joint decision making. As a result, we concurred with the management's assessment of existence of joint control and with the classification and the accounting treatment of the investment in NBH as of 31 December 2017 in the consolidated financial statements.

Key audit matter	How our audit addressed the Key audit matter
3. Determination of the carrying value of the investment in NBH *Refer to Note 4 and Note 26(d) to the Consolidated Financial Statements*	
In December 2017, the Group contributed an additional USD 84 million into the share capital of NBH. This contribution was made to increase the net assets of NBH to the minimum level prescribed by the Belgium law and was in the form of conversion of a loan previously issued to NBH. The Group management considered that SOGEPA's share in this contribution should not be expensed immediately, but the investment in NBH as a whole should be tested for impairment as of the date of this additional contribution using a discounted cash flow model. Management performed an analysis of the business performance, industry outlook and operational plans and then assessed the recoverable value of the CGUs within NBH for the purpose of impairment testing of the investment in the share capital of NBH. As a result of this impairment testing performed by management, no additional impairment/reversal of previously recognized impairment was identified as of 31 December 2017. We focused on this area as the amount of contribution made and the judgement over impairment of the investment in NBH are significant for the consolidated financial statements taken as a whole.	Our audit procedures included: • agreeing the amount of the Group's additional contribution into the share capital to supporting documentation; • obtaining evidence over SOGEPA's participation in NBH activities, including review of minutes of meetings of NBH Board of directors and Shareholders' meetings to confirm joint decision making; • testing management's impairment assessment of the investment in NBH. We performed audit procedures over the impairment models, including: o comparing the key assumptions used within the impairment models to historic performance and approved forecasts of the three CGUs within NBH; o performing sensitivity analysis over key assumptions (for example, weighted average cost of capital, sales prices and volumes forecasts); o involving our valuation experts to assess the appropriateness of management's impairment models; o verifying accuracy of the carrying value of the investment in NBH. For more details in respect of work performed over key assumptions refer to the Key audit matter 1 above. We compared the carrying value of the investment in the share capital of NBH as of 31 December 2017 to its recoverable amount and did not identify any material adjustments to the carrying value of investment in NBH in the accompanying consolidated financial statements.

How we tailored our group audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the Group's accounting processes and controls, and the industry in which the Group operates.

The Group's major production facilities are located in the Russian Federation, the USA and Western Europe and the trading companies are based out of Switzerland and Cyprus. Based on our continuing assessment, we included in our group audit scope the 12 components located in these regions.

The audits of the components were conducted by PwC network firms in the Russian Federation, USA, Denmark, Belgium, Switzerland and Cyprus in accordance with International Standard on Auditing (ISA) 600 «Special considerations – audits of group financial statements (including the work of component auditors)». The Group engagement team's instructions to component auditors included results of our risk assessment, materiality levels and the approach to the audit of centralised processes and systems. The Group engagement team is in regular contact with the component auditors and its representatives visited several component teams to review their work. Our selection is based on the relative significance of the entities within the Group or specific risks identified.

By performing the procedures above at the components in combination with additional procedures performed at Group level, we have obtained sufficient and appropriate audit evidence regarding the consolidated financial statements as a whole that provides a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises information included in the Group Annual Report for 2017 and the Issuer's Report for the first quarter of 2018, but does not include the consolidated financial statements and our auditor's report thereon. Both of these reports are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information referred to above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is A.S. Ivanov.

AO PricewaterhouseCoopers Audit

19 February 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

	Note	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Assets				
Current assets				
Cash and cash equivalents	3	301	610	343
Short-term financial investments	5	1,284	970	1,243
Trade and other accounts receivable	6	1,228	955	921
Inventories	7	1,879	1,549	1,205
Other current assets		19	19	9
		4,711	**4,103**	**3,721**
Non-current assets				
Long-term financial investments	5	2	164	220
Investments in joint ventures	4	205	181	118
Property, plant and equipment	8	5,549	5,328	4,452
Goodwill	9	265	253	215
Other intangible assets	9	135	126	112
Deferred income tax assets	17	84	62	68
Other non-current assets		45	22	12
		6,285	**6,136**	**5,197**
Total assets		**10,996**	**10,239**	**8,918**
Liabilities and equity				
Current liabilities				
Trade and other accounts payable	10	1,029	888	565
Dividends payable		537	361	161
Short-term borrowings	11	380	468	560
Current income tax liability		53	12	28
		1,999	**1,729**	**1,314**
Non-current liabilities				
Long-term borrowings	11	1,901	1,801	2,116
Deferred income tax liability	17	417	386	339
Other long-term liabilities		33	13	12
		2,351	**2,200**	**2,467**
Total liabilities		**4,350**	**3,929**	**3,781**
Equity attributable to Novolipetsk Steel shareholders				
Common stock	12(a)	221	221	221
Additional paid-in capital	23(e)	10	10	10
Accumulated other comprehensive loss		(5,631)	(5,978)	(6,989)
Retained earnings		12,029	12,039	11,883
		6,629	**6,292**	**5,125**
Non-controlling interests		**17**	18	12
Total equity		**6,646**	**6,310**	**5,137**
Total liabilities and equity		**10,996**	**10,239**	**8,918**

The consolidated financial statements as set out on pages 11 to 69 were approved by the Group's management and authorised for issue on 19 February 2018.

	Note	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Revenue	14	10,065	7,636	8,008
Cost of sales		(6,798)	(5,074)	(5,496)
Gross profit		**3,267**	**2,562**	**2,512**
General and administrative expenses		(364)	(316)	(261)
Selling expenses		(795)	(705)	(802)
Other operating income		3	16	14
Taxes, other than income tax	16	(80)	(70)	(76)
Operating profit before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment		**2,031**	**1,487**	**1,387**
Loss on disposals of property, plant and equipment		(1)	(3)	(8)
Impairment of non-current assets	4, 8, 9	(17)	(14)	(85)
Share of results of joint ventures	4	(90)	(61)	(103)
(Losses)/gains on investments, net		(5)	(4)	80
Finance income	18	29	39,	52
Finance costs	18	(87)	(105)	(95)
Foreign currency exchange gain/(loss), net	19	17	(129)	110
Other expenses, net		(54)	(38)	(17)
Profit before income tax		**1,823**	**1,172**	**1,321**
Income tax expense	17	(371)	(233)	(353)
Profit for the year		**1,452**	**939**	**968**
Profit is attributable to:				
Novolipetsk Steel shareholders		**1,450**	**935**	**967**
Non-controlling interests		**2**	**4**	**1**
Earnings per share:				
Earnings per share attributable to Novolipetsk Steel shareholders (US dollars)	13	0.2419	0.1560	0.1613
Weighted-average number of shares outstanding: basic and diluted (in thousands)	12(a)	5,993,227	5,993,227	5,993,227

The accompanying notes constitute an integral part of these consolidated financial statements.

	Note	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Profit for the year		1,452	939	968
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment	2(b)	348	1,013	(1,501)
Total comprehensive income/(loss) for the year		**1,800**	**1,952**	**(533)**
attributable to:				
Novolipetsk Steel shareholders		1,797	1,946	(530)
Non-controlling interests		3	6	(3)

NLMK

	Note	Attributable to Novolipetsk Steel shareholders					
	Note	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Non-controlling interest	Total equity
Balance at 1 January 2015		**221**	**-**	**(5,492)**	**11,513**	**15**	**6,257**
Profit for the year		-	-	-	967	1	968
Cumulative translation adjustment	2(b)	-	-	(1,497)	-	(4)	(1,501)
Total comprehensive loss		**-**	**-**	**(1,497)**	**967**	**(3)**	**(533)**
Disposal of assets to an entity under common control	23(e)	-	10	-	-	-	10
Dividends to shareholders	12(b)	-	-	-	(597)	-	(597)
Balance at 31 December 2015		**221**	**10**	**(6,989)**	**11,883**	**12**	**5,137**
Profit for the year		-	-	-	935	4	939
Cumulative translation adjustment	2(b)	-	-	1,011	-	2	1,013
Total comprehensive income		**-**	**-**	**1,011**	**935**	**6**	**1,952**
Dividends to shareholders	12(b)	-	-	-	(779)	-	(779)
Balance at 31 December 2016		**221**	**10**	**(5,978)**	**12,039**	**18**	**6,310**
Profit for the year		-	-	-	1,450	2	1,452
Cumulative translation adjustment	2(b)	-	-	347	-	1	348
Total comprehensive income		**-**	**-**	**347**	**1,450**	**3**	**1,800**
Acquisition of non-controlling interest		-	-	-	-	(1)	(1)
Dividends to shareholders	12(b)	-	-	-	(1,460)	(3)	(1,463)
Balance at 31 December 2017		**221**	**10**	**(5,631)**	**12,029**	**17**	**6,646**

	Note	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Cash flows from operating activities				
Profit for the year		**1,452**	**939**	**968**
Adjustments to reconcile profit for the year to net cash provided by operating activities:				
Depreciation and amortisation		624	456	556
Loss on disposals of property, plant and equipment		1	3	8
Losses/(gains) on investments		5	4	(80)
Finance income		(29)	(39)	(52)
Finance costs		87	105	95
Share of results of joint ventures	4	90	61	103
Income tax expense	17	371	233	353
Impairment of non-current assets		17	14	85
Foreign currency exchange (gain)/loss, net		(17)	129	(110)
Change in impairment allowance for inventories and accounts receivable		13	14	14
Changes in operating assets and liabilities				
(Increase)/decrease in trade and other accounts receivable		(223)	3	(1)
(Increase)/decrease in inventories		(262)	(201)	75
Increase in other operating assets		-	(9)	(6)
Increase/(decrease) in trade and other accounts payable		105	244	(79)
Cash provided by operations		**2,234**	**1,956**	**1,929**
Income tax paid		(335)	(257)	(307)
Net cash provided by operating activities		**1,899**	**1,699**	**1,622**
Cash flows from investing activities				
Purchases and construction of property, plant and equipment		(592)	(559)	(595)
Proceeds from sale of property, plant and equipment		10	9	11
Purchases of investments and loans given, net		(44)	(79)	(199)
Placement of bank deposits		(1,264)	(989)	(1,595)
Withdrawal of bank deposits		1,105	1,261	954
Interest received		28	36	44
Contribution to share capital of joint venture		-	-	(22)
Acquisition of non-controlling interest	4	(1)	-	-
Disposal of assets to an entity under common control	23(e)	-	-	10
Cash received in the course of bankruptcy proceedings		-	11	17
Net cash used in investing activities		**(758)**	**(310)**	**(1,375)**
Cash flows from financing activities				
Proceeds from borrowings		988	803	676
Repayment of borrowings		(1,093)	(1,256)	(579)
Interest paid		(69)	(84)	(79)
Dividends paid to Novolipetsk Steel shareholders		(1,283)	(583)	(395)
Dividends paid to non-controlling interests		(2)	-	-
Net cash used in financing activities		**(1,459)**	**(1,120)**	**(377)**
Net (decrease)/increase in cash and cash equivalents		**(318)**	**269**	**(130)**
Effect of exchange rate changes on cash and cash equivalents		9	(2)	(76)
Cash and cash equivalents at the beginning of the year	3	610	343	549
Cash and cash equivalents at the end of the year	3	**301**	**610**	**343**

Supplemental disclosures of cash flow information:

	Note	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Non-cash investing activities:				
Conversion of debt to equity	4	84	139	110

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 Parent Company is a public joint stock company in accordance with the Civil Code of the Russian Federation. The Parent Company was originally established as a State owned enterprise in 1934 and was privatised in the form of an open joint stock company on 28 January 1993. On 29 December 2015, the legal form of the Parent Company was changed to public joint stock company due to changes in legislation of the Russian Federation.

