



**NOVOLIPETSK STEEL**

**INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS**

**PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL  
REPORTING STANDARDS**

**AS AT 30 SEPTEMBER 2016 AND 31 DECEMBER 2015  
AND FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2016 AND 30 SEPTEMBER 2015  
(UNAUDITED)**



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

To the Shareholders and Board of Directors of Novolipetsk Steel

### **Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Novolipetsk Steel and its subsidiaries (the "Group") as of 30 September 2016 and the related interim condensed consolidated statements of profit or loss and comprehensive income for the three-month and nine-month periods then ended, and changes in equity and of cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### **Scope of Review**

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

### **Conclusion**

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

*AO PricewaterhouseCoopers Audit*

31 October 2016  
Moscow, Russian Federation

**Novolipetsk Steel**  
**Interim condensed consolidated statement of financial position**  
**as at 30 September 2016 (unaudited) and 31 December 2015**  
*(millions of US dollars)*



	Note	As at 30 September 2016	As at 31 December 2015
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	527.3	343.0
Short-term financial investments	5	1,283.6	1,242.6
Trade and other accounts receivable	6	1,033.3	920.9
Inventories	7	1,265.2	1,205.3
Other current assets		14.5	8.8
		<b>4,123.9</b>	<b>3,720.6</b>
<b>Non-current assets</b>			
Long-term financial investments	5	87.6	219.8
Investments in associates and other companies accounted for using the equity method of accounting	5	197.6	117.7
Property, plant and equipment	8	5,099.7	4,452.3
Goodwill	9	244.0	214.6
Other intangible assets	9	123.2	112.3
Deferred income tax assets		84.3	68.2
Other non-current assets		20.1	13.9
		<b>5,856.5</b>	<b>5,198.8</b>
<b>Total assets</b>		<b>9,980.4</b>	<b>8,919.4</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Accounts payable and other liabilities	10	870.0	726.4
Short-term borrowings	11	385.7	559.8
Current income tax liability		44.7	27.7
		<b>1,300.4</b>	<b>1,313.9</b>
<b>Non-current liabilities</b>			
Long-term borrowings	11	2,112.3	2,116.3
Deferred income tax liability		420.1	339.3
Other long-term liabilities		13.1	12.2
		<b>2,545.5</b>	<b>2,467.8</b>
<b>Total liabilities</b>		<b>3,845.9</b>	<b>3,781.7</b>
<b>Equity attributable to NLMK shareholders</b>			
Common stock		221.2	221.2
Additional paid-in capital		9.9	9.9
Accumulated other comprehensive loss		(6,201.4)	(6,988.4)
Retained earnings		12,088.6	11,883.4
		<b>6,118.3</b>	<b>5,126.1</b>
<b>Non-controlling interests</b>		<b>16.2</b>	<b>11.6</b>
<b>Total equity</b>		<b>6,134.5</b>	<b>5,137.7</b>
<b>Total liabilities and equity</b>		<b>9,980.4</b>	<b>8,919.4</b>

The interim condensed consolidated financial statements as set out on pages 4 to 20 were approved on 31 October 2016.



