NOVOLIPETSK STEEL

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS

AS AT AND FOR THE YEAR ENDED
31 DECEMBER 2016

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

CONTENTS

Independent auditor's report	3
Consolidated statement of financial position	11
Consolidated statement of profit or loss	12
Consolidated statement of comprehensive income	13
Consolidated statement of changes in equity	14
Consolidated statement of cash flows	15
Notes to the consolidated financial statements	17

Independent auditor's report

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Novolipetsk Steel (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2016, 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

Group's consolidated financial statements comprise:

- Consolidated statements of:
  - financial position as at 31 December 2016;
  - profit or loss for the year ended 31 December 2016;
  - comprehensive income for the year ended 31 December 2016;
  - changes in equity for the year ended 31 December 2016;
  - cash flows for the year ended 31 December 2016; and
- the notes to the Consolidated financial statements, which include significant accounting policies.

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.

AO PricewaterhouseCoopers Audit
White Square Office Center 10 Butyrsky Val Moscow, Russia, 125047
T: +7 (495) 967-6000, F:+7 (495) 967-6001, www.pwc.ru

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Our audit approach

Overview

- Overall Group materiality: 71 million US Dollar (USD), which represents 0.93% of Group revenue.

- We conducted audit work at 13 components (entities or business activities, which prepare financial information that should be included in the group consolidated financial statements) in 6 countries.
- The group engagement team visited the Group companies in the Russian Federation, United States of America, Belgium and Cyprus.
- Our audit scope addressed 93% of the Group's consolidated revenues and 86% of the Group's consolidated total assets

- Key Audit Matter 1 - Management assessment of the carrying value of goodwill and property, plant and equipment
- Key Audit Matter 2 – Accounting for the investment in NLMK Belgium Holdings (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 significant judgements; for example, in respect of 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 bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. 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 71 million (2015: USD 78 million)
How we determined it	0.93% of Group revenue
Rationale for the materiality benchmark applied	We chose Group 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, during which volatility in profits may be observed. We chose 0.93% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

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

We communicated to the Audit Committee that we would provide information on misstatements identified during our audit above USD 3.5 million as well as misstatements below that amount which, in our view, warranted reporting for qualitative reasons. We also report to the Audit Committee on disclosure matters and adjusted misstatements that we identified when assessing the overall presentation of the consolidated financial statements.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
1. Management assessment of the carrying value of goodwill and property, plant and equipment *Refer to Notes 8 and 9 of the Consolidated Financial statements for 2016.* In connection with the optimization of the timing of preparation of the consolidated financial statements, the Group's management analysed impairment indicators of the Group's property, plant and equipment and goodwill related to several Cash Generating Units (CGUs) as at 31 October 2016. For goodwill an annual impairment review is required irrespective of whether there is any indication of impairment, therefore CGUs to which significant goodwill was allocated were also tested for impairment as at 31 October 2016. The Group's management did not reveal any signs that required an update of the results of the testing performed as at 31 December 2016.	We obtained, understood and evaluated management's impairment models. We used PwC valuation experts to assist in evaluation of the methodology, mathematical accuracy and assumptions used in the models. We challenged management primarily on their Key assumptions applied upon which the outcome of the impairment test is most sensitive. Specific work performed over the impairment test included: • comparing the Key assumptions used within the impairment review model to historic performance of the company and approved estimates;

Key audit matter	How our audit addressed the Key audit matter
High volatility on the market of finished products and raw materials (coal and ore) triggered assessment of the assets of the Group detailed in Note 8 to the consolidated financial statements for impairment or potential reversal of previously recognised impairment. The recoverable amount of PPE and goodwill for each CGU was calculated by management using discounted cash flow models. IFRS requires management to assess the recoverable amount of CGU as the higher of its value in use and its fair value less costs of disposal. Management assessed value in use for each CGU and concluded that it is higher than fair value less cost to sell. Group management concluded that the assumptions of an average market participant for a similar company would generally be the same or, in some cases, even more conservative, thereby resulting in a lower value of recoverable amount if fair value less cost to sell is assessed. Therefore the recoverable amount was determined as value in use. Within the impairment models management used judgements on certain key assumptions (hereinafter – the Key assumptions) including, for example, discount rates, long-term growth rates, prices and sales volumes forecasts. We focused on this area because of the judgemental factors involved in the assessment of impairment, and the significant carrying value of the assets in scope of the test.	• benchmarking of the Key assumptions including price forecasts, discount rates and inflation against our own internal data; • performing sensitivity analysis over the Key assumptions in the model in order to assess the potential impact of a range of possible outcomes. For a number of CGUs, we determined that the calculation was sensitive to the price forecasts, sales volumes forecasts, discount rate and other factors. We calculated the degree to which the long-term steel price and sales volumes would need to reduce further before an impairment arises on these assets and considered the likelihood of this arising in isolation from other changes in assumptions; • analysis of the companies' performance in November and December 2016, as well as assessment of other internal and external factors, which did not reveal any signs that required an update of the results of the impairment testing as at 31 December 2016; • assessment of completeness and accuracy of the disclosures. None of the items noted above resulted in material adjustments to the carrying value of goodwill and property, plant and equipment, recorded by management.
2. Accounting for the investment in NBH *Refer to Note 4 and Note 26 (g) of the Consolidated Financial Statements for 2016.* NBH is a joint investment between the Group and Societe Wallonne de Gestion et de Participations S.A. (further – SOGEPA). It is accounted for using the equity method and at	Our audit work in respect of auditing management judgements (existence of control / joint control / significant influence) over classification of investment in NBH and accounting method (subsidiary / joint venture/ associate) included: - inquiries of management of different levels both in Russia and Europe; - review of the shareholder's agreement and charter documents;