The Group is a vertically integrated steel company and the largest steel producer in Russia. The Group also operates in the mining segment (Note 21).

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 respective state and regional authorities. The Parent Company's registered office is located at 2, Metallurgov sq., 398040, Lipetsk, Russian Federation.

As at 31 December 2017, the Parent Company's major shareholder with 84.035% ownership interest is Fletcher Group Holdings Ltd., which is beneficially owned by Mr. Vladimir Lisin.

The major companies of the Group by reportable segment (see Note 21) are:

	Activity	Country of incorporation	Share at 31 December 2017	Share at 31 December 2016	Share at 31 December 2015
Russian flat products					
LLC VIZ-Steel	Production of steel	Russia	100.00%	100.00%	100.00%
JSC Altai-Koks	Production of blast furnace coke	Russia	100.00%	100.00%	100.00%
Novex Trading (Swiss) S.A.	Trading	Switzerland	100.00%	100.00%	100.00%
Novexco (Cyprus) Ltd.	Trading	Cyprus	100.00%	100.00%	100.00%
NLMK DanSteel and Plates Distribution Network					
NLMK DanSteel A/S	Production of steel	Denmark	100.00%	100.00%	100.00%
NLMK USA					
NLMK Indiana LLC	Production of steel	USA	100.00%	100.00%	100.00%
NLMK Pennsylvania LLC	Production of steel	USA	100.00%	100.00%	100.00%
Russian long products					
JSC NLMK-Ural	Production of steel and long products	Russia	92.59%	92.59%	92.59%
LLC NLMK-Metalware	Production of metalware	Russia	100.00%	100.00%	100.00%
LLC NLMK-Kaluga	Production of long products	Russia	100.00%	100.00%	100.00%
LLC Vtorchermet NLMK	Processing of metal scrap	Russia	100.00%	100.00%	100.00%
Mining					
JSC Stoilensky GOK	Mining, processing and pelletising of iron-ore	Russia	100.00%	100.00%	100.00%

1 Background (continued)

Among joint ventures the major is:

	Activity	Country of incorporation	Share at 31 December 2017	Share at 31 December 2016	Share at 31 December 2015
NLMK Belgium Holdings S.A.	Holding company*	Belgium	51.00%	51.00%	51.00%

**NLMK Belgium Holdings S.A. is owned jointly by the Group and SOGEPA, a Belgian state company (Note 4). It comprises strip and plate manufacturers located in Belgium, France and Italy.*

2 Basis of preparation of the consolidated financial statements

(a) Basis of preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except as described in the principal accounting policies applied in the preparation of these consolidated financial statements, as set out in Note 25. These policies have been consistently applied to all the periods presented in these consolidated financial statements. Figures for three reporting periods are presented for users' convenience.

(b) Functional and reporting currency

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

The results of operations and financial position of each Group entity are translated into the presentation currency as follows:

- assets and liabilities in the statement of financial position are translated at the closing rate at the end of the respective reporting period;
- income and expenses are translated at average exchange rates for each month (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- components of equity are translated at the historical rate;
- all resulting exchange differences are recognised in other comprehensive income.

Items of consolidated statement of cash flows are translated at average exchange rates for each month (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case proceeds and disposals are translated at the dates of the transactions).

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

2 Basis of preparation of the consolidated financial statements (continued)

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

	2017	2016	2015
Russian ruble to US dollar			
For the year ended 31 December	58,3529	67,0349	60,9579
As at 31 December	57,6002	60,6569	72,8827
Russian ruble to Euro			
For the year ended 31 December	65,9014	74,2310	67,7767
As at 31 December	68,8668	63,8111	79,6972

3 Cash and cash equivalents

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Cash			
Russian rubles	11	11	20
US dollars	63	89	99
Euros	70	52	41
Other currencies	4	2	2
Deposits			
Russian rubles	98	49	30
US dollars	19	394	140
Euros	24	1	-
Other currencies	-	1	11
Other cash equivalents	12	11	-
	301	**610**	**343**

The cash and cash equivalents as at 31 December 2017 and 2016 include $12 and $10, respectively, which are subject to regulatory restrictions and are therefore not available for general use by the entities within the Group.

4 Investments in joint ventures

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
NLMK Belgium Holdings S.A. ("NBH")	194	171	109
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	11	10	9
	205	**181**	**118**

4 Investments in joint ventures (continued)

The table below summarises the movements in the carrying amount of the Group's investments in joint ventures.

	2017	2016	2015
As at 1 January	**181**	**118**	**106**
Share of net loss	(61)	(61)	(103)
Conversion of debt to equity	84	139	110
The Group's contribution to the share capital	-	-	22
Disposal of 28.5% stake in NBH	-	-	(36)
Share of change in unrealised profit in inventory	(29)	(5)	30
Share of change in other comprehensive income	-	1	1
Translation adjustment	30	(11)	(12)
As at 31 December	**205**	**181**	**118**

Summarised consolidated financial information for NBH before impairment losses is as follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Current assets	940	736	734
Non-current assets	686	670	751
Total assets	**1,626**	**1,406**	**1,485**
Current liabilities	(864)	(560)	(658)
Non-current liabilities	(548)	(634)	(623)
Total liabilities	**(1,412)**	**(1,194)**	**(1,281)**
Equity	**214**	**212**	**204**
	For the year ended 31 December 2017	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**
Revenue	1,539	1,221	1,278
Net loss	(122)	(120)	(191)

NBH cash and cash equivalents as at 31 December 2017, 2016 and 2015 amounted to $26, $52 and $60, respectively.

NBH financial liabilities excluding trade and other accounts payable as at 31 December 2017, 2016 and 2015 amounted to $794, $671 and $715, respectively, and are included in current and non-current liabilities.

4 Investments in joint ventures (continued)

Reconciliation of net assets of NBH, calculated in accordance with its consolidated financial statements, to the carrying amount of the investment is below.

	2017	2016	2015
Net assets as at 1 January	**29**	**4**	**28**
Net loss for the year	(97)	(111)	(178)
Proportional contributions into share capital	-	-	43
Conversion of debt to equity	84	139	110
Other comprehensive income	-	1	1
Translation adjustment	3	(4)	-
Net assets as at 31 December	**19**	**29**	**4**
PP&E valuation difference	195	183	200
Adjusted net assets as at 31 December	**214**	**212**	**204**
As at 31 December:			
Share in net assets	109	108	104
Excess of fair value of investment in NBH as at the deconsolidation date	104	104	104
Accumulated share of the other investor in conversion of debt to equity	218	177	109
Accumulated impairment of investments	(240)	(240)	(240)
Share of unrealised profit in inventory	(34)	(5)	-
Cumulative translation adjustment	37	27	32
Investments in NBH	**194**	**171**	**109**

The other investor in NBH is SOGEPA, a Belgian state-owned company. In March 2015, the Group and SOGEPA signed an agreement providing for the increase of SOGEPA's stake in NBH from 20.5% to 49% and on further joint management of NBH's businesses. The Group reflected the disposal of its 28.5% stake in NBH (loss on the disposal amounting to $21) and derecognition of certain financial instruments previously included in other long-term liabilities (gain amounting to $76) in "(Losses)/gains on investments, net" line of the consolidated statement of profit or loss for the year ended 31 December 2015 in the net amount of $55. In March 2015, in accordance with the agreement, the Group and SOGEPA made additional pro-rata contributions to the share capital of NBH of $22 and $21, respectively. The Group and SOGEPA also agreed to support NBH in obtaining financing of its working capital. In December 2017, the Group converted existing loans to NBH into share capital in the amount of $84 (in June 2016: $139; in December 2015: $110). These contributions were also a part of the agreement signed in March 2015 and did not further change the Group's share in NBH.

Information about the Group's operations with NBH and investment impairment testing is disclosed in Notes 23 and 8, respectively.

5 Financial investments

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Short-term financial investments			
Bank deposits (Note 22 (c))			
- Russian rubles	6	1	15
- US dollars	1,051	855	1,091
- Euros	-	42	66
Total bank deposits	1,057	898	1,172
Loans to related parties (Note 23)	222	66	65
Other short-term financial investments	5	6	6
	1,284	970	1,243
Long-term financial investments			
Loans to related parties (Note 23)	-	164	220
Bank deposits	2	-	-
	2	164	220
	1,286	**1,134**	**1,463**

The fair value of short-term financial investments equals their carrying amount. The fair values of long-term financial investments approximate their carrying amount.

6 Trade and other accounts receivable

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Financial assets			
Trade accounts receivable	996	693	613
Allowance for impairment of trade accounts receivable	(23)	(24)	(16)
Other accounts receivable	29	25	40
Allowance for impairment of other accounts receivable	(20)	(18)	(15)
	982	676	622
Non-financial assets			
Advances given to suppliers	58	54	54
Allowance for impairment of advances given to suppliers	(3)	(2)	(4)
VAT and other taxes receivable	190	225	247
Accounts receivable from employees	1	2	2
	246	279	299
	1,228	**955**	**921**

Due to the short-term nature of trade and other accounts receivable, their carrying amount is considered to be the same as their fair value.

As at 31 December 2017, 2016 and 2015, accounts receivable of $160, $122 and $74, respectively, served as collateral for certain borrowings (Note 11).

6 Trade and other accounts receivable (continued)

Movements in the allowance for impairment of financial receivables are as follows:

	2017	2016	2015
As at 1 January	**(42)**	**(31)**	**(49)**
Allowance for impairment recognised	(11)	(16)	(28)
Accounts receivable written-off	4	2	21
Allowance for impairment reversed	6	8	14
Disposal of subsidiary	3	-	-
Translation adjustment	(3)	(5)	11
As at 31 December	**(43)**	**(42)**	**(31)**

7 Inventories

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Raw materials	830	705	522
Work in process	603	460	400
Finished goods	514	443	341
	1,947	1,608	1,263
Impairment allowance	(68)	(59)	(58)
	1,879	**1,549**	**1,205**

As at 31 December 2017, 2016 and 2015 inventories of $423, $296 and $304, respectively, served as collateral for certain borrowings (Note 11).

Cost of raw materials and acquired semi-finished goods in cost of sales for the years ended 31 December 2017, 2016 and 2015 amounted to $4,676, $3,443 and $3,488, respectively. Cost of fuel and energy resources in cost of sales for the years ended 31 December 2017, 2016 and 2015 amounted to $651, $552 and $601, respectively.