	Note	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015	For the three months ended 30 September 2016	For the three months ended 30 September 2015
Revenue	15	5,671.0	6,371.2	2,224.7	2,015.5
Cost of sales		(3,783.5)	(4,310.7)	(1,383.5)	(1,381.2)
<b>Gross profit</b>		<b>1,887.5</b>	<b>2,060.5</b>	<b>841.2</b>	<b>634.3</b>
General and administrative expenses		(234.0)	(197.9)	(83.7)	(56.5)
Selling expenses		(523.7)	(626.0)	(192.9)	(198.0)
Other operating income		12.7	8.7	10.3	-
Taxes, other than income tax		(51.3)	(59.0)	(18.8)	(13.6)
<b>Operating profit before equity share in net losses of associates and other companies accounted for using the equity method of accounting, impairment and write-off of assets</b>		<b>1,091.2</b>	<b>1,186.3</b>	<b>556.1</b>	<b>366.2</b>
Gain / (loss) on disposals of property, plant and equipment		1.1	(1.3)	(6.7)	(1.7)
Impairment losses and write-off of assets		(8.3)	(1.2)	(2.3)	(0.6)
Share in net losses of associates and other companies accounted for using the equity method		(49.8)	(61.3)	(12.3)	(20.8)
(Losses) / gains on investments	5	(0.3)	52.2	(0.2)	(0.6)
Finance income		30.9	38.9	8.9	14.5
Finance costs		(87.4)	(65.4)	(23.3)	(16.7)
Foreign currency exchange (loss) / gain, net	13	(94.3)	36.0	(0.6)	185.7
Other expenses, net		(39.5)	(24.5)	(11.1)	(7.5)
<b>Profit before income tax</b>		<b>843.6</b>	<b>1,159.7</b>	<b>508.5</b>	<b>518.5</b>
Income tax expense	14	(213.5)	(266.4)	(121.3)	(107.5)
<b>Profit for the period</b>		<b>630.1</b>	<b>893.3</b>	<b>387.2</b>	<b>411.0</b>
Profit attributable to:					
<b>NLMK shareholders</b>		<b>627.4</b>	<b>891.4</b>	<b>385.4</b>	<b>409.5</b>
<b>Non-controlling interests</b>		<b>2.7</b>	<b>1.9</b>	<b>1.8</b>	<b>1.5</b>
<b>Earnings per share – basic and diluted:</b>					
Earnings attributable to NLMK shareholders per share (US dollars)		0.1047	0.1487	0.0643	0.0683
Weighted-average shares outstanding: basic and diluted (in thousands)	12	5,993,227	5,993,227	5,993,227	5,993,227



Note	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015	For the three months ended 30 September 2016	For the three months ended 30 September 2015
Profit for the period	630.1	893.3	387.2	411.0
Other comprehensive income / (loss):				
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment	788.9	(955.1)	96.9	(1,131.1)
<b>Total comprehensive income / (loss) for the period attributable to</b>	<b>1,419.0</b>	<b>(61.8)</b>	<b>484.1</b>	<b>(720.1)</b>
NLMK shareholders	1,414.4	(61.0)	481.4	(718.7)
Non-controlling interests	4.6	(0.8)	2.7	(1.4)

Novolipetsk Steel  
Interim condensed consolidated statement of changes in equity  
for the nine months ended 30 September 2016 and 30 September 2015 (unaudited)  
(millions of US dollars)



	Note	NLMK shareholders				Non-controlling interest	Total equity
		Common stock	Additional paid-in capital	Accumulated other comprehensive income / (loss)	Retained earnings		
<b>Balance at 31 December 2014</b>		<b>221.2</b>	-	<b>(5,491.9)</b>	<b>11,512.7</b>	<b>14.7</b>	<b>6,256.7</b>
Profit for the period		-	-	-	891.4	1.9	893.3
Disposal of assets to an entity under common control	16(e)	-	9.9	-	-	(0.1)	9.8
Cumulative translation adjustment		-	-	(952.4)	-	(2.7)	(955.1)
Dividends to shareholders	12	-	-	-	(432.8)	-	(432.8)
<b>Balance at 30 September 2015</b>		<b>221.2</b>	<b>9.9</b>	<b>(6,444.3)</b>	<b>11,971.3</b>	<b>13.8</b>	<b>5,771.9</b>
<b>Balance at 31 December 2015</b>		<b>221.2</b>	<b>9.9</b>	<b>(6,988.4)</b>	<b>11,883.4</b>	<b>11.6</b>	<b>5,137.7</b>
Profit for the period		-	-	-	627.4	2.7	630.1
Cumulative translation adjustment		-	-	787.0	-	1.9	788.9
Dividends to shareholders	12	-	-	-	(422.2)	-	(422.2)
<b>Balance at 30 September 2016</b>		<b>221.2</b>	<b>9.9</b>	<b>(6,201.4)</b>	<b>12,088.6</b>	<b>16.2</b>	<b>6,134.5</b>