Key audit matter	How our audit addressed the Key audit matter
31 December 2016 the carrying value was USD 171.4 million. We focused on this area because management made judgements over the assessment of control and the classification of the investment in NBH as accounted for under the equity method of accounting. We have considered whether there are facts and circumstances which trigger reassessment of the accounting treatment as required by IFRS. For details of management judgement applied refer to Note 4 and 26(g).	- review of management accounts and minutes of meetings of NBH Board of directors and Shareholders meetings to corroborate joint decision making. As a result, we confirmed existence of joint control and accuracy of the accounting treatment of the investment in NBH as of 31 December 2016. None of the items noted above resulted in a change to the way in which NBH is accounted for, the accounting relating to the shareholders' agreement, or the accounting for the additional contribution made during 2016.
3. Determination of the carrying value of the investment in NBH *Refer to Note 4 of the Consolidated Financial Statements for 2016.* In June 2016 the Group contributed an additional Euro 123 million into the charter capital of NBH. This contribution was made to increase the net assets of NBH to the minimum level prescribed by Belgium law and was in the form of conversion of previously issued loans to NBH. Management considered that SOGEPA's share in this contribution should not be expensed immediately, but tested for recoverability as of the date of this additional contribution using a discounted cash flow model. We focused on this area as the amount of contribution made during 2016 and potential impairment of investment in NBH are significant for the consolidated financial statements taken as a whole.	Our audit procedures included: 1) obtaining evidence over SOGEPA's participation in NBH activities, including review of management accounts and minutes of meetings of NBH Board of directors and Shareholders meetings to confirm joint decision making. 2) test of management's impairment assessment of investment in NBH. Specific work was performed over the impairment models, including: • comparing the assumptions used within the impairment models to approved estimated figures for three CGUs within NBH; • performing sensitivity analysis over key assumptions (for example, discount rates (weighted average cost of capital), prices and sales volumes forecasts, price spreads); • involvement of PwC valuation specialists to assess the appropriateness of management's impairment models. For more details in respect of work performed over key significant assumptions refer to Key audit matter 1 above.

Key audit matter	How our audit addressed the Key audit matter
	None of the items noted above resulted in material adjustments to the carrying value of the investment in NBH recorded by management.

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 structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group operates across the Russian Federation, Western Europe, the United States of America ("USA") and Asia. In establishing an overall approach to the Group audit we used component audit teams located at major locations of the Group's operations.

The Group's major industrial operations are located in the Russian Federation, the USA and Western Europe. Based on our continuing assessment we focused our Group audit scope on 10 components located in these 3 regions, plus the Group's 2 marketing operations (Novex Trading (Swiss) S.A. and Novexco (Cyprus) Ltd.).

Audits of the parent company and the 6 major components located in the Russian Federation were performed by the Group engagement team. The audits of the overseas components were conducted by PwC network firms in USA, Belgium and Cyprus in accordance with detailed instructions issued by us. These instructions included our risk analysis, materiality and global audit approach to centralised processes and systems. The Group audit team is in regular contact with the component auditors and visits a number of the component teams to review work performed. In addition, in the current year senior members of the group team visited USA, Belgium, Cyprus and several locations in Russia (Lipetsk, Starij Oskol, Kaluga, Zarinsk and Ekaterinburg). Our selection is based on the relevant significance of the entities within the Group or specific risks identified.

By performing the procedures above at components, combined with additional procedures at Group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises the NLMK Annual Report 2016 and Issuer's report for the first quarter 2017, which include the consolidated financial statements and our auditor's report thereon. The NLMK Annual report 2016 is 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 do not and 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 identified 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 of the current period 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.

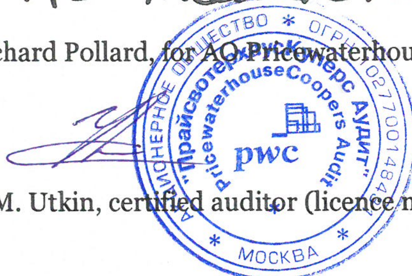
The certified auditor responsible for the audit resulting in this independent auditor's report is Alexey Utkin.

2 March 2017

Moscow, Russian Federation

AO PricewaterhouseCoopers Audit

Richard Pollard, for AO PricewaterhouseCoopers Audit



A.M. Utkin, certified auditor (licence no. 01-000167), AO PricewaterhouseCoopers Audit

Audited entity: Novolipetsk Steel

State registration certificate № 5, issued by the Administration of Levoberezhny district of the city of Lipetsk on 28 January 1993.

Certificate of inclusion in the Unified State Register of Legal Entities issued on 9 July 2002 under registration № 1024800823123

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

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

	Note	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Assets				
Current assets				
Cash and cash equivalents	3	609.7	343.0	549.2
Short-term financial investments	5	969.7	1,242.6	621.3
Trade and other accounts receivable	6	955.4	920.9	1,122.5
Inventories	7	1,549.3	1,205.3	1,562.8
Other current assets		18.6	8.8	5.3
		4,102.7	**3,720.6**	**3,861.1**
Non-current assets				
Long-term financial investments	5	164.2	219.8	141.3
Investments in associates and other companies accounted for using the equity method of accounting	4	181.0	117.7	106.2
Property, plant and equipment	8	5,328.1	4,452.3	5,613.6
Goodwill	9	253.1	214.6	285.4
Other intangible assets	9	126.0	112.3	193.9
Deferred income tax assets	17	61.5	68.2	124.9
Other non-current assets		22.3	13.9	23.0
		6,136.2	**5,198.8**	**6,488.3**
Total assets		**10,238.9**	**8,919.4**	**10,349.4**
Liabilities and equity				
Current liabilities				
Trade and other accounts payable	10	1,248.8	726.4	775.9
Short-term borrowings	11	467.6	559.8	804.3
Current income tax liability		12.4	27.7	47.5
		1,728.8	**1,313.9**	**1,627.7**
Non-current liabilities				
Long-term borrowings	11	1,801.1	2,116.3	1,964.2
Deferred income tax liability	17	385.7	339.3	407.4
Other long-term liabilities		12.5	12.2	93.4
		2,199.3	**2,467.8**	**2,465.0**
Total liabilities		**3,928.1**	**3,781.7**	**4,092.7**
Equity attributable to NLMK shareholders				
Common stock	12(a)	221.2	221.2	221.2
Additional paid-in capital	23(f)	9.9	9.9	-
Accumulated other comprehensive loss		(5,977.5)	(6,988.4)	(5,491.9)
Retained earnings		12,039.3	11,883.4	11,512.7
		6,292.9	**5,126.1**	**6,242.0**
Non-controlling interests		**17.9**	**11.6**	**14.7**
Total equity		**6,310.8**	**5,137.7**	**6,256.7**
Total liabilities and equity		**10,238.9**	**8,919.4**	**10,349.4**