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8 Property, plant and equipment

	Land	Buildings	Land and buildings improvements	Machinery and equipment	Vehicles	Construction in progress	Total
Cost at 1 January 2015	131	1,712	1,435	6,434	270	906	10,888
Accumulated depreciation and impairment	-	(652)	(671)	(3,789)	(161)	-	(5,273)
Net book value at 1 January 2015	**131**	**1,060**	**764**	**2,645**	**109**	**906**	**5,615**
Additions	-	-	-	-	-	640	640
Disposals	(1)	(1)	(4)	(12)	(2)	(33)	(53)
Impairment	-	(14)	(7)	(27)	(11)	-	(59)
Transfers	1	30	38	225	15	(309)	-
Depreciation charge	-	(40)	(46)	(396)	(24)	-	(506)
Translation adjustment	(30)	(218)	(119)	(543)	(21)	(254)	(1,185)
Cost at 31 December 2015	101	1,378	1,687	4,687	219	950	9,022
Accumulated depreciation and impairment	-	(561)	(1,061)	(2,795)	(153)	-	(4,570)
Net book value at 31 December 2015	**101**	**817**	**626**	**1,892**	**66**	**950**	**4,452**
Additions	-	-	-	-	-	540	540
Disposals	-	(1)	(1)	(4)	-	(6)	(12)
Transfers	-	159	118	526	21	(824)	-
Depreciation charge	-	(34)	(46)	(350)	(19)	-	(449)
Translation adjustment	20	156	115	294	14	198	797
Cost at 31 December 2016	121	1,799	2,113	5,994	266	858	11,151
Accumulated depreciation and impairment	-	(702)	(1,301)	(3,636)	(184)	-	(5,823)
Net book value at 31 December 2016	**121**	**1,097**	**812**	**2,358**	**82**	**858**	**5,328**

8 Property, plant and equipment (continued)

	Land	Buildings	Land and buildings improvements	Machinery and equipment	Vehicles	Construction in progress	Total
Additions	-	-	-	-	-	585	585
Disposals	-	-	(4)	(1)	-	(6)	(11)
Impairment	-	-	-	-	-	(8)	(8)
Transfers	-	171	110	314	23	(618)	-
Depreciation charge	-	(52)	(76)	(471)	(18)	-	(617)
Translation adjustment	7	58	44	115	4	44	272
Cost at 31 December 2017	128	2,057	2,328	6,533	279	855	12,180
Accumulated depreciation and impairment	-	(783)	(1,442)	(4,218)	(188)	-	(6,631)
Net book value at 31 December 2017	**128**	**1,274**	**886**	**2,315**	**91**	**855**	**5,549**

The amount of borrowing costs capitalised is $37, $37 and $51 for the years ended 31 December 2017, 2016 and 2015, respectively. The capitalisation rate was 3.7%, 4.1% and 4.4% in 2017, 2016 and 2015, respectively.

8 Property, plant and equipment (continued)

The Group management made an analysis of impairment indicators of the Group's assets as at 30 September 2017. High volatility on the market of finished products and main raw materials (coal and ore) triggered impairment assessment of some of the Group's assets, while positive trends on the steel market in the second half of 2017 caused by increases in metal prices, particularly in Russia and the USA, represented triggers for potential reversal of previously recognised impairment losses, which required the reassessment of the recoverable amounts of certain assets using the income approach based primarily on Level 3 inputs as at 31 December 2017. Goodwill was also tested for impairment as of the same date. Testing for impairment in the comparative periods was caused by a deterioration in the steel market and was conducted as of 31 October 2016 and 31 December 2015.

For the purpose of the impairment test, the Group management used a forecast of cash flows for six years due to the relatively long useful lives of steel making equipment, and normalised cash flows for a post-forecast period.

The table below summarises cash generating units (further – "CGUs") and types of assets, subject to determination of the recoverable amount as of 31 December 2017, major assumptions and their sensitivity used in the impairment models. Sales price in this estimate is an average annual growth rate, over the 6-year (31 October 2016: 7-year; 31 December 2015: 7-year) forecast period based on current industry trends and including long-term inflation forecasts for each territory. Sales volume is an average annual growth rate over the 6-year (31 October 2016: 7-year; 31 December 2015: 7-year) forecast period; based on past performance and management's expectations of market development. Discount rate reflects specific risks relating to the relevant segments and the countries in which they operate. Sensitivity in the table below was determined as a percent of changes of corresponding factors in forecast and post-forecast periods when recoverable values of assets (value in use) become equal to their carrying values. As of 31 December 2017 testing showed neither impairment, nor reversal of previously recognised impairment loss.

					Sensitivity, % of change		
CGU	**Asset type**	**Discount rate, %**	**Product types**	**Average sale price*, $ per tonne (FCA)**	**Sales Price**	**Sales volume**	**Discount rate**
NLMK Belgium Holdings S.A.	Investment	9%	Flat products and plate	687	0.0%	0.3%	0.0%
NLMK Pennsylvania LLC	Property, plant and equipment	11%	Flat products	737	-5%	-38%	9%
JSC Stoilensky GOK	Property, plant and equipment	15%	Iron ore and pellets	54	-44%	-61%	35%
JSC Stoilensky GOK	Goodwill	15%	Iron ore and pellets	54	-43%	-63%	33%
JSC NLMK-Ural	Property, plant and equipment	15%	Long products and semi-finished goods	461	-0.1%	-0.4%	0.2%
LLC NLMK-Kaluga	Property, plant and equipment	14%	Long-products and semi-finished goods	467	-0.4%	-4%	0.3%
NLMK DanSteel A/S	Property, plant and equipment	9%	Plate	692	-2%	-10%	2%

** Weighted average prices based on the forecast product mix, averaged for the period from 2018 to 2023*

8 Property, plant and equipment (continued)

The table below summarises CGUs and types of assets, subject to determination of the recoverable amount as of 31 October 2016, major assumptions and their sensitivity used in the impairment models. Prices for steel products in this estimate were determined based on forecasts of investment banks' analysts. Sensitivity in the table below was determined as a percent of changes of corresponding factors in forecast and post-forecast periods when recoverable values of assets (value in use) become equal to their carrying values. As of 31 October 2016 testing showed neither impairment, nor reversal of previously recognised impairment loss.

CGU	Asset type	Discount rate, %	Product types	Average sale price*, $ per tonne (FCA)	Sensitivity, % of change	
					Price	Sales volume
NLMK Pennsylvania LLC	Property, plant and equipment	11%	Flat products	705	-2%	-17%
NLMK Indiana LLC	Property, plant and equipment	10%	Flat products	582	-1%	-7%
NLMK Indiana LLC	Goodwill	10%	Flat products	582	-1%	-6%
Scrap collecting assets in Russian long products segment	Property, plant and equipment	15%	Metal scrap	237	-0.05%	-0.2%
JSC NLMK-Ural	Property, plant and equipment	15%	Long products and semi-finished goods	452	-1%	-2%
LLC NLMK-Kaluga	Property, plant and equipment	14%	Long-products and semi-finished goods	429	-0.04%	-0.4%
NLMK DanSteel A/S	Property, plant and equipment	9%	Plate	685	-0.3%	-2%

** Weighted average prices based on the forecast product mix, averaged for the period from November 2017 to 2023*

8 Property, plant and equipment (continued)

The table below summarises CGUs and types of assets, subject to impairment test as of 31 December 2015, major assumptions and their sensitivity used in the impairment models. Prices for steel products in this estimate were determined based on forecasts of investment banks' analysts. Sensitivity in the table below was determined as a percent of changes of corresponding factors in forecast and post-forecast periods when recoverable values of assets (value in use) become equal to their carrying values. As of 31 December 2015 impairment testing showed that recoverable amount of property, plant and equipment (value in use) of scrap collecting assets in Russian long products segment and JSC NLMK-Ural was below its carrying amount by $24 and $35, respectively. Impairment testing also showed impairment of goodwill in NLMK Indiana LLC by $14.

CGU	Asset type	Discount rate, %	Product types	Average sale price*, $ per tonne (FCA)	Sensitivity, % of change	
					Price	Sales volume
JSC Stoilensky GOK	Property, plant and equipment and intangible assets	15%	Iron ore	44	-43%	-56%
JSC Stoilensky GOK	Goodwill	15%	Iron ore	44	-36%	-47%
NLMK Pennsylvania LLC	Property, plant and equipment	10%	Flat products	646	-3%	-22%
NLMK Indiana LLC	Property, plant and equipment	10%	Flat products	540	-0.4%	-3%
NLMK Indiana LLC	Goodwill	10%	Flat products	540	+0.3%	+2%
JSC Altai-Koks	Property, plant and equipment	16%	Coke, chemical products	172	-15%	-40%
JSC Altai-Koks	Goodwill	16%	Coke, chemical products	172	-13%	-35%
Scrap collecting assets in Russian long products segment	Property, plant and equipment	14%	Metal scrap	171	+3%	-
JSC NLMK-Ural	Property, plant and equipment	14%	Long products and semi-finished goods	344	+1%	+2%
LLC NLMK-Kaluga	Property, plant and equipment	14%	Long-products and semi-finished goods	353	-0.2%	-1%
LLC NLMK-Metalware	Property, plant and equipment	15%	Metalware	464	-7%	-31%
NLMK DanSteel A/S	Property, plant and equipment	9%	Plate	630	-1%	-5%

** Weighted average prices based on the forecast product mix, averaged for the period from 2016 to 2022*

9 Intangible assets

	Goodwill	Mineral rights	Customer base	Industrial intellectual property	Beneficial lease interest	Total
Cost at 1 January 2015	285	359	148	30	9	831
Accumulated amortisation and impairment	-	(217)	(110)	(25)	(1)	(353)
Net book value at 1 January 2015	**285**	**142**	**38**	**5**	**8**	**478**
Amortisation charge	-	(7)	(38)	(5)	-	(50)
Impairment	(14)	-	-	-	-	(14)
Translation adjustment	(56)	(31)	-	-	-	(87)
Cost at 31 December 2015	229	277	-	-	9	515
Accumulated amortisation and impairment	(14)	(173)	-	-	(1)	(188)
Net book value at 31 December 2015	**215**	**104**	**-**	**-**	**8**	**327**
Amortisation charge	-	(7)	-	-	-	(7)
Translation adjustment	38	21	-	-	-	59
Cost at 31 December 2016	267	333	-	-	9	609
Accumulated amortisation and impairment	(14)	(215)	-	-	(1)	(230)
Net book value at 31 December 2016	**253**	**118**	**-**	**-**	**8**	**379**
Additions	-	-	-	10	-	10
Amortisation charge	-	(7)	-	-	-	(7)
Translation adjustment	12	6	-	-	-	18
Cost at 31 December 2017	279	351	-	10	9	649
Accumulated amortisation and impairment	(14)	(234)	-	-	(1)	(249)
Net book value at 31 December 2017	**265**	**117**	**-**	**10**	**8**	**400**

The intangible assets were acquired in business combinations and met the criteria for separate recognition. They were recorded at fair values at the date of acquisition, based on their appraised values.

Mineral rights include a license for iron ore and non-metallic minerals mining of Stoilensky iron-ore deposit in Belgorod Region expiring in 2040, with the carrying value of $86, $86 and $76 as at 31 December 2017, 2016 and 2015, respectively.

Goodwill arising on acquisitions was allocated to the appropriate business segments in which the respective acquisitions took place.

9 Intangible assets (continued)

Allocation of net book value of goodwill to each segment is as follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Russian flat products	176	167	139
NLMK USA	21	21	21
Russian long products	3	3	3
Mining	65	62	52
	265	**253**	**215**

Goodwill impairment testing

The Group tested goodwill for impairment as at 31 December 2017, 31 October 2016 and 31 December 2015. For the purpose of annual impairment testing of goodwill related to CGUs JSC Altai-Koks, LLC VIZ-Steel and LLC NLMK Indiana as at 31 December 2017, management decided to use the previous detailed calculations of these CGUs' recoverable amounts prepared as at 31 October 2016 as there were no significant changes in the underlying businesses. The recoverable amount has been determined as value in use of the respective assets. For the purpose of this impairment testing, the Group used the same assumptions and estimates as for other assets, as disclosed in Note 8. Impairment testing showed no impairment of goodwill as at 31 December 2017 and 31 October 2016 and showed impairment of goodwill related to NLMK Indiana LLC by $14 as at 31 December 2015.