**Novolipetsk Steel**  
**Interim condensed consolidated statement of cash flows**  
**for the nine months ended 30 September 2016 and 30 September 2015 (unaudited)**  
*(millions of US dollars)*



	Note	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
<b>Cash flows from operating activities</b>			
<b>Profit for the period</b>		<b>630.1</b>	<b>893.3</b>
<b>Adjustments to reconcile profit for the period to net cash provided by operating activities:</b>			
Depreciation and amortization		331.8	441.2
(Gain) / loss on disposals of property, plant and equipment		(1.1)	1.3
Losses / (gains) on investments		0.3	(52.2)
Finance income		(30.9)	(38.9)
Finance costs		87.4	65.4
Equity in net losses of associates and other companies accounted for using the equity method		49.8	61.3
Deferred income tax expense		22.1	19.9
Impairment losses and write-off of assets		8.3	1.1
Unrealized losses / (gains) on foreign currency exchange		104.9	(74.1)
Other adjustments		(2.5)	(0.4)
<b>Changes in operating assets and liabilities</b>			
Increase in trade and other accounts receivable		(82.4)	(0.4)
Decrease in inventories		62.5	65.2
Increase in other current assets		(10.5)	(7.2)
Increase in trade and other accounts payable		120.1	35.9
Increase / (decrease) in current income tax liability		12.6	(6.2)
<b>Net cash provided by operating activities</b>		<b>1,302.5</b>	<b>1,405.2</b>
<b>Cash flows from investing activities</b>			
Purchases and construction of property, plant and equipment		(383.8)	(445.1)
Proceeds from sale of property, plant and equipment		7.9	7.7
Proceeds from sale / (purchases) of investments and loans given, net		1.1	(114.4)
Placement of bank deposits, net		(27.2)	(254.7)
Interest received		20.8	23.9
Contribution to share capital of a company accounted for using the equity method		-	(22.0)
Change in advance VAT payments on imported equipment		30.6	(26.4)
<b>Net cash used in investing activities</b>		<b>(350.6)</b>	<b>(831.0)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		757.4	178.3
Repayment of borrowings		(1,012.2)	(342.9)
Interest paid		(63.8)	(71.9)
Dividends to shareholders		(478.7)	(307.7)
<b>Net cash used in financing activities</b>		<b>(797.3)</b>	<b>(544.2)</b>
<b>Net increase in cash and cash equivalents</b>		<b>154.6</b>	<b>30.0</b>
Effect of exchange rate changes on cash and cash equivalents		29.7	(86.2)
Cash and cash equivalents at the beginning of the year	4	343.0	549.2
<b>Cash and cash equivalents at the end of the period</b>	4	<b>527.3</b>	<b>493.0</b>
<b>Supplemental disclosures of cash flow information:</b>			
<b>Cash paid during the period for:</b>			
Income tax		(175.3)	(263.5)
Placements of bank deposits		(817.7)	(750.0)
Withdrawals of bank deposits		790.5	495.2
<b>Non cash investing activities:</b>			
Conversion of debt to equity	5	139.4	-



## 1 Background

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

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

## 2 Basis of preparation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2015, which have been prepared in accordance with IFRSs.

The functional currency of all of the Group’s Russian entities is considered to be the Russian ruble. The functional currency of the majority of the foreign subsidiaries is their local currency. The Group uses US dollars as presentation currency for users’ convenience.

Starting January 2016 the Group translates income and expenses into the presentation currency using weighted average exchange rates for each month. The Central Bank of the Russian Federation’s Russian ruble to US dollar closing rates of exchange as at the reporting dates and the period weighted average exchange rates for corresponding quarters of reporting periods are indicated below.