The consolidated financial statements as set out on pages 11 to 69 were approved on 2 March 2017.

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Revenue	14	7,636.4	8,008.3	10,395.7
Cost of sales		(5,073.6)	(5,495.7)	(7,389.0)
Gross profit		**2,562.8**	**2,512.6**	**3,006.7**
General and administrative expenses		(316.0)	(261.1)	(364.3)
Selling expenses		(704.7)	(801.6)	(923.1)
Other operating income		16.4	14.1	6.1
Taxes, other than income tax	16	(70.0)	(75.7)	(137.5)
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		**1,488.5**	**1,388.3**	**1,587.9**
Loss on disposals of property, plant and equipment		(3.2)	(7.6)	(11.9)
Impairment losses and write-off of assets	4, 7, 8	(13.8)	(85.5)	(657.2)
Share in net losses of associates and other companies accounted for using the equity method	4	(61.0)	(103.0)	(193.1)
(Losses) / gains on investments, net	4, 24(b)	(4.5)	80.3	37.4
Finance income	18	39.1	51.9	36.5
Finance costs	18	(105.3)	(95.3)	(136.8)
Foreign currency exchange (loss) / gain, net	19	(129.1)	109.5	488.2
Other expenses, net		(38.5)	(17.5)	(15.0)
Profit before income tax		**1,172.2**	**1,321.1**	**1,136.0**
Income tax expense	17	(233.4)	(352.9)	(362.4)
Profit for the year		**938.8**	**968.2**	**773.6**
Profit attributable to:				
NLMK shareholders		**935.1**	**967.4**	**772.5**
Non-controlling interests		**3.7**	**0.8**	**1.1**
Earnings per share – basic and diluted:				
Earnings attributable to NLMK shareholders per share (US dollars)	13	0.1560	0.1614	0.1289
Weighted-average shares outstanding: basic and diluted (in thousands)	12(a)	5,993,227	5,993,227	5,993,227

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Profit for the year		938.8	968.2	773.6
Other comprehensive income / (loss):				
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment	2(b)	1,013.5	(1,500.3)	(4,666.5)
Total comprehensive income / (loss) attributable to		**1,952.3**	**(532.1)**	**(3,892.9)**
NLMK shareholders		1,946.0	(529.1)	(3,879.5)
Non-controlling interests		6.3	(3.0)	(13.4)

		NLMK shareholders					
	Note	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Non-controlling interest	Total equity
Balance at 31 December 2013		**221.2**	**-**	**(839.9)**	**10,989.1**	**28.1**	**10,398.5**
Profit for the year		-	-	-	772.5	1.1	773.6
Cumulative translation adjustment	2(b)	-	-	(4,652.0)	-	(14.5)	(4,666.5)
Total comprehensive loss							**(3,892.9)**
Dividends to shareholders	12(b)	-	-	-	(248.9)	-	(248.9)
Balance at 31 December 2014		**221.2**	**-**	**(5,491.9)**	**11,512.7**	**14.7**	**6,256.7**
Profit for the year		-	-	-	967.4	0.8	968.2
Cumulative translation adjustment	2(b)	-	-	(1,496.5)	-	(3.8)	(1,500.3)
Total comprehensive loss							**(532.1)**
Disposal of assets to an entity under common control	23(f)	-	9.9	-	-	(0.1)	9.8
Dividends to shareholders	12(b)	-	-	-	(596.7)	-	(596.7)
Balance at 31 December 2015		**221.2**	**9.9**	**(6,988.4)**	**11,883.4**	**11.6**	**5,137.7**
Profit for the year		-	-	-	935.1	3.7	938.8
Cumulative translation adjustment	2(b)	-	-	1,010.9	-	2.6	1,013.5
Total comprehensive income							**1,952.3**
Dividends to shareholders	12(b)	-	-	-	(779.2)	-	(779.2)
Balance at 31 December 2016		**221.2**	**9.9**	**(5,977.5)**	**12,039.3**	**17.9**	**6,310.8**