10 Trade and other accounts payable

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Financial liabilities			
Trade accounts payable	600	522	342
Other accounts payable	30	16	16
	630	538	358
Non-financial liabilities			
Accounts payable and accrued liabilities to employees	156	179	105
Advances received	153	130	63
Taxes payable other than income tax	90	41	39
	399	350	207
	1,029	**888**	**565**

Due to the short-term nature of trade and other accounts payable, their carrying amount is considered to be the same as their fair values.

11 Borrowings

Rates	Currency	Maturity	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Bonds					
8.05% to 11.10%	RUR	2017	-	168	350
4.00% to 4.95%	USD	2018-2024	1,501	1,318	1,196
Loans					
LIBOR +2.00%	USD	2021	94	332	583
EURIBOR +0.90% to EURIBOR +2.00%	EUR	2018-2022	686	451	547
			2,281	**2,269**	**2,676**
Less: short-term borrowings and current maturities of long-term borrowings			(380)	(468)	(560)
Long-term borrowings			**1,901**	**1,801**	**2,116**

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

	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,346	1,385	1,307	1,325	1,316	1,301

The fair value of short-term borrowings equals their carrying amount. The fair values of long-term borrowings approximate their carrying amount. The fair values of bonds are based on market price and are within level 1 of the fair value hierarchy.

The Group has complied with the financial and non-financial covenants of its borrowing facilities during the years ended 31 December 2017, 2016 and 2015.

The long-term borrowings mature as follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
1-2 year	228	586	360
2-5 years	473	501	1,719
over 5 years	1,200	714	37
	1,901	**1,801**	**2,116**

Collateral

As at 31 December 2017, 2016 and 2015, the loan facilities were secured by inventories and accounts receivable in the total amount of $583, $418 and $378, respectively (Notes 6, 7).

11 Borrowings (continued)

Net debt reconciliation

	Short-term borrowings	Long-term borrowings	Cash and cash equivalents	Short-term bank deposits	Net debt
Balance at 31 December 2016	(468)	(1,801)	610	898	(761)
Cash flows	207	(32)	(314)	135	(4)
Interest accrued	(88)	-	-	23	(65)
Foreign exchange difference	(6)	32	(4)	(54)	(32)
Translation adjustment	(25)	(100)	9	55	(61)
Balance at 31 December 2017	**(380)**	**(1,901)**	**301**	**1,057**	**(923)**

12 Shareholders' equity

(a) Shares

As at 31 December 2017, 2016 and 2015, the Parent Company's share capital consisted of 5,993,227,240 issued common shares, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at the stockholders' meetings.

(b) Dividends

Dividends are paid on common shares at the recommendation of the Board of Directors and approval at a General Shareholders Meeting, subject to certain limitations as determined by the Russian legislation. Profits available for distribution to the shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. As at 31 December 2017, 2016 and 2015, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to $5,728, $5,024 and $4,361, converted into US dollars using exchange rates at 31 December 2017, 2016 and 2015, respectively.

According to the Group's dividend policy, the Group pays dividends on a quarterly basis as follows:

- if Net Debt/EBITDA for the preceding 12 months is 1.0x or less: dividends are in range with the boundaries of 50% of net profit and 50% of free cash flow calculated based on IFRS consolidated financial statements;
- if Net Debt/EBITDA for the preceding 12 months exceeds 1.0x: dividends are in range with the boundaries of 30% of net profit and 30% of free cash flow calculated based on IFRS consolidated financial statements.

Dividends, declared by the Parent Company and translated at the historical rate as of the announcement date, are as in the table below.

		2017		2016		2015	
	Declaration period	Per share*	Total amount	Per share*	Total amount	Per share*	Total amount
For the 4th quarter of previous year	June	3.38	358	2.43	218	1.56	170
For the 1st quarter of current year	June	2.35	249	1.13	102	1.64	179
For the 2nd quarter of current year	September	3.20	328	1.08	102	0.93	84
For the 3rd quarter of current year	December	5.13	525	3.63	357	1.95	164
			1,460		**779**		**597**

** Dividends per share are shown in Russian rubles.*

12 Shareholders' equity (continued)

(c) Capital management

The Group's objectives when managing capital are to safeguard financial stability and a target return for the shareholders, as well as the reduction of cost of capital and optimisation of its structure. To achieve these objectives, the Group may revise its investment program, borrow new or repay existing loans, offer equity or debt instruments on capital markets.

When managing capital, the Group uses the following indicators:

- the return on invested capital ratio, which is defined as operating profit before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment less tax divided by capital employed for the last twelve months, should exceed cost of capital;
- the net debt to EBITDA ratio, which is defined as total debt less cash and cash equivalents and short-term bank deposits divided by operating profit before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment less depreciation and amortization for the last twelve months;
- free cash flow, which is defined as net cash provided by operating activities less net interest paid less capital expenditures, should be positive.

There were no changes in the Group's approach to capital management during the reporting period.

13 Earnings per share

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Profit for the year attributable to the NLMK shareholders (millions of US dollars)	1,450	935	967
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
Basic earnings per share (US dollars)	**0.2419**	**0.1560**	**0.1613**

Basic net earnings per share is calculated by dividing profit for the year attributable to the NLMK shareholders by the weighted average number of common shares outstanding during the reporting period. NLMK does not have potentially dilutive financial instruments during the years ended 31 December 2017, 2016 and 2015.

The average shares outstanding for the purposes of basic earnings per share information was 5,993,227,240 for the years ended 31 December 2017, 2016 and 2015.

14 Revenue

(a) Revenue by product

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Flat products	5,674	4,325	4,366
Pig iron, slabs and billets	2,612	1,887	2,207
Long products and metalware	1,090	838	809
Coke and other chemical products	346	210	229
Scrap	75	55	47
Iron ore and sintering ore	-	147	166
Other products	268	174	184
	10,065	**7,636**	**8,008**

14 Revenue (continued)

(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 year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Russia	3,887	3,077	3,146
North America	1,932	1,328	1,357
European Union	1,730	1,373	1,603
Middle East, including Turkey	1,083	629	684
Asia and Oceania	277	317	374
Other regions	1,156	912	844
	10,065	**7,636**	**8,008**

Other regions are represented by countries from Central America, South America and the CIS.

The Group does not have customers with a share of more than 10% of the total revenue.

15 Labour costs

The Group's labour costs, including social security costs, which are included in the corresponding lines of the consolidated statement of profit or loss, were as indicated below.

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Cost of sales	711	602	608
General and administrative expenses	221	194	154
Selling expenses	28	28	31
	960	**824**	**793**

Remuneration of the key management personnel that comprises payments to members of the Management Board and the Board of Directors of the Parent Company, is recorded within general and administrative expenses and includes annual compensation and performance bonus contingent on the Group's results for the reporting year and a provision for long-term incentive plan for the Group's strategic targets in 2017-2018.

Total remuneration of the key management personnel, including social security costs amounted to $24, $31 and $11 in 2017, 2016 and 2015, respectively. As at 31 December 2017 accrued liabilities to key management personnel related to long-term incentive plan and recorded within other long-term liabilities amounted to $9.

16 Taxes, other than income tax

Allocation of taxes, other than income tax to the functional items of consolidated statement of profit or loss is indicated below.

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Cost of sales	70	64	67
General and administrative expenses	3	2	4
Other operating expenses	7	4	5
	80	**70**	**76**

17 Income tax

Income tax charge comprises the following:

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Current income tax expense	(374)	(237)	(301)
Deferred income tax benefit/(expense)	3	4	(52)
Total income tax expense	**(371)**	**(233)**	**(353)**

The corporate income tax rate applicable to the Group entities located in Russia, is predominantly 20%. The corporate income tax rate applicable to income of foreign subsidiaries ranges from 11% to 35%.

Profit before income tax is reconciled to the income tax expense as follows:

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Profit before income tax	1,823	1,172	1,321
Income tax at applicable tax rate 20%	(365)	(234)	(264)
Change in income tax:			
- tax effect of non-deductible expenses	(16)	(13)	(27)
- non-taxable translation adjustments	(2)	(5)	17
- effect of different tax rates	5	-	32
- unrecognized deferred tax asset on investments in joint ventures	(21)	(20)	(36)
- unrecognised tax loss carry forward for the year	(3)	(2)	(83)
- utilisation of previously unrecognised tax loss carry forward	50	51	-
- change in option and in NBH ownership	-	-	19
- write-off of previously recognised deferred tax assets	(19)	(21)	(10)
- other	-	11	(1)
Total income tax expense	**(371)**	**(233)**	**(353)**

17 Income tax (continued)

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities, are presented below:

	As at 31 December 2017	Charged/(credited) to profit or loss	Translation adjustment	As at 1 January 2017
Deferred tax assets				
Trade and other accounts payable	21	(5)	2	24
Trade and other accounts receivable	14	(1)	1	14
Inventories	23	22	1	-
Tax losses carried forward	30	(36)	1	65
	88	**(20)**	**5**	**103**
Deferred tax liabilities				
Property, plant and equipment	(410)	15	(17)	(408)
Other intangible assets	(11)	(3)	-	(8)
Inventories	-	11	-	(11)
	(421)	**23**	**(17)**	**(427)**
Total deferred tax liability, net	**(333)**	**3**	**(12)**	**(324)**

	As at 31 December 2016	Charged/(credited) to profit or loss	Translation adjustment	As at 1 January 2016
Deferred tax assets				
Trade and other accounts payable	24	(124)	74	74
Trade and other accounts receivable	14	20	(9)	3
Tax losses carried forward	65	149	(84)	-
Other	-	(36)	20	16
	103	**9**	**1**	**93**
Deferred tax liabilities				
Property, plant and equipment	(408)	(21)	(45)	(342)
Other intangible assets	(8)	3	(3)	(8)
Inventories	(11)	9	(7)	(13)
Other non-current liabilities	-	4	(3)	(1)
	(427)	**(5)**	**(58)**	**(364)**
Total deferred tax liability, net	**(324)**	**4**	**(57)**	**(271)**

	As at 31 December 2015	Charged/(credited) to profit or loss	Translation adjustment	As at 1 January 2015
Deferred tax assets				
Trade and other accounts payable	74	(18)	(9)	101
Trade and other accounts receivable	3	(10)	(3)	16
Inventories	-	(21)	(4)	25
Tax losses carried forward	-	(13)	(2)	15
Other	16	3	(1)	14
	93	**(59)**	**(19)**	**171**
Deferred tax liabilities				
Property, plant and equipment	(342)	12	76	(430)
Other intangible assets	(8)	(1)	2	(9)
Inventories	(13)	(14)	1	-
Other non-current liabilities	(1)	10	3	(14)
	(364)	**7**	**82**	**(453)**
Total deferred tax liability, net	**(271)**	**(52)**	**63**	**(282)**

17 Income tax (continued)

The amount of tax loss carry forwards that can be utilised each year is limited under the Group's different tax jurisdictions. The Group regularly evaluates assumptions underlying its assessment of the realisability of its deferred tax assets and makes adjustments to the extent necessary. In assessing the probability that future taxable profit against which the Group can utilise the potential benefit of the tax loss carry forwards will be available, management considers the current situation and the future economic benefits outlined in specific business plans for each subsidiary. Deferred tax assets are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

The table below summarises unused cumulative tax losses for which no deferred tax assets has been recognised, with a breakdown by the expiry dates.

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
From 1 to 5 years	99	211	294
From 5 to 10 years	115	98	376
More than 10 years	749	828	851
No expiration	1,486	1,398	977
Total	**2,449**	**2,535**	**2,498**

The unused tax losses were incurred mostly by subsidiaries located in Europe.