	2016	2015
For the 1 <sup>st</sup> quarter	74.6283	62.1919
As at 31 March	67.6076	58.4643
For the 2 <sup>nd</sup> quarter	65.8883	52.6543
As at 30 June	64.2575	55.5240
For the 3 <sup>rd</sup> quarter	64.6245	62.9784
As at 30 September	63.1581	66.2367
As at 31 December	72.8827	72.8827

## 3 Significant accounting policies

The accounting policies applied are consistent with those of the consolidated financial statements for the year ended 31 December 2015. Amendments to IFRSs effective for the year ending 31 December 2016 are not expected to have a material impact on the Group.



#### 4 Cash and cash equivalents

	As at 30 September 2016	As at 31 December 2015
<b>Cash</b>		
Russian rubles	21.6	20.4
US dollars	218.9	99.0
Euros	86.0	41.2
Other currencies	2.1	1.7
	<hr/>	<hr/>
<b>Deposits</b>		
Russian rubles	95.1	29.6
US dollars	91.6	140.3
Euros	11.2	-
Other currencies	0.2	10.7
	<hr/>	<hr/>
<b>Other cash equivalents</b>	0.6	0.1
	<hr/>	<hr/>
	<b>527.3</b>	<b>343.0</b>
	<hr/> <hr/>	<hr/> <hr/>

#### 5 Investments

Classification of investments in the interim condensed consolidated statement of financial position:

	As at 30 September 2016	As at 31 December 2015
<b>Short-term financial investments</b>		
Loans to related parties (Note 16(c))	69.1	65.4
Bank deposits, including:	1,200.2	1,171.7
- Russian rubles	-	14.8
- US dollars	1,155.1	1,090.7
- Euros	45.1	66.2
- other currencies	-	-
Other short-term financial investments	14.3	5.5
	<hr/>	<hr/>
	1,283.6	1,242.6
	<hr/>	<hr/>
<b>Long-term financial investments</b>		
Loans to related parties (Note 16(c))	87.3	219.7
Bank deposits and other long-term financial investments	0.3	0.1
	<hr/>	<hr/>
	87.6	219.8
	<hr/>	<hr/>
<b>Total investments</b>	<b>1,371.2</b>	<b>1,462.4</b>
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## 5 Investments (continued)

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

	As at 30 September 2016 Ownership	As at 31 December 2015 Ownership	As at 30 September 2016	As at 31 December 2015
NLMK Belgium Holdings S.A.	51.0%	51.0%	187.9	108.8
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.0%	50.0%	9.7	8.9
			<b>197.6</b>	<b>117.7</b>

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 a disposal of its 28.5% stake in NBH (loss on the disposal amounting to \$21.1) and derecognition of the options previously included in other long-term liabilities (gain amounting to \$76.0) in "(Losses) / gains on investments" line of the interim condensed consolidated statement of profit or loss for the nine months ended 30 September 2015 in the total amount of \$54.9. In accordance with the agreement the Group and SOGEPA made additional pro-rata contributions to the share capital of NBH (EUR 20.4 million and EUR 19.6 million, respectively). The Group and SOGEPA also agreed to support NBH in obtaining financing of its working capital.

In June 2016, the Group converted existing loans to NBH into share capital in the amount of EUR 123 million. These investments are also a part of the agreement signed in March 2015. These contributions did not change the Group's share in NBH.

Management has analysed the performance of NBH in the nine months of 2016 and believes that there is no need for any adjustment to the recorded recoverable amount.

## 6 Trade and other accounts receivable

	As at 30 September 2016	As at 31 December 2015
<b>Financial assets</b>		
Trade accounts receivable	822.6	613.6
Allowance for impairment of trade accounts receivable	(20.4)	(16.3)
Other accounts receivable	24.6	40.3
Allowance for impairment of other accounts receivable	(18.9)	(15.3)
	<b>807.9</b>	<b>622.3</b>
<b>Non-financial assets</b>		
Advances given to suppliers	44.3	54.0
Allowance for impairment of advances given to suppliers	(1.9)	(4.2)
VAT and other taxes receivable	181.0	247.3
Accounts receivable from employees	2.0	1.5
	<b>225.4</b>	<b>298.6</b>
	<b>1,033.3</b>	<b>920.9</b>



## 6 Trade and other accounts receivable (continued)

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

As at 30 September 2016 and 31 December 2015, accounts receivable of \$121.5 and \$74.0, respectively, served as collateral for certain borrowings (Note 11).