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Cash flows from operating activities				
Profit for the year		**938.8**	**968.2**	**773.6**
Adjustments to reconcile profit for the year to net cash provided by operating activities:				
Depreciation and amortization		452.3	560.0	793.5
Loss on disposals of property, plant and equipment		3.2	7.6	11.9
Losses / (gains) on investments		4.5	(80.3)	(37.4)
Finance income		(39.1)	(51.9)	(36.5)
Finance costs		105.3	95.3	136.8
Share in net losses of associates and other companies accounted for using the equity method	4	61.0	103.0	193.1
Deferred income tax (benefit) / expense	17	(3.7)	51.8	(15.9)
Impairment losses		13.8	85.5	657.2
Unrealized (gains) / losses on foreign currency exchange		125.6	(173.4)	(574.0)
Other adjustments		(1.5)	(8.4)	31.5
Changes in operating assets and liabilities				
Decrease / (increase) in trade and other accounts receivable		31.8	98.2	(49.9)
(Increase) / decrease in inventories		(193.3)	82.8	(97.6)
Increase in other current assets		(9.0)	(5.5)	(1.8)
Increase / (decrease) in trade and other accounts payable		225.2	(75.5)	(28.9)
(Decrease) / increase in current income tax liability		(20.3)	(6.3)	50.1
Net cash provided by operating activities		**1,694.6**	**1,651.1**	**1,805.7**
Cash flows from investing activities				
Purchases and construction of property, plant and equipment		(558.6)	(594.7)	(562.6)
Proceeds from sale of property, plant and equipment		9.0	10.8	15.0
Purchases of investments and loans given, net		(79.3)	(198.8)	(231.6)
Withdrawal / (placement) of bank deposits, net		272.0	(641.0)	(197.1)
Interest received		36.2	43.6	30.7
Contribution to share capital of the company accounted for using the equity method	4	-	(22.0)	-
VAT on imported equipment		-	(23.8)	-
Disposal of assets to an entity under common control	23(f)	-	9.8	-
Cash received in course of bankruptcy proceedings	24(b)	11.4	16.8	-
Net cash used in investing activities		**(309.3)**	**(1,399.3)**	**(945.6)**
Cash flows from financing activities				
Proceeds from borrowings		802.9	675.6	110.2
Repayment of borrowings and capital lease payments		(1,255.6)	(578.8)	(910.7)
Interest paid		(83.6)	(79.4)	(120.6)
Dividends to shareholders		(582.5)	(395.2)	(225.9)
Net cash used in financing activities		**(1,118.8)**	**(377.8)**	**(1,147.0)**
Net increase / (decrease) in cash and cash equivalents		**266.5**	**(126.0)**	**(286.9)**
Effect of exchange rate changes on cash and cash equivalents		0.2	(80.2)	(133.9)
Cash and cash equivalents at the beginning of the year	3	343.0	549.2	970.0
Cash and cash equivalents at the end of the year	3	**609.7**	**343.0**	**549.2**

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Supplemental disclosures of cash flow information				
Cash paid during the year for:				
Income tax paid		(252.4)	(320.9)	(352.4)
Placements of bank deposits		(988.6)	(1,594.7)	(1,997.8)
Withdrawals of bank deposits		1 260.6	953.7	1,800.7
Non cash investing activities:				
Conversion of debt to equity	4	139.4	109.5	270.4

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 Parent Company is a Russian Federation 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 privatized in the form of an open joint stock company on 28 January 1993. On 12 August 1998 the Parent Company's name was re-registered as an open joint stock company in accordance with the Law on Joint Stock Companies of the Russian Federation and on 29 December 2015 the name 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 subsidiaries' state and regional authorities. The Parent Company's registered office is located at 2, Metallurgov sq., 398040, Lipetsk, Russian Federation.

As at 31 December 2016 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 are:

	Activity	Country of incorporation	Share at 31 December 2016	Share at 31 December 2015	Share at 31 December 2014
Companies under the Group's control:					
Russian flat products					
LLC VIZ-Stahl	Production of steel	Russia	100.00%	100.00%	100.00%
OJSC 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 (formerly – OJSC NSMMZ)	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					
OJSC Stoilensky GOK	Mining and processing of iron-ore raw	Russia	100.00%	100.00%	100.00%

Among associates and other companies accounted for using the equity method the major is:

	Activity	Country of incorporation	Share at 31 December 2016	Share at 31 December 2015	Share at 31 December 2014
NLMK Belgium Holdings S.A.	Holding company	Belgium	51.00%	51.00%	79.50%

2 Basis of consolidated financial statements preparation

(a) Basis of preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except those, 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 periods are presented for users' convenience.

(b) Functional and reporting currency

Functional currency of all 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 of these consolidated financial statements for users' convenience.

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 recognized in other comprehensive income.

Items of consolidated statements of cash flow 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).

Before January 2016 translation of operations for a period was carried out using average exchange rates for each quarter.

When control over a foreign operation is lost, the previously recognized 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.

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

	2016	2015	2014
For the 1st quarter	74.6283	62.1919	34.9591
For the 2nd quarter	65.8883	52.6543	34.9999
For the 3rd quarter	64.6245	62.9784	36.1909
For the 4th quarter	63.0685	65.9434	47.4243
As at 31 December	60.6569	72.8827	56.2584

3 Cash and cash equivalents

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Cash			
Russian rubles	11.3	20.4	20.3
US dollars	89.0	99.0	150.8
Euros	52.1	41.2	54.3
Other currencies	2.2	1.7	8.0
Deposits			
Russian rubles	49.0	29.6	96.3
US dollars	393.5	140.3	158.0
Euros	10.5	-	53.6
Other currencies	1.2	10.7	7.8
Other cash equivalents	0.9	0.1	0.1
	609.7	**343.0**	**549.2**

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

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
NLMK Belgium Holdings S.A.	171.4	108.8	97.3
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	9.6	8.9	8.9
	181.0	**117.7**	**106.2**

The table below summarizes the movements in the carrying amount of the Group's investments in associates and other companies accounted for using the equity method of accounting.