The Group has not recorded a deferred tax liability in respect of temporary differences of $1,569, $1,448 and $908 for the years ended 31 December 2017, 2016 and 2015, respectively, associated with investments in subsidiaries and joint ventures as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

In accordance with the statutory legislation, the Group's entities in Russia (major entities, including NLMK) and USA were integrated in two separate consolidated groups of taxpayers for the purpose of assessment and payment of corporate income tax in line with the combined financial result of business operations. The Group's entities that are not part of the consolidated groups of taxpayers assess their income taxes individually.

As at 31 December 2017, 2016 and 2015, the Group analysed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Group believes that all deductible tax positions which form the basis for income tax returns of the Group companies, are recognised and measured in accordance with the applicable tax legislation.

18 Finance income and costs

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Interest income on bank accounts and bank deposits	23	29	45
Other finance income	6	10	7
Total finance income	**29**	**39**	**52**
Interest expense on borrowings	(88)	(104)	(119)
Capitalised interest	23	33	32
Other finance costs	(22)	(34)	(8)
Total finance costs	**(87)**	**(105)**	**(95)**

19 Foreign exchange differences

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Foreign exchange (loss)/gain on cash and cash equivalents	(3)	(84)	45
Foreign exchange (loss)/gain on financial investments	(56)	(434)	542
Foreign exchange gain/(loss)on debt financing	28	393	(415)
Foreign exchange gain/(loss) on other assets and liabilities	48	(4)	(62)
	17	**(129)**	**110**

20 Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Within 1 year	10	9	7
From 1 to 5 years	35	33	28
After 5 years	16	20	23
Total commitments for minimum lease payments	**61**	**62**	**58**

In 2017, 2016 and 2015 total rental expenses relating to operating leases were equal to $11, $7 and $5, respectively.

21 Segment information

The Group management examines the Group's performance both from a product and geographic perspective and has identified six reportable segments of its business: Mining, Russian flat products, Russian long products, NLMK USA, NLMK DanSteel and Plates Distribution Network, and Investments in NBH. Each of these segments represents a combination of subsidiaries (except for Investments in NBH – see Note 4), offers its own products, has a separate management team and is managed separately with relevant results reviewed on a monthly basis by the Group's Management Board which is the Chief Operating Decision Maker as defined by IFRS 8, Segment Reporting.

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 loss on disposals of property, plant and equipment, profit for the year 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 year" line together with other intercompany elimination adjustments, including elimination of NBH's liabilities to the Group companies (Note 23). NBH deconsolidation adjustments include elimination of NBH's sales, recognition of the Group's sales to NBH and elimination of unrealised profits (Notes 4, 23), elimination of NBH's assets and liabilities and recognition of the investment in joint venture (Note 4), recognition of impairment and share of NBH's loss, and other consolidation adjustments.

21 Segment information (continued)

Information on the segments' profit or loss for the year ended 31 December 2017 and their assets and liabilities as of this date is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Elimination of intersegmental operations and balances	NBH deconsoli-dation adjust-ments	Total
Revenue from external customers	24	5,595	1,391	1,670	415	1,473	-	(503)	10,065
Intersegment revenue	920	2,064	403	-	1	66	(3,388)	(66)	-
Cost of sales	(356)	(5,320)	(1,522)	(1,459)	(372)	(1,495)	3,228	498	(6,798)
Gross profit	588	2,339	272	211	44	44	(160)	(71)	3,267
Operating profit/(loss)*	524	1,357	77	139	(6)	(99)	(33)	72	2,031
Net finance income/(costs)	12	(52)	(5)	(9)	(4)	(17)	-	17	(58)
Income tax (expense)/benefit	(92)	(279)	(13)	4	(21)	15	30	(15)	(371)
Profit/(loss) for the year	403	1,586	56	133	(32)	(122)	(576)	4	1,452
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 amortisation	(118)	(365)	(75)	(58)	(8)	(75)	-	75	(624)
Capital expenditures	(116)	(422)	(22)	(28)	(15)	(27)	-	27	(603)

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

21 Segment information (continued)

Information on the segments' profit or loss for the year ended 31 December 2016 and their assets and liabilities as of this date is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Elimination of intersegmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	166	4,272	1,020	1,162	324	1,176	-	(484)	7,636
Intersegment revenue	431	1,315	274	-	1	45	(2,021)	(45)	-
Cost of sales	(218)	(3,725)	(1,052)	(991)	(292)	(1,164)	1,897	471	(5,074)
Gross profit	379	1,862	242	171	33	57	(124)	(58)	2,562
Operating profit/(loss)*	275	1,047	91	117	(7)	(77)	(36)	77	1,487
Net finance income/(costs)	13	(60)	(3)	(13)	(3)	(19)	-	19	(66)
Income tax (expense)/benefit	(48)	(205)	(4)	8	1	5	15	(5)	(233)
Profit/(loss) for the year	190	660	89	111	(10)	(120)	(40)	59	939
Segment assets	1,903	7,430	1,171	742	285	1,406	(1,484)	(1,214)	10,239
Segment liabilities	(312)	(3,939)	(591)	(302)	(288)	(1,194)	1,932	765	(3,929)
Depreciation and amortisation	(43)	(297)	(47)	(61)	(8)	(75)	-	75	(456)
Capital expenditures	(218)	(301)	(16)	(19)	(5)	(21)	-	21	(559)

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

21 Segment information (continued)

Information on segments' profit or loss for the year ended 31 December 2015 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	Elimination of intersegmental operations and balances	NBH deconsoli-dation adjust-ments	Total
Revenue from external customers	184	4,732	858	1,098	343	1,221	-	(428)	8,008
Intersegment revenue	405	1,344	293	-	1	57	(2,043)	(57)	-
Cost of sales	(226)	(4,004)	(1,025)	(1,192)	(321)	(1,121)	2,064	329	(5,496)
Gross profit/(loss)	363	2,072	126	(94)	23	157	21	(156)	2,512
Operating profit/(loss)*	257	1,199	(16)	(155)	(11)	(172)	113	172	1,387
Net finance income/(costs)	16	1	(26)	(30)	(4)	(20)	-	20	(43)
Income tax (expense)/benefit	(71)	(253)	2	6	1	7	(38)	(7)	(353)
Profit/(loss) for the year	278	1,285	(93)	(192)	(14)	(191)	(193)	88	968
Segment assets	1,477	7,456	951	744	288	1,485	(2,125)	(1,358)	8,918
Segment liabilities	(326)	(3,603)	(565)	(1,101)	(284)	(1,281)	2,604	775	(3,781)
Depreciation and amortisation	(41)	(378)	(65)	(62)	(10)	(80)	-	80	(556)
Capital expenditures	(281)	(266)	(25)	(20)	(3)	(39)	-	39	(595)

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

21 Segment information (continued)

Geographically, all significant assets, production and administrative facilities of the Group are located in Russia, USA and Europe. The following is a summary of non-current assets other than financial instruments, investments in joint ventures and deferred tax assets by location:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Russian Federation	5,512	5,242	4,260
USA	350	378	420
Denmark	124	103	107
Other	8	6	4
	5,994	**5,729**	**4,791**

22 Risks and uncertainties

(a) Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 24(f)).

The Russian economy was growing in 2017, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political developments in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This environment may have a significant impact on the Group's operations and financial position and the future effects of the current economic situation are difficult to predict therefore management's current expectations and estimates could differ from actual results. Management is taking necessary measures to ensure sustainability of the Group's operations.

The major financial risks inherent to the Group's operations are those related to market risk, credit risk and liquidity risk. The objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

(b) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and commodity price risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk of changes in market interest rates relates primarily to the Group's long-term borrowings with variable interest rates. To manage this risk, the Group continuously monitors interest rate movements. The Group reduces its exposure to this risk by having a balanced portfolio of fixed and variable rate borrowings.

22 Risks and uncertainties (continued)

The interest rate risk profile of the Group is follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Fixed rate instruments			
Financial assets			
- cash and cash equivalents (Note 3)	301	610	343
- financial investments (Note 5)	1,286	1,134	1,463
- trade and other accounts receivable less allowance for impairment (Note 6)	982	676	622
	2,569	**2,420**	**2,428**
Financial liabilities			
- trade and other accounts payable (Note 10)	(630)	(538)	(358)
- dividends payable	(537)	(361)	(161)
- borrowings (Note 11)	(1,501)	(1,486)	(1,546)
	(2,668)	**(2,385)**	**(2,065)**
Variable rate instruments			
Financial liabilities			
- borrowings (Note 11	*(780)*	*(783)*	*(1,130)*
	(780)	**(783)**	**(1,130)**

A change of 100 basis points in interest rates for variable rate instruments would not have significantly affected profit for the year and equity.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The export-oriented companies of the Group are exposed to foreign currency risks. To minimise foreign currency risks, the export program is designed taking into account potential (forecast) major foreign currencies' exchange fluctuations. The Group diversifies its revenues in different currencies. In its export contracts, the Group controls the balance of currency positions: payments in foreign currency are settled with export revenues in the same currency.

The net foreign currency position presented below is calculated in respect of major currencies by items of consolidated statement of financial position as the difference between financial assets and financial liabilities denominated in a currency other than the functional currency of each entity at 31 December 2017.

	US dollar	Euro
Cash and cash equivalents	21	92
Trade and other accounts receivable	4	379
Financial investments	1,057	222
Trade and other accounts payable	(49)	(25)
Borrowings	(1,501)	(686)
Net foreign currency position	**(468)**	**(18)**

22 Risks and uncertainties (continued)

The net foreign currency position presented below is calculated in respect of major currencies by items of consolidated statement of financial position as the difference between financial assets and financial liabilities denominated in a currency other than the functional currency of each entity at 31 December 2016.

	US dollar	Euro
Cash and cash equivalents	414	50
Trade and other accounts receivable	10	249
Financial investments	861	272
Trade and other accounts payable	(57)	(91)
Borrowings	(1,519)	(451)
Net foreign currency position	**(291)**	**29**

The net foreign currency position presented below is calculated in respect of major currencies by items of consolidated statement of financial position as the difference between financial assets and financial liabilities denominated in a currency other than the functional currency of each entity at 31 December 2015.

	US dollar	Euro
Cash and cash equivalents	196	40
Trade and other accounts receivable	3	304
Financial investments	1,080	351
Trade and other accounts payable	(42)	(95)
Borrowings	(1,598)	(547)
Net foreign currency position	**(361)**	**53**

Sensitivity analysis

Sensitivity is calculated by multiplying a net foreign currency position of a corresponding currency by percentage of currency rates changes.

A 25 percent strengthening of the following currencies against the functional currency as at 31 December 2017, 2016 and 2015 would have increased/(decreased) equity by the amounts shown below, however effect on profit for the year would be different, and would amount to $23, $45 and $88, respectively, due to foreign exchange gain from intercompany operations (Note 19).

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
US dollar	(117)	(73)	(90)
Euro	(5)	7	13

A 25 percent weakening of these currencies against the functional currency would have had an equal but opposite effect to the amounts shown above, provided all other variables remain constant.

Commodity price risk

Commodity price risk is a risk arising from possible changes in price of raw materials and metal products, and their impact on the Group’s future performance and the Group’s operational results.

The Group minimises its risks related to metal prices by having a wide range of geographical zones for sales, which allows the Group to respond quickly to negative changes in the situation on its existing markets on the basis of an analysis of the existing and prospective sales markets.

22 Risks and uncertainties (continued)

One of the commodity price risk management instruments is vertical integration. A high degree of vertical integration allows cost control and effective management of the entire process of production: from mining of raw materials and generation of electric and heat energy to production, processing and distribution of metal products.

To mitigate the corresponding risks the Group also uses formula pricing tied to price indices for steel products when contracting raw and auxiliary materials.