## 7 Inventories

	<u>As at 30 September 2016</u>	<u>As at 31 December 2015</u>
Raw materials	611.3	522.0
Work in process	409.7	400.3
Finished goods and goods for resale	<u>300.8</u>	<u>340.7</u>
	1,321.8	1,263.0
Valuation to net realizable value	<u>(56.6)</u>	<u>(57.7)</u>
	<b><u>1,265.2</u></b>	<b><u>1,205.3</u></b>

As at 30 September 2016 and 31 December 2015, inventories of \$301.2 and \$303.5, respectively, served as collateral for certain borrowings (Note 11).

## 8 Property, plant and equipment

	<u>As at 30 September 2016</u>	<u>As at 31 December 2015</u>
Land	116.1	101.0
Buildings	1,473.9	1,263.3
Land and buildings improvements	1,864.6	1,633.0
Machinery and equipment	5,222.5	4,482.9
Vehicles	213.2	174.5
Construction in progress	1,276.8	950.3
Other	<u>68.8</u>	<u>77.4</u>
	10,235.9	8,682.4
Accumulated depreciation	<u>(5,136.2)</u>	<u>(4,230.1)</u>
	<b><u>5,099.7</u></b>	<b><u>4,452.3</u></b>

As at 30 September 2016, the Group clarified classification of fixed assets between "Land and buildings improvements" and "Machinery and equipment". Comparative amounts as at 31 December 2015 were also corrected.

The amount of borrowing costs capitalized was \$28.6 and \$38.4 for the nine months ended 30 September 2016 and 30 September 2015, respectively.

The amount of borrowing costs capitalized was \$9.1 and \$19.1 for the three months ended 30 September 2016 and 30 September 2015, respectively.



## 8 Property, plant and equipment (continued)

Management has analysed the performance of key cash generating units in the nine months of 2016 and believes that no changes to the estimates made as at 31 December 2015 regarding impairment of fixed assets and goodwill are required.

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to \$473.3 and \$564.7 as at 30 September 2016 and 31 December 2015, respectively.

## 9 Intangible assets

	As at 30 September 2016	As at 31 December 2015
Goodwill	244.0	214.6
Mineral rights	275.8	239.0
Beneficial lease interest	8.7	8.7
	528.5	462.3
Accumulated amortization	(161.3)	(135.4)
	<b>367.2</b>	<b>326.9</b>

## 10 Trade and other accounts payable

	As at 30 September 2016	As at 31 December 2015
<b>Financial liabilities</b>		
Trade accounts payable	396.1	342.3
Dividends payable	104.2	161.2
Other accounts payable	14.7	16.0
	515.0	519.5
<b>Non-financial liabilities</b>		
Advances received	122.6	62.9
Taxes payable other than income tax	61.6	39.2
Accounts payable and accrued liabilities to employees	170.8	104.8
	355.0	206.9
	<b>870.0</b>	<b>726.4</b>

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



## 11 Short-term and long-term borrowings

Rates	Currency	Maturity	As at 30 September 2016	As at 31 December 2015
<b>Bonds</b>				
8% to 11.5%	RUR	2016-2017	165.1	350.4
4.45% to 4.95%	USD	2018-2023	1,318.7	1,195.9
<b>Loans</b>				
LIBOR +1.875% to LIBOR +3% and PRIME +0.875%	USD	2016-2019	550.2	583.4
EURIBOR +0.9% to EURIBOR +2%	EUR	2016-2022	464.0	546.4
			<b>2,498.0</b>	<b>2,676.1</b>
Less: short-term loans and current maturities of long-term loans and bonds			(385.7)	(559.8)
<b>Long-term borrowings</b>			<b>2,112.3</b>	<b>2,116.3</b>

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

	As at 30 September 2016		As at 31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,465.6	1,497.1	1,315.5	1,300.8

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 cash flows discounted using an applicable rate and are within level 2 of the fair value hierarchy.