	2016	2015	2014
As at 1 January	**117.7**	**106.2**	**419.1**
Share of net loss of associates and other companies accounted for using the equity method of accounting	(61.0)	(103.0)	(193.1)
Conversion of debt to equity	139.4	109.5	270.4
Contributions to the share capital by the Group	-	22.0	-
Impairment of investments	-	-	(325.2)
Disposal of 28.5% shares in NBH	-	(35.6)	-
Share of unrealized profit in inventory of associates and other companies accounted for using the equity method of accounting	(5.2)	30.3	(28.0)
Translation adjustment	(10.6)	(12.8)	(29.7)
Other adjustments	0.7	1.1	(7.3)
As at 31 December	**181.0**	**117.7**	**106.2**

4 Investments in associates and other companies accounted for using the equity method of accounting (continued)

The Group's interests in its principal associates and other companies accounted for using the equity method of accounting and their summarized financial information were as follows:

Company	Year	Share	Assets	Liabilities	Revenue	Net profit / (loss) for the year
NLMK Belgium Holdings S.A. (Belgium)	2016	51.0%	1,406.4	(1,193.7)	1,221.0	(120.0)
including from / (to) the Group			*15.8*	*(428.5)*	*44.9*	-
	2015	51.0%	1,485.4	(1,281.7)	1,277.6	(191.3)
including from / (to) the Group			*18.4*	*(505.9)*	*56.6*	-
	2014	79.5%	1,857.2	(1,542.9)	1,517.3	(243.4)
including from / (to) the Group			*24.7*	*(510.5)*	*54.9*	-
TBEA & NLMK (Shenyang) Metal Product Co., Ltd. (China)	2016	50.0%	22.0	(4.9)	22.4	0.6
	2015	50.0%	18.0	(0.2)	9.9	0.7
	2014	50.0%	18.4	(0.6)	12.3	0.9

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

	2016	2015	2014
Net assets as at 1 January	**4.2**	**28.2**	**27.3**
Net loss for the period	(111.1)	(178.4)	(276.1)
Proportional contributions into share capital	-	43.2	-
Conversion of debt to equity	139.4	109.5	270.4
Other adjustments	1.4	1.9	(8.4)
Translation adjustment	(4.5)	(0.2)	15.0
Net assets as at 31 December	**29.4**	**4.2**	**28.2**
PP&E valuation difference	183.3	199.5	235.4
Adjusted net assets as at 31 December	**212.7**	**203.7**	**263.6**
Share in net assets	108.5	103.9	209.6
Share in excess за fair value of investment in NBH as at the deconsolidation date	103.9	103.9	162.0
Accumulated share of other investor in conversion of debt to equity	177.4	109.1	55.4
Accumulated impairment of investments	(239.8)	(239.8)	(325.2)
Share of unrealized profit	(5.2)	30.3	(28.0)
Cumulative translation adjustment and other adjustments	26.6	1.4	23.5
Investments in NBH	**171.4**	**108.8**	**97.3**

Information about the Group's operations with NBH is disclosed in Note 23.

4 Investments in associates and other companies accounted for using the equity method of accounting (continued)

Summarized financial information for NBH before impairment losses is as follows:

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Current assets	736.2	734.1	921.9
Non-current assets	670.2	751.3	935.3
Total assets	**1,406.4**	**1,485.4**	**1,857.2**
Current liabilities	(560.1)	(657.5)	(1,054.3)
Non-current liabilities	(633.6)	(624.2)	(488.6)
Total liabilities	**(1,193.7)**	**(1,281.7)**	**(1,542.9)**
Equity	**212.7**	**203.7**	**314.3**

NBH cash and cash equivalents as at 31 December 2016, 2015 and 2014 amounted to $52.3, $59.8 and $46.1, respectively.

NBH trade and other accounts payable as at 31 December 2016, 2015 and 2014 amounted to $340.3, $354.4 and $463.7, respectively, and are included in current liabilities.

The Group's share in NBH's net loss for the year ended 31 December 2016, 2015 and 2014 amounted to $(61.2), $(103.4) and $(193.5), respectively, and is included in "Share in net losses of associates and other companies accounted for using the equity method" line in the consolidated statement of profit or loss.

In June 2016, the Group converted existing loans to NBH into share capital in the amount of EUR 123 million ($139.4). These investments are also a part of the agreement signed in March 2015 (see below). These contributions did not change the Group's share in NBH.

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 consolidated statement of profit or loss for the year ended 31 December 2015 in the total amount of $54.9. In March 2015, in accordance with the agreement the Group and SOGEPA made additional pro-rata contributions to the share capital of NBH (EUR 20.4 million ($22.0) and EUR 19.6 million ($21.2), respectively). The Group and SOGEPA also agreed to support NBH in obtaining financing of its working capital.

Earlier, in December 2014, the Group made a conversion of existing loans given into NBH share capital in the amount of EUR 220 million ($270.4) with a corresponding reflection in the consolidated financial statements for the year ended 31 December 2014. In December 2015, the Group made a conversion of existing loans given into NBH share capital in the amount of EUR 100 million ($109.5) with a corresponding reflection in the consolidated financial statements for the year ended 31 December 2015. These contributions did not change Group's share in NBH.

Continuous trend of low prices for steel products in Europe and underperformance of NBH holding companies resulted in a necessity of reassessment of impairment testing model for the investments in NBH in 2014, which showed no impairment in 2013. The revised model showed a necessity of further impairment of $325.2 as at 31 December 2014. For the purpose of impairment testing the Group has estimated cash flows for 9 years for different groups of assets and respective cash flows in the post-forecast period. Prices for steel products were determined on the basis of forecasts of investment banks' analysts. A discount rate of 8% was used. The impairment testing model is sensitive to assumptions used. For example, increase in the discount rate by 1% resulted in additional impairment of $117.