(c) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss for the Group. The Group is exposed to credit risk from its operating activities (primarily for outstanding receivables from customers) and from its financing activities, including deposits with banks and financial institutions, and other financial instruments.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. The Group controls the levels of credit risk it undertakes by assessing the degree of risk for each counterparty or groups of parties. Prior to acceptance of a new counterparty, management assesses the credit quality of a potential customer or financial institution and defines credit limits. Credit limits attributable to counterparties are regularly reviewed, at a minimum quarterly.

The Group's management on a monthly basis reviews ageing analysis of outstanding trade receivables and follows up on past due balances.

The Group's maximum exposure to credit risk by class of assets reflected in the carrying amounts of financial assets on the consolidated statement of financial position is as follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Cash and cash equivalents (Note 3)	301	610	343
Trade and other accounts receivable (Note 6)	982	676	622
Financial investments (Note 5)	1,286	1,134	1,463
Total on-balance sheet exposure	**2,569**	**2,420**	**2,428**
Financial guarantees issued (Note 23(d))	304	255	273
	2,873	**2,675**	**2,701**

Analysis of trade accounts receivable, net of allowance for impairment, by credit quality, based on geographical area is as follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
European Union	380	279	289
Russia	314	182	131
North America	140	98	59
Middle East, including Turkey	57	50	49
Asia and Oceania	33	23	42
Other regions	49	37	27
	973	**669**	**597**

Other regions are represented by countries from Central America, South America and the CIS.

22 Risks and uncertainties (continued)

Analysis by credit quality, based on international agencies' credit rating, of bank balances and bank deposits is as follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Bank balances and term deposits			
AAA-BBB	199	517	244
BB-B	99	91	96
Unrated and cash on hand	3	2	3
	301	**610**	**343**
Short-term and long-term bank deposits			
AAA-BBB	724	396	756
BB-B	335	502	416
	1,059	**898**	**1,172**

As at 31 December 2017, ageing of trade and other receivables is as follows:

	Trade and other receivables		
	Gross amount	Allowance for impairment	Net of allowance for impairment
Not past due	869	-	869
Past due, including:			-
- up to 1 month	*102*	*-*	*102*
- from 1 to 3 months	*4*	*-*	*4*
- from 3 to 12 months	*8*	*(1)*	*7*
- over 12 months	*42*	*(42)*	*-*
Total	**1,025**	**(43)**	**982**

As at 31 December 2016, ageing of trade and other receivables is as follows:

	Trade and other receivables		
	Gross amount	Allowance for impairment	Net of allowance for impairment
Not past due	624	-	624
Past due, including:			-
- up to 1 month	40	-	40
- from 1 to 3 months	8	-	8
- from 3 to 12 months	7	(3)	4
- over 12 months	39	(39)	-
Total	**718**	**(42)**	**676**

22 Risks and uncertainties (continued)

As at 31 December 2015, ageing of trade and other receivables is as follows:

	Trade and other receivables		
	Gross amount	**Allowance for impairment**	**Net of allowance for impairment**
Not past due	505	-	505
Past due, including:			-
- up to 1 month	*86*	-	*86*
- from 1 to 3 months	*17*	-	*17*
- from 3 to 12 months	*18*	*(4)*	*14*
- over 12 months	*27*	*(27)*	-
Total	**653**	**(31)**	**622**

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources.

The Group monitors its risk to a shortage of funds using a regular cash flow forecast. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, finance leases. To provide for sufficient cash balances required for settlement of its obligations in time the Group uses detailed budgeting and cash flow forecasting instruments.

The table below analyses the Group's short-term and long-term borrowings by their remaining corresponding contractual maturity. The amounts disclosed in the maturity table are the undiscounted cash outflows.

	As at 31 December 2017	**As at 31 December 2016**	**As at 31 December 2015**
Less than 1 year	348	536	752
From 1 to 2 years	298	647	473
From 2 to 5 years	735	609	1,800
Over 5 years	1,255	762	38
Total borrowings	**2,636**	**2,554**	**3,063**

Liquidity risk related to financial guarantees issued, is disclosed in Note 23(d).

As at 31 December 2017, 2016 and 2015, the Group does not have significant trade and other accounts payable with maturity over one year and its carrying amount approximates its fair value.

22 Risks and uncertainties (continued)

(e) Insurance

To minimize risks the Group concludes insurance policies which cover property damages and business interruptions, freightage, vehicles and commercial (trade) credits. In respect of legislation requirements, the Group purchases compulsory motor third party liability insurance, insurance of civil liability of organizations operating hazardous facilities. The Group also buys civil liability insurance of the members of self-regulatory organizations, directors and officers liability insurance, voluntary health insurance and accident insurance for employees of the Group.

23 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 financial or operational 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 arm's length.

(a) Sales to and purchases from related parties

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Sales			
NBH group companies	970	692	793
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	1	1	2
Other related parties	1	1	3
Purchases			
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	335	330	325
NBH group companies	66	45	57
Other related parties	4	6	8

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

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Accounts receivable and advances given			
NBH group companies	289	199	221
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	26	34	27
Accounts payable			
NBH group companies	25	16	18
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	5	3	6
Other related parties	-	-	1

23 Related party transactions (continued)

(c) Financial transactions

As at 31 December 2017, 2016 and 2015, loans issued to NBH group companies amounted to $222, $230 and $285, respectively. When issuing loans to the foreign companies of the Group and joint ventures, interest rate is determined using information on similar external deals subject to company's internal credit rating.

(d) Financial guarantees issued

As at 31 December 2017, 2016 and 2015, guarantees issued by the Group for borrowings received by NBH group companies amounted to $304, $255 and $273, respectively, which is the maximum potential amount of future payments, paid on demand of the guarantee. No amount has been accrued in these consolidated financial statements for the Group's obligation under these guarantees as the Group assesses the probability of cash outflows related to these guarantees, as low.

The maturity of the guaranteed obligations is as follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Less than 1 year	66	70	82
From 1 to 2 years	238	5	14
Over 2 years	-	180	177
	304	**255**	**273**

(e) Common control transfers

In September 2015, the Parent Company completed the sale of its full controlling interest in OJSC North Oil and Gas Company (51.0%) to a company under common control for a cash consideration of $10 realising a gain of $10 upon deconsolidation of assets amounting to $20 and liabilities amounting to $20.

The difference between transaction price and value of net assets is recorded in the line item "Disposal of assets to an entity under common control" of the consolidated statement of changes in equity. Revenue and profit of OJSC North Oil and Gas Company for the nine months ended 30 September 2015 were not material.

This transaction was carried out in line with the Group's strategy to dispose of its none-core assets portfolio.

24 Commitments and contingencies

(a) Anti-dumping investigations

The Group's export trading activities are subject from time to time to compliance reviews by the regulatory authorities in the importers' jurisdictions. The Group's export sales prices were considered by local governments within several anti-dumping investigation frameworks. The Group takes steps to address negative effects of the current and potential anti-dumping investigations and participates in the settlement efforts coordinated through the Russian authorities. No provision arising from any possible agreements and decisions as a result of anti-dumping investigations has been made in the consolidated financial statements.

(b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The Group management believes that any liability resulting from these legal actions will not significantly affect its financial position or results of operations, and no amount has been accrued in the consolidated financial statements.

24 Commitments and contingencies (continued)

(c) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised in financial statements immediately. Potential liabilities, which might arise as a result of future changes in existing regulations, civil litigation or legislation, cannot be reasonably estimated. In the current enforcement climate under existing environmental legislation, management believes that the Group has met the Government's federal and regional requirements concerning environmental matters, therefore, there are no significant liabilities for environmental damage and remediation.

(d) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to $629, $473 and $565 as at 31 December 2017, 2016 and 2015, respectively.

(e) Social commitments

The Group makes contributions to mandatory and voluntary social programs. The Group's social contributions, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. The Group has transferred certain social operations and assets to local authorities, however, the Group management expects that the Group will continue to fund certain social programs for the foreseeable future. These costs are recorded in the period they are incurred.

(f) Tax contingencies

Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review by tax authorities of transactions without a clear business purpose or with tax-incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when the decision about the review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides the possibility for tax authorities to impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Tax liabilities arising from transactions between companies within the Group are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the basis that these companies are not subject to Russian income tax, because they do not have a permanent establishment in Russia. This interpretation of the relevant legislation may be challenged. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income may be subject to a 20% tax rate.

Russian tax legislation does not provide definitive guidance in certain areas. Management currently estimates that the tax positions and interpretations that it has taken can probably be sustained. But there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

24 Commitments and contingencies (continued)

(g) Major terms of loan agreements

Certain of the loan agreements contain covenants that impose restrictions on the purposes for which the loans may be utilised, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganisations procedures or bankruptcy of the borrowers, and also require that the borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses in relation to performance of the borrowers, including cross-default provisions, as well as to legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfill contractual obligations. The Group companies were in compliance with all debt covenants as at 31 December 2017, 2016 and 2015.

25 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The Group from one reporting period to another has consistently applied these accounting policies.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are those entities that the Group controls because the Group has (a) power over the investees (that is, it can direct relevant activities of the investees that significantly affect their returns); (b) exposure, or rights, to variable returns from its involvement with the investees; and (c) the ability to use its power over the investees to affect the amount of investor returns.

Subsidiaries are consolidated when the Group obtains control over an investee and terminates when the Group ceases to have control over the investee.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests, which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Parent Company's equity.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction-by-transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of an acquiree from the aggregate of: the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree, and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews the appropriateness of their measurement.

Consideration transferred for an acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition-related costs such as fees for advisory, legal, valuation and similar professional services. Transaction costs related to an acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of a business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

25 Significant accounting policies (continued)

All intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated, unless the cost cannot be recovered. The Parent Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Joint ventures

Joint ventures are entities over which the Group has joint control over financial or operating policies. Joint control is the contractually agreed sharing of control, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in joint ventures are initially recognised at cost (fair value of the consideration transferred). The Group uses the equity method of accounting to subsequent measurement for an investment in joint ventures.

Dividends received from joint ventures reduce the carrying value of the investment in joint ventures. The Group's share of profits or losses of joint ventures after acquisition is recorded in the consolidated statement of profit or loss for the year as share of financial result of joint ventures. The Group's share in the change of other comprehensive income after the acquisition is recorded within other comprehensive income as a separate line item. All other changes in the Group's share of the carrying amount of net assets of the joint ventures are recognised in profit or loss within the share of financial results of the joint ventures, or consolidated statement of changes in equity depending on the substance of the change.

However, when the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless this is required by law or it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses arising from transactions between the Group and its joint ventures are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.
In the consolidated statement of financial position, the Group's share in the joint venture is presented at the carrying amount inclusive of goodwill at the acquisition date and the Group's share of post-acquisition profits and losses net of impairment loss.

Disposals of subsidiaries and joint ventures

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value as at the date of ceasing control or significant influence, with the change in the carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture, or financial asset. In addition, any amounts previously recognised in other comprehensive income, in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

At the date when the Group's control ceases, it de-recognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position and recognises profit or loss connected with the loss of control attributable to the former controlling stake.

If the ownership interest in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(b) Cash and cash equivalents

Cash and cash equivalents include cash balances in hand, cash on current accounts with banks, bank deposits and other short-term highly liquid investments with original maturities of three months or less.

25 Significant accounting policies (continued)

(c) Value added tax (VAT)

Output value added tax arising upon the sale of goods (performance of work, provision of services) is payable to the tax authorities on the earlier of: (a) collection of receivables from customers; or (b) delivery of goods (work, services) or property rights to customers. VAT is excluded from revenue.