In June 2016, the Group issued Eurobonds of \$700.0 with an annual coupon rate of 4.5% mature in 2023 for the general corporate purposes and refinancing of its current debt. This issue did not changed major terms of loan agreements of the Group.

### Collateral

As at 30 September 2016 and 31 December 2015, the total amount of the Group companies' collateral was \$422.7 and \$377.5, respectively.

## 12 Earnings per share

	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Profit for the period attributable to NLMK shareholders (millions of US dollars)	627.4	891.4
Weighted average number of shares	5,993,227,240	5,993,227,240
<b>Basic and diluted earnings per share (US dollars)</b>	<b>0.1047</b>	<b>0.1487</b>



## 12 Earnings per share (continued)

	For the three months ended 30 September 2016	For the three months ended 30 September 2015
Profit for the period attributable to NLMK shareholders (millions of US dollars)	385.4	409.5
Weighted average number of shares	5,993,227,240	5,993,227,240
<b>Basic and diluted earnings per share (US dollars)</b>	<b>0.0643</b>	<b>0.0683</b>

Basic earnings per share of common stock is calculated by dividing profit for the period attributable to NLMK shareholders by the weighted average number of shares of common stock outstanding during the reporting period. The Parent Company does not have potentially dilutive financial instruments outstanding.

In June 2015, the Parent Company declared dividends for the year ended 31 December 2014 of 2.44 Russian rubles per share for the total of \$303.9 (including interim dividends for the six months ended 30 June 2014 of 0.88 Russian ruble per share for the total of \$133.9) translated at the historical rate as of the announcement date and for the three months ended 31 March 2015 of 1.64 Russian rubles per share for the total of \$178.7 (at the historical rate as of the announcement date).

In September 2015, the Parent Company declared dividends for the six months ended 30 June 2015 of 0.93 Russian ruble per share for the total of \$84.1 (at the historical rate as of the announcement date).

In June 2016, the Parent Company declared dividends for the fourth quarter of 2015 of 2.43 Russian rubles per share in the total amount of Russian rubles of \$218.2 and for the three months ended 31 March 2016 of 1.13 Russian rubles per share in the total amount of \$101.5 (at the historical rate as of the announcement date).

In September 2016, the Parent Company declared dividends for the second quarter of 2016 of 1.08 Russian rubles per share in the total amount of \$102.5 (at the historical rate as of the announcement date).

## 13 Foreign currency exchange

	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Foreign exchange loss on cash and cash equivalents	(64.4)	(2.4)
Foreign exchange gain on financial instruments	-	0.9
Foreign exchange (loss) / gain on financial investments	(329.1)	288.3
Foreign exchange gain / (loss) on debt financing	288.6	(212.8)
Foreign exchange gain / (loss) on other assets and liabilities	10.6	(38.0)
	<b>(94.3)</b>	<b>36.0</b>
	For the three months ended 30 September 2016	For the three months ended 30 September 2015
Foreign exchange (loss) / gain on cash and cash equivalents	(6.2)	31.6
Foreign exchange gain on financial instruments	-	1.2
Foreign exchange (loss) / gain on financial investments	(26.4)	389.2
Foreign exchange gain / (loss) on debt financing	24.9	(271.6)
Foreign exchange gain on other assets and liabilities	7.1	35.3
	<b>(0.6)</b>	<b>185.7</b>

**14 Income tax**

Income tax expense is recognised based on management's estimate of the effective annual income tax rate expected for the full financial year. The expected effective annual income tax rate used for the nine months ended 30 September 2016 is 26%, compared to 22% for the nine months ended 30 September 2015. The higher tax rate expected for 2016 was the result of unrecognised carried forward losses of foreign subsidiaries. Income before income tax used for the calculation of the income tax charge for the three months ended 30 September 2016 based on estimated annual income tax rate was adjusted for share in net losses of associates and other companies accounted for using the equity method, losses from non-taxable translation adjustment, profit / (loss) for the period of foreign subsidiaries in the total amount of \$43.3.