5 Financial investments

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Short-term financial investments			
Loans to related parties (Note 23)	66.1	65.4	68.4
Bank deposits (Note 22(c)), including:	898.2	1,171.7	549.4
- Russian rubles	*0.7*	*14.8*	*14.8*
- US dollars	*855.4*	*1,090.7*	*425.8*
- Euros	*42.1*	*66.2*	*96.5*
- other currencies	-	-	*12.3*
Other short-term financial investments	5.4	5.5	3.5
	969.7	1,242.6	621.3
Long-term financial investments			
Loans to related parties (Note 23)	163.9	219.7	141.2
Bank deposits and other long-term financial investments	0.3	0.1	0.1
	164.2	219.8	141.3
	1,133.9	**1,462.4**	**762.6**

6 Trade and other accounts receivable

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Financial assets			
Trade accounts receivable	692.5	613.6	802.0
Allowance for impairment of trade accounts receivable	(24.1)	(16.3)	(28.6)
Other accounts receivable	24.6	40.3	38.7
Allowance for impairment of other accounts receivable	(18.3)	(15.3)	(20.4)
	674.7	622.3	791.7
Non-financial assets			
Advances given to suppliers	53.7	54.0	69.7
Allowance for impairment of advances given to suppliers	(1.7)	(4.2)	(9.6)
VAT and other taxes receivable	226.8	247.3	269.0
Accounts receivable from employees	1.9	1.5	1.7
	280.7	298.6	330.8
	955.4	**920.9**	**1,122.5**

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

As at 31 December 2016, 2015 and 2014 accounts receivable of $121.5, $74.0 and $137.6, respectively, served as collateral for certain borrowings (Note 11).

6 Trade and other accounts receivable (continued)

Movements in the Group's provision for impairment of trade and other accounts receivables are as follows:

	2016	2015	2014
As at 1 January	**(35.8)**	**(58.6)**	**(83.7)**
Provision for impairment during the year	(12.9)	(22.8)	(35.9)
Receivables written off during the year as uncollectible	1.9	21.1	0.3
Unused amounts reversed	7.7	13.7	21.1
Change in scope of consolidation	-	0.1	4.3
Translation adjustment	(5.0)	10.7	35.3
As at 31 December	**(44.1)**	**(35.8)**	**(58.6)**

The allocation of trade accounts receivable, net of provision for doubtful debt, by geographical area is follows:

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Russia	182.2	130.5	133.6
European Union	278.7	288.6	399.3
North America	98.3	58.7	146.9
Asia and Oceania	50.3	48.8	37.0
Middle East, including Turkey	23.2	42.2	21.0
Other regions	35.7	28.5	35.6
	668.4	**597.3**	**773.4**

7 Inventories

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Raw materials	705.2	522.0	623.1
Work in process	460.1	400.3	569.7
Finished goods and goods for resale	443.2	340.7	419.5
	1,608.5	1,263.0	1,612.3
Valuation to net realizable value	(59.2)	(57.7)	(49.5)
	1,549.3	**1,205.3**	**1,562.8**

As at 31 December 2016, 2015 and 2014 inventories of $295.9, $303.5 and $562.0, respectively, served as collateral for certain borrowings (Note 11).

Share of raw materials and acquired semi-finished goods in cost of sales for the years ended 31 December 2016, 2015 and 2014 amounted to 67.9%, 63.5% and 61.3%, respectively. Share of fuel and energy resources expenses in cost of sales for the years ended 31 December 2016, 2015 and 2014 amounted to 10.9%, 10.9% and 13.0%, respectively.

8 Property, plant and equipment

	Land	Buildings	Land and buildings improvements	Machinery and equipment	Vehicles	Construction in progress	Other	Total
Cost at 31 December 2013	215.8	2,755.3	2,267.0	9,835.9	413.8	1,902.1	103.2	17,493.1
Accumulated depreciation and impairment	-	(806.1)	(983.5)	(5,527.1)	(226.8)	-	(57.5)	(7,601.0)
Net book value at 31 December 2013	**215.8**	**1,949.2**	**1,283.5**	**4,308.8**	**187.0**	**1,902.1**	**45.7**	**9,892.1**
Additions	-	-	-	0.5	-	605.5	-	606.0
Disposals	(6.0)	(3.0)	(3.2)	(10.8)	(2.6)	(1.5)	(0.8)	(27.9)
Impairment	-	(122.6)	(41.6)	(139.3)	-	(4.3)	-	(307.8)
Transfers	9.2	90.0	154.7	645.5	13.9	(921.8)	8.5	-
Depreciation charge	-	(78.6)	(82.8)	(542.5)	(33.3)	-	(13.6)	(750.8)
Translation adjustment	(88.1)	(773.2)	(554.3)	(1,638.8)	(66.5)	(674.4)	(2.7)	(3,798.0)
Cost at 31 December 2014	130.9	1,713.6	1,420.3	6,401.8	235.5	905.6	78.6	10,886.3
Accumulated depreciation and impairment	-	(651.8)	(664.0)	(3,778.4)	(137.0)	-	(41.5)	(5,272.7)
Net book value at 31 December 2014	**130.9**	**1,061.8**	**756.3**	**2,623.4**	**98.5**	**905.6**	**37.1**	**5,613.6**
Additions	-	-	-	-	-	639.8	-	639.8
Disposals	(1.3)	(0.6)	(4.0)	(11.8)	(1.9)	(33.4)	(0.2)	(53.2)
Impairment	-	(13.7)	(7.1)	(26.8)	(11.0)	-	-	(58.6)
Transfers	0.6	30.4	36.2	220.3	10.3	(309.0)	11.2	-
Depreciation charge	-	(40.0)	(45.3)	(393.6)	(18.1)	-	(7.5)	(504.5)
Translation adjustment	(29.2)	(218.3)	(119.3)	(542.0)	(20.5)	(252.7)	(2.8)	(1,184.8)
Cost at 31 December 2015	101.0	1,380.2	1,672.1	4,655.8	185.6	950.3	77.4	9,022.4
Accumulated depreciation and impairment	-	(560.6)	(1,055.3)	(2,786.3)	(128.3)	-	(39.6)	(4,570.1)
Net book value at 31 December 2015	**101.0**	**819.6**	**616.8**	**1,869.5**	**57.3**	**950.3**	**37.8**	**4,452.3**