Input VAT on goods and services purchased (received) is generally recoverable against output VAT upon receipt of the VAT invoice. VAT related to sales / purchases and services provision / receipt payments to the budget which has not been settled with at the balance sheet date (deferred VAT) is recognised in the consolidated statement of financial position on a gross basis and disclosed separately within current assets and current liabilities.

Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debt, including VAT.

(d) Inventories

Inventories are recorded at the lower of cost and net realisable value (the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses).

Inventories include raw materials designated for use in the production process, finished goods, work in progress and goods for resale.

Release to production or any other write-down of inventories is carried at the weighted average cost.

The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Other costs are included in the cost of inventories only to the extent they were incurred to provide for the current location and condition of inventories.

When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories, including obsolete inventories written down, shall be recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(e) Property, plant and equipment (PP&E)

Measurement at recognition

Property, plant and equipment are initially stated at cost (historical cost model). The PP&E cost includes:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the relevant entity's management;
- the initial estimate of the cost of subsequent dismantling and removal of a fixed asset, and restoring the site on which it was located, the obligation for which the relevant entity incurs either when the item is acquired or as a consequence of having used the item during a specific period for purposes other than to produce inventories during that period.

The value of property, plant and equipment built using an entity's own resources includes the cost of materials and labour, and the relevant portion of production overhead costs directly attributable to the construction of the PP&E.

Borrowing costs directly attributable to the acquisition, construction or production of an asset which takes a substantial period of time to prepare for use or sale are included in the cost of this asset.

25 Significant accounting policies (continued)

Recognition of costs in the carrying amount of a property, plant and equipment item ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management of the relevant entity.

Subsequent measurement

Property, plant and equipment items are carried at cost less accumulated depreciation and recognised impairment losses.

Subsequent expenditures

The costs of minor repairs and maintenance are expensed when incurred. The costs of regular replacement of large components of property, plant and equipment items are recognised in the carrying amount of the relevant asset when incurred subject to recognition criteria. The carrying amount of the parts being replaced is de-recognised.

When a large-scale technical inspection is conducted, related costs are recognised in the carrying amount of a fixed asset as replacement of previous technical inspection subject to recognition criteria. Any costs related to the previous technical inspection that remain in the carrying value shall be de-recognised.

Other subsequent expenditures are capitalised only when they increase the future economic benefits embodied in these assets.

All other expenses are treated as costs in the consolidated statement of profit or loss in the reporting period as incurred.

Property, plant and equipment line of the consolidated statement of financial position also includes capital construction and machinery, and equipment to be installed.

If PP&E items include major units with different useful lives, then each individual unit of the related asset is accounted for separately.

Borrowing costs

Borrowing costs are capitalised from the date of capitalisation and up to the date when the assets are substantially ready for utilisation or sale.

The commencement date for capitalisation is when the Group (a) incurs expenditures for the qualifying asset; (b) incurs borrowing costs; and (c) undertakes activities that are necessary to prepare the asset for its intended use or sale.

When funds borrowed for common purposes are used to purchase an asset, capitalised borrowing costs are determined through multiplying the capitalisation rate by expenses related to the asset.

Interest payments capitalised under IAS 23 are classified in consolidated statement of cash flows in a manner that is consistent with the classification of the underlying asset on which the interest is capitalised.

All other borrowing costs are attributed to expenses in the reporting period when incurred and recorded in the consolidated statement of profit or loss in the “Finance costs” line.

Mineral rights

Exploration and evaluation assets are carried at original cost and classified consistently within tangible or intangible assets depending on their nature. Mineral rights acquired as a result of a business combination are measured at fair value at the acquisition date. Other mineral rights and licenses are recorded at cost. Mineral rights are amortised using the straight-line basis over the license term given approximately even production output during the license period.

25 Significant accounting policies (continued)

Depreciation

Depreciation is charged on a straight-line basis over the estimated remaining useful lives of the individual assets through an even write-down of historical cost to their net book value. Property, plant and equipment items under finance leases and subsequent capitalised expenses are depreciated on a straight-line basis over the estimated remaining useful lives of the individual assets. Depreciation commences from the time an asset is available for use, i.e. when the location and condition provide for its operation in line with the Group management's intentions.

Depreciation is not charged on assets to be disposed of and on land. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the consumption of benefits to be derived from it.

The range of estimated useful lives of different asset categories is as follows:

Buildings and land and buildings improvements	10 – 50 years
Machinery and equipment	2 – 25 years
Vehicles	5 – 25 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

If the cost of land includes the costs of site dismantlement, removal of PP&E items and restoration expenses, that portion of the land asset is depreciated over the period of consumption of benefits obtained by incurring those costs.

Impairment of PP&E is outlined in section (i) "Impairment of non-current assets".

(f) Leasing

Leasing transactions are classified according to the relevant lease agreements, which specify the risks and rewards associated with the leased property and distributed between the lessor and lessee. Lease agreements are classified as financial leases or operating leases.

In a financial lease, the Group receives the major portion of economic benefits and risks associated with the ownership of the asset. At the commencement of the lease term, the leased asset is recognised in the consolidated statement of financial position at the lower of fair value or discounted value of future minimum lease payments. The corresponding rental obligations are included in borrowings. Interest expenses within lease payments are charged to profit or loss over the lease term using the effective interest method.

Accounting policies for depreciation of leased assets are consistent with the accounting policies applicable to owned depreciable assets.

A lease is classified as an operating lease if it does not imply transferring the major portion of risks and rewards associated with the ownership of the asset. Payments made under operating leases are recorded as an expense on a straight-line basis over the lease term.

25 Significant accounting policies (continued)

(g) Goodwill and intangible assets

Goodwill is the difference between:

- the comprehensive acquisition date fair value of the consideration transferred and non-controlling interest, and, where the entity is acquired in instalments, the acquisition date fair value of the non-controlling interest previously held by the buyer in the acquired entity; and
- the share of net fair value of identifiable assets acquired and liabilities assumed.

The excess of the share of net fair value of identifiable assets bought and obligations assumed by the Group over the consideration transferred and the fair value of non-controlling interest at the acquisition date previously owned by the buyer in the acquired entity, represents income from a profitable acquisition. Income is recognised in the consolidated statement of profit or loss at the acquisition date.

Goodwill on joint ventures is included in the carrying amount of investments in these entities.

When interest in the previously acquired entity increases (within non-controlling interest) goodwill is not recognised. The difference between the acquired share of net assets and consideration transferred is recognised in equity.

Goodwill is measured at historical cost and subsequently stated less accumulated impairment losses.

Impairment of goodwill

The goodwill is not amortised but tested for impairment at least annually and whenever there are indications that goodwill may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") that are expected to benefit from the synergies of the combination. The evaluation of impairment for cash-generating units, among which goodwill was distributed, is performed once a year or more often, when there are indicators of impairment of such CGUs.

If the recoverable amount of a cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to any other assets of the CGU pro-rata to the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Disposal of goodwill

If goodwill is a part of the cash-generating unit, and a part of the unit is disposed of, the goodwill pertaining to that part of disposed operations is included in the carrying amount of that operation when profit or loss on its disposal is determined. In such circumstances, the goodwill disposed of is generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Intangible assets

Intangible assets are initially recognised at cost.

The cost of a separately acquired intangible asset comprises:

- its purchase price, including non-refundable purchase taxes, after deducting trade discounts and rebates;
- directly attributable cost of preparing the asset for its intended use.

If an intangible asset is acquired as a result of a business combination, the cost of the intangible asset equals its fair value at the acquisition date.

If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the entire period of credit unless it is capitalised in accordance with IAS 23, "Borrowing Costs".

25 Significant accounting policies (continued)

If an intangible asset is an integral part of a fixed asset to which it belongs, then it is recorded as part of that asset.

After the initial recognition of intangibles, they are carried at cost less sum of accumulated amortisation and accumulated impairment loss. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Amortisation

Intangible assets with a definite useful life are amortised using the straight-line method over the shorter of: the useful life or legal rights thereto.

The range of estimated useful lives of different asset categories is as follows:

- Mineral rights — 20-36 years
- Industrial intellectual property — 5 years
- Beneficial lease interest — 80 years

(h) Decommissioning obligation

The Group's obligations related to assets disposal include estimating costs related to restoration of land in accordance with applicable legal requirements and licenses.

Decommissioning costs are carried at the present value of expected expenses to settle obligations that is calculated using estimated cash flows and are recognised as a part of the historical cost of the asset. Capitalised costs are amortised over the asset's useful life.

Cash flows are discounted at the current rate before tax, which reflects risks inherent to the asset decommissioning obligations. The effect of discounting is recognised in the consolidated statement of profit or loss as finance costs.

The estimated future costs related to decommissioning are reviewed annually and adjusted as necessary.

(i) Impairment of non-current assets

At each reporting date, the Group determines if there are any objective indications of potential impairment of an individual asset or group of assets.

Intangible assets with indefinite useful lives are tested for impairment at least once a year if their carrying amount impairment indicators are identified.

Recoverable value measurement

If any such impairment indicators exist, then the asset's recoverable amount is estimated. In the event of impairment, the value of the asset is written down to its recoverable value, which represents the higher of: the fair value less costs to sell or the value in use.

Fair value less costs to sell is the amount obtainable from the sale of an asset or payable on the transfer of a liability at the evaluation date, in an arm's length transaction between knowledgeable, willing parties, less any direct costs related to the sale or transfer.

Value in use is the present value of estimated future cash flows from expected continuous use of an asset and its disposal at the end of its useful life.

In assessing value-in-use, the anticipated future cash proceeds are discounted to their current value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

25 Significant accounting policies (continued)

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units), which in most cases are determined as individual subsidiaries of the Group. Estimated cash flows are adjusted in line with the risk of specific conditions at sites and discounted at the rate based on the weighted average cost of capital. With regard to assets that do not generate cash regardless of cash flows generated by other assets, the recoverable amounts are based on the cash-generating unit to which such assets relate.

Impairment loss

The asset's carrying amount is written down to its estimated recoverable value, and loss is included in the consolidated statement of profit or loss for the period. Impairment loss is reversed if there are indications that the assets' impairment losses (other than goodwill) recognised in previous periods no longer exist or have been reduced, and if any consequent increase in the recoverable value can be objectively linked to the event that took place after the impairment loss recognition. Impairment loss is reversed only to the extent that the carrying amount of an asset does not exceed its carrying amount that would be established (less amortisation) if the asset impairment loss had not been recognised. An impairment loss is reversed for the relevant asset immediately through consolidated statement of profit or loss.

(j) Pension and post-retirement benefits other than pensions

The Parent Company and some other Group companies maintain defined contribution plans in accordance with which contributions are made on a monthly basis to a non-government pension fund (the "Fund"), calculated as a certain fixed percentage of the employees' salaries. These pension contributions are accumulated in the Fund during the employment period and subsequently distributed by the Fund. Accordingly, the Group has no long-term commitments to provide funding, guarantees, or other support to the Fund.

The Group complies with the pension and social insurance legislation of the Russian Federation and the other countries where it operates. Contributions to the Russian Federation Pension Fund by the employer are calculated as a percentage of current gross salaries. Such contributions constitute defined contribution plans.

Payments under defined contribution plans are expensed as incurred.

(k) Provisions for liabilities and charges

Provisions for liabilities and charges are accrued when the Group:

- has present obligations (legal or constructive) as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle such an obligation;
- a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision shall be the best estimate of the expenses required to settle the present obligation at the end of the reporting period. Where the impact of the time factor on the value of money is significant, the provision should equal the present value of the expected cost of settling the liability using the discount rate before taxes. Any increase in the carrying amount of the provision is recorded in the consolidated statement of profit or loss as finance costs.