**15 Segment information**

The Group has five reportable business segments: Russian flat products, Foreign rolled products, Russian long products, Mining and Investments in associate entity NBH. These segments are combinations of subsidiaries and companies accounted for using equity method of accounting, have separate management teams and offer different products and services. The above five segments meet the criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

Revenue from segments that does not exceed the quantitative thresholds is primarily attributable to two operating segments of the Group. Those segments include insurance and other services. None of these segments has met any of the quantitative thresholds to be reported separately.

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

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

15 Segment information (continued)

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

	Mining	Russian flat products	Russian long products	Foreign rolled products	Investments in associate entity NBH	All other	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	120.4	3,173.1	749.2	1,114.8	872.4	7.1	-	(366.0)	5,671.0
Intersegment revenue	301.7	981.1	179.3	-	30.5	-	(1,462.1)	(30.5)	-
Gross profit / (loss)	265.3	1,402.7	177.3	165.1	44.7	1.4	(124.3)	(44.7)	1,887.5
Operating profit / (loss)*	192.8	804.7	64.5	87.0	(59.9)	0.1	(57.9)	59.9	1,091.2
Profit / (loss) for the period	139.9	505.1	57.4	72.5	(97.7)	(0.7)	(94.2)	47.8	630.1
Segment assets	1,772.1	7,258.2	1,089.0	1,054.6	1,494.0	9.9	(1,432.6)	(1,264.8)	9,980.4
Segment liabilities	(281.0)	(3,680.3)	(556.3)	(694.7)	(1,245.1)	(0.5)	1,810.1	801.9	(3,845.9)
Depreciation and amortization	(30.2)	(213.4)	(34.5)	(53.5)	(56.1)	(0.2)	-	56.1	(331.8)

Information on segments' profit or loss for the nine months ended 30 September 2015 and their assets and liabilities as at 31 December 2015 is as follows:

	Mining	Russian flat products	Russian long products	Foreign rolled products	Investments in associate entity NBH	All other	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	141.7	3,694.0	717.4	1,160.1	969.4	10.0	-	(321.4)	6,371.2
Intersegment revenue	302.2	1,072.0	225.5	-	44.0	0.1	(1,599.8)	(44.0)	-
Gross profit / (loss)	268.0	1,685.7	113.8	(44.8)	150.0	6.4	31.4	(150.0)	2,060.5
Operating profit / (loss)*	184.0	1,002.0	14.4	(119.0)	(95.8)	6.0	98.9	95.8	1,186.3
Profit / (loss) for the period	203.9	974.1	(22.2)	(118.3)	(109.5)	(4.6)	(77.9)	47.8	893.3
Segment assets	1,476.6	7,509.6	953.4	1,036.6	1,485.4	11.6	(2,195.6)	(1,358.2)	8,919.4
Segment liabilities	(326.0)	(3,603.2)	(565.6)	(1,458.9)	(1,281.7)	(1.0)	2,679.0	775.7	(3,781.7)
Depreciation and amortization	(30.7)	(306.3)	(51.8)	(52.4)	(59.4)	-	-	59.4	(441.2)

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

15 Segment information (continued)

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

	Mining	Russian flat products	Russian long products	Foreign rolled products	Investments in associate entity NBH	All other	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	57.0	1,253.5	334.0	398.1	276.9	3.1	-	(97.9)	2,224.7
Intersegment revenue	112.5	371.5	75.8	-	10.5	-	(559.8)	(10.5)	-
Gross profit / (loss)	108.8	611.2	79.9	82.1	12.3	0.7	(41.5)	(12.3)	841.2
Operating profit / (loss)*	80.7	400.4	36.1	55.9	(21.5)	(0.2)	(16.8)	21.5	556.1
Profit / (loss) for the period	59.4	282.2	27.4	54.0	(24.0)	(1.0)	(22.5)	11.7	387.2
Depreciation and amortization	(10.6)	(75.9)	(12.3)	(17.7)	(18.8)	(0.1)	-	18.8	(116.6)