8 Property, plant and equipment (continued)

	Land	Buildings	Land and buildings improvements	Machinery and equipment	Vehicles	Construction in progress	Other	Total
Additions	-	-	-	-	-	539.7	-	539.7
Disposals	-	(0.8)	(0.9)	(3.5)	(0.3)	(6.4)	(0.4)	(12.3)
Impairment	-	-	-	-	-	-	-	-
Transfers	0.1	159.4	115.6	521.6	15.6	(823.6)	11.3	-
Depreciation charge	-	(33.9)	(45.2)	(348.8)	(13.4)	-	(8.6)	(449.9)
Translation adjustment	19.7	155.1	115.8	292.7	14.8	199.5	0.7	798.3
Cost at 31 December 2016	120.8	1,801.0	2,098.8	5,964.5	234.9	859.5	71.8	11,151.3
Accumulated depreciation and impairment	-	(701.6)	(1,296.7)	(3,633.0)	(160.9)	-	(31.0)	(5,823.2)
Net book value at 31 December 2016	**120.8**	**1 099.4**	**802.1**	**2,331.5**	**74.0**	**859.5**	**40.8**	**5,328.1**

The amount of borrowing costs capitalized is $36.9, $50.7 and $59.0 for the years ended 31 December 2016, 2015 and 2014, respectively. The capitalisation rate was 4.1%, 4.4% and 5.1% in 2016, 2015 and 2014, respectively.

8 Property, plant and equipment (continued)

The Group's management has decided to analyze impairment indicators of the Group's assets as at 31 October 2016. 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, at the same time 2-4 quarter of 2016 positive trends on the steel market caused by increases in metal prices, particularly in Russia and the USA, represented triggers for potential reversal of previously recognized impairment loss which required determination of the recoverable amounts of assets using the income approach based on primarily Level 3 inputs. Goodwill was also tested for impairment as of the same date. As of 31 December 2016 the Group's management did not reveal any signs that required an update of the results of the testing. Testing for impairment in the comparative periods was caused by a deterioration in the steel market and was conducted as of 31 December 2015 and 2014.

For the purpose of impairment testing the Group's management has estimated cash flows for 7 years due to long useful-lives of steel making equipment and normalized cash flows for a post-forecast period.

The table below summarizes cash generating units (further – "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 on the basis of 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 balance values. As of 31 October 2016 testing showed neither impairment, nor reversal of previously recognized impairment loss.

Company	Asset type	Forecast period, years	Discount rate, %	Product types	Average sale price*, $ per tonne (FCA)	Sensitivity, % of change	
						Price	Sales volume
NLMK Pennsylvania LLC	Property, plant and equipment	7	8%	Flat products	705	-2%	-17%
NLMK Indiana LLC	Property, plant and equipment	7	8%	Flat products	582	-1%	-7%
NLMK Indiana LLC	Goodwill	7	8%	Flat products	582	-1%	-6%
Scrap collecting assets in Russian long products segment	Property, plant and equipment	7	12-16%	Metal scrap	237	-0.05%	-0.2%
JSC NLMK-Ural	Property, plant and equipment	7	12-16%	Long products and semi-finished goods	452	-1%	-2%
LLC NLMK-Kaluga	Property, plant and equipment	7	12-16%	Long-products and semi-finished goods	429	-0.04%	-0.4%
NLMK DanSteel A/S	Property, plant and equipment	7	8%	Plate	685	-0.3%	-2%

** Weighted average prices giving the product mix, averaged for the period from November 2016 to 2023*

8 Property, plant and equipment (continued)

The table below summarizes 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 on the basis of 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 balance 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 $23.9 and $34.7, respectively. Impairment testing also showed impairment of goodwill in NLMK Indiana LLC by $14.4.

Company	Asset type	Forecast period, years	Discount rate, %	Product types	Average sale price*, $ per tonne (FCA)	Sensitivity, % of change	
						Price	Sales volume
OJSC Stoilensky GOK	Property, plant and equipment and intangible assets	7	12-16%	Iron ore	44	-43%	-56%
OJSC Stoilensky GOK	Goodwill	7	12-16%	Iron ore	44	-36%	-47%
NLMK Pennsylvania LLC	Property, plant and equipment	7	8%	Flat products	646	-3%	-22%
NLMK Indiana LLC	Property, plant and equipment	7	8%	Flat products	540	-0.4%	-3%
NLMK Indiana LLC	Goodwill	7	8%	Flat products	540	+0.3%	+2%
OJSC Altai-Koks	Property, plant and equipment	7	12-16%	Coke, chemical products	172	-15%	-40%
OJSC Altai-Koks	Goodwill	7	12-16%	Coke, chemical products	172	-13%	-35%
Scrap collecting assets in Russian long products segment	Property, plant and equipment	7	12-16%	Metal scrap	171	+3%	-
JSC NLMK-Ural	Property, plant and equipment	7	12-16%	Long products and semi-finished goods	344	+1%	+2%
LLC NLMK-Kaluga	Property, plant and equipment	7	12-16%	Long-products and semi-finished goods	353	-0.2%	-1%
LLC NLMK-Metalware	Property, plant and equipment	7	12-16%	Metalware	464	-7%	-31%
NLMK DanSteel A/S	Property, plant and equipment	7	8%	Plate	630	-1%	-5%

** Weighted average prices giving the product mix, averaged for the period from 2016 to 2022*

8 Property, plant and equipment (continued)

The table below summarizes CGUs and types of assets, subject to impairment test as of 31 December 2014, major assumptions and their sensitivity used in the impairment models. Prices for steel products in this estimate were determined on the basis of 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 balance values. As of 31 December 2014 impairment testing showed that recoverable amount of property, plant and equipment (value in use) of JSC NLMK-Ural, LLC NLMK-Kaluga and NLMK DanSteel A/S was below its carrying amount by $113.7, $127.0 and $67.1, respectively.