The nature and estimated value of contingent liabilities and assets (including court proceedings, environmental costs, etc.) are disclosed in notes to the consolidated financial statements where the probability of economic benefits outflow is insignificant.

The creation and release of provision for impaired receivables have been included in selling expenses in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

25 Significant accounting policies (continued)

(l) Call and put options

Call and put options are carried at their fair value in the consolidated financial statements. These options are accounted for as assets when their fair value is positive (for call options) and as liabilities when the fair value is negative (for put options). Changes in the fair value of options are reflected in the consolidated statement of profit or loss.

(m) Income taxes

Income tax expense comprises current and deferred tax. The current and deferred taxes are recognised in profit or loss for the period, except for the portion thereof that arises from a business combination or transactions or events that are recognised directly within equity.

Current tax

Current tax liabilities are measured in the amount expected to be paid to (recovered from) the tax authorities, applying the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax assets and liabilities are recognised for the differences between the carrying amount of an asset or liability in the consolidated statement of financial position and their tax base.

Deferred tax is not recognised if temporary differences:

- arise at the goodwill initial recognition;
- arise at the initial recognition (except for business combination) of assets and liabilities that do not impact taxable or accounting profits;
- are associated with investments in subsidiaries where the Group controls the timing of the reversal of these temporary differences, and it is probable that the temporary differences will not be utilised in the foreseeable future.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Estimation of tax assets and liabilities reflects tax implications that would arise depending on the method to be used at the end of the reporting period to recover or settle carrying value of these assets or liabilities.

Deferred tax assets are recognised in respect of the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits may be utilised.

The carrying amount of deferred tax assets is subject to revision at the end of each reporting period and is decreased to the extent of reduced probability of receiving sufficient taxable income to benefit from utilising the deferred tax assets partially or in full.

Deferred tax assets and liabilities are offset if there is a legal right for the offset of current tax assets and liabilities, and when they relate to income taxes levied by the same tax authority or on the same taxpayer; and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

25 Significant accounting policies (continued)

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

(n) Dividends payable

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting date and before the consolidated financial statements have been authorised for issue are disclosed in the subsequent events note.

(o) Revenue recognition

Revenue from sales of goods and provision of services

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. The Group recognises revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the Group, and the specific criteria stipulated by IAS 18, "Revenue" have been met for each type of Group revenues.

Revenue is recorded less of discounts, provisions, value added tax and export duties, and refunds, and after excluding internal Group sales turnover.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Revenue from services is recognised in the period in which the services were rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be rendered under the relevant agreement.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income

Dividend income on investments is recognised when the Group becomes entitled to receive the payment.

(p) Segment information

The Group provides separate disclosures on each operating segment that meets the criteria outlined in paragraph 11 of IFRS 8, "Operating Segments".

25 Significant accounting policies (continued)

The Group's organisation comprises six reportable segments:

- the Mining segment, which comprises mining, processing and sales of iron ore, fluxing limestone and metallurgical dolomite, and supplies raw materials to the steel segment and third parties;
- the Russian flat products segment, comprising production and sales of steel products and coke, primarily pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanised cold rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel;
- the Russian long products segment, comprising a number of steel-production facilities combined in a single production system beginning from scrap iron collection and recycling to steel-making, production of long products, reinforcing rebar and metalware;
- NLMK USA, comprising production and sales of steel products in the United States;
- NLMK DanSteel and Plates Distribution Network, comprising production and sales of plates in Europe and other regions of the world;
- Investments in NBH, comprising production of hot rolled, cold rolled coils and galvanised and pre-pained steel, and also production of a wide range of plates as well as a number of steel service centers located in the European Union.

The accounting policies of each segment are similar to the principles outlined in significant accounting policies.

(q) Financial instruments

Financial assets

The Group's financial assets include cash and short-term deposits, trade and other accounts receivable, loans and other amounts receivable, quoted and non-quoted financial instruments and derivatives.

Financial assets have the following categories:

- loans and receivables;
- held-to-maturity investments.

Loans and receivables

Loans and receivables represent non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to the initial recognition, such financial assets are measured at amortised cost using the effective interest method less any impairment losses.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity investments if the Group intends and is able to hold them to maturity. Subsequent to the initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment losses.

Valuation techniques

Depending on their classification, financial instruments are carried at fair value or amortised cost. Below are the methods and key definitions.

Fair value is the price that would be received from selling an asset or paid when transferring a liability in an orderly transaction between market participants as at the valuation date. The best evidence of fair value is the price quoted in an active market.

25 Significant accounting policies (continued)

The fair value of financial instruments traded in active markets at each reporting date is determined based on the market quotes or dealers' quotes (buy quotes for long positions and sell quotes for short positions) without deducting transaction costs.

Valuation techniques, such as discounted cash flow models, or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure the fair value of financial instruments for which external market pricing information is unavailable.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount (calculated using the effective interest method), and for financial assets less any impairment loss.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

Initial recognition of financial assets

Financial investments available for sale and financial assets at fair value through profit or loss are initially recorded at fair value. All other financial assets are initially recorded at fair value plus transaction costs.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date when the Group commits to buy or sell a financial asset.

De-recognition

The Group de-recognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets, or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control in respect of these assets.

Control of an asset is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale. If the Group neither transfers nor retains substantially all risks and rewards of ownership of the asset, but retains control over such transferred asset, the Group continues recognition of its share in this asset and the related obligation in the amount of the anticipated consideration.

25 Significant accounting policies (continued)

Impairment of financial assets

At each reporting date, the Group assesses whether the objective indicators exist that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets are considered to be impaired only when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that have had an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or group of debtors are experiencing significant financial difficulty, cannot service their debt or are demonstrating delinquency in interest or principal payments; or they are likely to undergo bankruptcy procedures or any other financial reorganisation. In addition, such evidence includes observable data testifying to an identifiable decline in estimated future cash flows under a financial instrument, in particular, negative changes in a counterparty's payment status caused by changes in the national or local business environment that impact the counterparty, or a significant impairment of collateral, if any, as a result of deteriorated market conditions.

Impairment of financial assets carried at amortised cost

The carrying amount of an asset is reduced by the amount of the allowance for impairment of financial assets. Losses from impairment of financial assets carried at amortised cost are carried through profit or loss as they arise.

Accrual of interest income on the reduced carrying value is continued based on the interest rate applied to discounting the future cash flows for impairment loss assessment.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then de-recognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment of financial investments available for sale

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that a financial investment or a group of financial investments is impaired.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss, is reclassified from other comprehensive income to finance costs in profit or loss for the year.

Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the current period's profit or loss.

Financial liabilities

The Group's financial liabilities include trade and other payables, bank overdrafts, borrowings, financial guarantee agreements and derivative financial instruments.

Financial liabilities are respectively classified as:

- financial liabilities at fair value through profit or loss;
- borrowings and loans.

25 Significant accounting policies (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trade and financial liabilities designated initially at fair value through profit or loss. Financial liabilities are classified as held for trade if acquired for the purpose of selling in the short term. Income and expense on liabilities held for trade are recognised in the consolidated statement of profit or loss.

Borrowings

After initial recognition, interest-bearing borrowings are carried at amortised cost using the effective interest method. Gains and losses on such financial liabilities are recognised in consolidated statements of profit or loss upon their de-recognition and also as amortisation accrued using the effective interest method.

Initial recognition of financial liabilities

All financial liabilities are initially recorded at fair value less transaction costs incurred (except for financial liabilities at fair value through the consolidated statements of profit or loss).

De-recognition

A financial liability is de-recognised from the consolidated statement of financial position if it was settled, cancelled or expired.

If the existing financial liability is replaced by another liability to the same creditor, on terms that significantly differ from the previous terms, or the terms of the existing liability significantly differ from the previous terms, such replacement or change is recorded as de-recognition of the initial liability and recognition of a new liability, and the difference in their carrying amount is recognised in the consolidated statement of profit or loss.

Financial guarantee agreements

Financial guarantees issued by the Group are irrevocable agreements requiring a payment to compensate losses incurred by the owner of the agreement due to the inability of the debtor to duly pay under the terms of a debt instrument. Financial guarantee agreements are initially recorded at fair value. Consequently the liability is measured at the higher of the best likelihood estimate of costs necessary to settle the liability at the reporting date, and the amount of the liability less accumulated amortisation.

Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options, are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

26 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosures. Management also makes certain judgements in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated based on historical experience and other factors, including forecasts and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates, and management's estimates can be revised in the future, either positively or negatively, based on the facts surrounding each estimate.

Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements, and estimates that can cause a significant adjustment to the carrying amounts of assets and liabilities within the next financial year are reported below.

(a) Tax legislation and potential tax gains and losses

The Group's potential tax gains and losses are reassessed by management at every reporting date. Liabilities which are recorded for income tax positions are determined by management based on the interpretation of current tax laws. Liabilities for penalties, fines and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle tax liabilities at the reporting date (Note 24).

(b) Estimation of remaining useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage based on production volumes, inventories, technical obsolescence rates, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may affect future useful lives (Note 8).

(c) Impairment analysis of property, plant and equipment and goodwill

The estimation of forecasted cash flows for the purposes of impairment testing involves the application of a number of significant judgements and estimates to certain variables including volumes of production and extraction, prices on finished goods, operating costs, capital investment, and macroeconomic factors such as inflation and discount rates. In addition, judgement is applied in determining the cash-generating units assessed for impairment (Notes 8, 9).

(d) Control and the consolidation or accounting using equity method of accounting of entities in the Group's consolidated financial statements

Management judgement is involved in the assessment of whether the Group controls certain entities and, accordingly, whether consolidation or equity method of accounting for these investments in the consolidated financial statements is appropriate. As at 31 December 2017, 2016, and 2015, the Group owned 51% of shares in NBH, however, management concluded that in the light of giving certain governance rights to the party that owns the residual interest in this company, the Group does not control it, thus the Group's investment in NBH is accounted for under the equity method.

27 New or revised standards and interpretations

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted:

IFRS 9 "Financial Instruments" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Management performed an analysis of Group financial assets and financial liabilities as of 31 December 2017 based on factors and circumstances that existed on these date and also using forward-looking information and concluded that application of the new standard since 1 January 2018 will not significantly impact classification of assets and liabilities in the consolidated financial statements of the Group and also that the amount of expected credit loss as of 1 January 2018 does not materially differ from the amount of recognized provisions and allowances in the consolidated financial statements as of 31 December 2017.

27 New or revised standards and interpretations (continued)

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

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 in the consolidated financial statements for the year-ending 31 December 2018 which will be the first year when the Group will apply IFRS 15. The Group plans to apply the practical expedient available for the simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018).

Based on the analysis of the Group's revenue streams for the year ended 31 December 2017, individual contracts' terms and on the basis of the facts and circumstances that exist at that date in view of the simplified transition method application, the management of the Group is not expecting a significant impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. Management is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. Management is currently assessing the impact of the new standard on its consolidated financial statements.

27 New or revised standards and interpretations (continued)

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. Management is currently assessing the impact of the interpretation on its consolidated financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. Management is currently assessing the impact of the interpretation on its consolidated financial statements.

The following other new pronouncements are not expected to have any material impact on the Group financial statements when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

27 New or revised standards and interpretations (continued)

The following amended standards became effective from 1 January 2017, but did not have a material impact on the Group.

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 11.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).