Information on segments' profit or loss for the three months ended 30 September 2015 is as follows:

	Mining	Russian flat products	Russian long products	Foreign rolled products	Investments in associate entity NBH	All other	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	40.0	1,222.9	219.5	358.5	275.2	3.4	-	(104.0)	2,015.5
Intersegment revenue	102.8	321.6	88.1	-	8.5	0.1	(512.6)	(8.5)	-
Gross profit / (loss)	86.1	529.8	42.6	(5.4)	33.8	1.1	(19.9)	(33.8)	634.3
Operating profit / (loss)*	66.2	303.6	13.8	(30.3)	(38.6)	1.0	11.9	38.6	366.2
Profit / (loss) for the period	131.2	486.5	(2.0)	(39.3)	(41.1)	(9.6)	(134.8)	20.1	411.0
Depreciation and amortization	(10.6)	(95.9)	(13.6)	(18.3)	(19.7)	(3.2)	-	19.7	(141.6)

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



## 16 Related party transactions

Parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence, or joint control over the other party in making 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

	<b>For the nine months ended 30 September 2016</b>	<b>For the nine months ended 30 September 2015</b>
<b>Sales</b>		
NBH group companies	518.9	591.5
Other related parties	1.3	3.1
<b>Purchases</b>		
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	228.5	251.6
Other related parties	35.0	49.3
	<b>For the three months ended 30 September 2016</b>	<b>For the three months ended 30 September 2015</b>
<b>Sales</b>		
NBH group companies	186.5	143.6
Other related parties	0.4	1.0
<b>Purchases</b>		
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	73.2	96.4
Other related parties	11.9	9.9

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

	<b>As at 30 September 2016</b>	<b>As at 31 December 2015</b>
<b>Accounts receivable and advances given</b>		
NBH group companies	286.8	220.8
Other related parties	22.6	27.3
<b>Accounts payable</b>		
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	10.1	5.8
Other related parties	18.3	18.9

### (c) Financial transactions

	<b>As at 30 September 2016</b>	<b>As at 31 December 2015</b>
Loans, issued to NBH group companies	156.4	285.1
Deposits and current accounts in PJSC Bank ZENIT and PJSC Lipetskombank (companies under the significant influence of the Group's controlling shareholder)	20.3	24.2



## 16 Related party transactions (continued)

### (d) Financial guarantees issued

As at 30 September 2016 and 31 December 2015 guarantees issued by the Group for borrowings of NBH group companies' amounted to \$273.3 and \$273.2, respectively, which is the maximum potential amount of future payments, to be paid on demand of the guarantee. No amount has been accrued in these interim condensed consolidated financial statements for the Group's obligation under these guarantees as the Group assesses probability of cash outflows, related to these guarantees, as low.

The maturity of the guaranteed obligations is as follows:

	<u>As at 30 September 2016</u>	<u>As at 31 December 2015</u>
Less than 1 year	77.4	82.0
From 1 to 2 years	11.3	14.3
Over 2 years	<u>184.6</u>	<u>176.9</u>
	<b><u>273.3</u></b>	<b><u>273.2</u></b>

### (e) Common control transfers

In September 2015, the Parent Company completed the sales of its full controlling interest in OJSC North Oil and Gas Company (51.0%) for \$10.1 cash consideration received in October 2015 from a company under common control. Disposal of OJSC North Oil and Gas Company resulted in deconsolidation of assets amounting to \$20.4 and liabilities amounting to \$20.1.

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

This transaction was carried out in line with the Group's management of none-core assets portfolio.

## 17 Subsequent events

The Group's management has performed an evaluation of subsequent events and did not find any through the period from 1 October 2016 to 31 October 2016, which is the date when these interim condensed consolidated financial statements were available to be issued.