Company	Asset type	Forecast period, years	Discount rate, %	Product types	Average sale price*, $ per tonne (FCA)	Sensitivity, % of change	
						Price	Sales volume
NLMK	Property, plant and equipment and intangible assets	7	12-16%	Flat products	405	-17%	-17%
OJSC Stoilensky GOK	Property, plant and equipment and intangible assets	7	12-16%	Iron ore	34	-25%	-27%
OJSC Stoilensky GOK	Goodwill	7	12-16%	Iron ore	34	-7%	-8%
NLMK Pennsylvania LLC	Property, plant and equipment	7	9%	Flat products	799	-5%	-62%
NLMK Indiana LLC	Property, plant and equipment	7	9%	Flat products	705	-4%	-35%
OJSC Altai-Koks	Goodwill	7	12-16%	Coke, chemical products	116	-3%	-14%
Scrap collecting assets in Russian long products segment	Property, plant and equipment	7	12-16%	Metal scrap	199	-2%	-43%
JSC NLMK-Ural	Property, plant and equipment	7	12-16%	Long products and semi-finished goods	403	+2%	+7%
LLC NLMK-Kaluga	Property, plant and equipment	7	12-16%	Long-products and semi-finished goods	437	+3%	-
NLMK DanSteel A/S	Property, plant and equipment	6	9%	Plate	738	+2%	-

** Weighted average prices giving the product mix, averaged for the period from 2015 to 2021*

9 Intangible assets

	Goodwill	Mineral rights	Customer base	Industrial intellectual property	Beneficial lease interest	Total
Cost at 31 December 2013	463.4	617.5	189.1	52.2	8.7	1,330.9
Accumulated amortisation and impairment	-	(359.0)	(102.3)	(31.2)	(0.5)	(493.0)
Net book value at 31 December 2013	**463.4**	**258.5**	**86.8**	**21.0**	**8.2**	**837.9**
Amortisation charge	-	(11.4)	(44.4)	(9.4)	(0.1)	(65.3)
Translation adjustment	(178.0)	(104.4)	(5.1)	(5.8)	-	(293.3)
Cost at 31 December 2014	285.4	359.2	147.6	30.4	8.7	831.3
Accumulated amortisation and impairment	-	(216.5)	(110.3)	(24.6)	(0.6)	(352.0)
Net book value at 31 December 2014	**285.4**	**142.7**	**37.3**	**5.8**	**8.1**	**479.3**
Amortisation charge	-	(7.1)	(36.9)	(5.6)	(0.1)	(49.7)
Impairment	(14.4)	-	-	-	-	(14.4)
Translation adjustment	(56.4)	(31.3)	(0.4)	(0.2)	-	(88.3)
Cost at 31 December 2015	229.0	277.3	-	-	8.7	515.0
Accumulated amortisation and impairment	(14.4)	(173.0)	-	-	(0.7)	(188.1)
Net book value at 31 December 2015	**214.6**	**104.3**	**-**	**-**	**8.0**	**326.9**
Amortisation charge	-	(6.6)	-	-	(0.1)	(6.7)
Impairment	-	-	-	-	-	-
Translation adjustment	38.5	20.4	-	-	-	58.9
Cost at 31 December 2016	267.5	333.2	-	-	8.7	609.4
Accumulated amortisation and impairment	(14.4)	(215.1)	-	-	(0.8)	(230.3)
Net book value at 31 December 2016	**253.1**	**118.1**	**-**	**-**	**7.9**	**379.1**

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. Useful lives of the Group's intangible assets as at 31 December 2016 are shown below.

	Company	Total useful life, months	Remaining useful life, months
Mineral rights	LLC Zhernovsky GOK	240	104
Mineral rights	LLC Zhernovsky GOK	240	180
Mineral rights	LLC Usinsky GOK	240	169
Mineral rights	OJSC Stoilensky GOK	306	228
Beneficial lease interest	NLMK Indiana LLC	974	876

9 Intangible assets (continued)

During 2015 the Group revised useful lives of customer base and industrial intellectual property and completed their amortization in the third quarter of 2015.

In May 2011, the Group acquired a license for exploration and extraction of coal in the Zhernovsky Glubokiy coal field of the Zhernovsky coal deposit expiring in 2031. The carrying value of this license as at 31 December 2016 is $5.2. In August 2005, the Group acquired a license for exploration and mining of Zhernovsky coal deposit expiring in 2025. The carrying value of this license as at 31 December 2016 is $7.9.

In March 2011, the Group acquired a license for exploration and extraction of coal in the mine field area No. 3 of the Usinsky coal deposit expiring in 2031. The carrying value of this license as at 31 December 2016 is $18.7.

A license for iron ore and non-metallics mining at Stoilensky iron-ore deposit in Belgorod Region expiring in 2035 was acquired by the Group in 2004 through a business combination. The carrying value of these mineral rights as at 31 December 2016 is $86.3.

The Group's management believes that these licenses will be extended.

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place.

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

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Russian flat products	166.8	139.2	179.7
NLMK USA	21.3	21.3	35.7
Russian long products	3.1	2.5	3.3
Mining	61.9	51.6	66.7
	253.1	**214.6**	**285.4**

Goodwill impairment testing

The Group tested goodwill for impairment as at 31 October 2016 and 31 December 2015 and 2014. For the purpose of annual impairment testing of goodwill related to cash generating units OJSC Altai-Koks and OJSC Stoilensky GOK as at 31 October 2016 management decided to use the previous detailed calculations of these CGUs' recoverable amounts prepared as at 31 December 2015. The Group's management did not update the previous calculation of the recoverable amount of these CGUs as all criteria provided in IAS 36 para 99 were met. The recoverable amount has been determined as values in use of respective assets. For the purpose of this impairment testing the Group used the same estimates as for testing of other assets, as disclosed in Note 8. Impairment testing showed no impairment of goodwill as at 31 October 2016 and showed impairment of goodwill in NLMK Indiana LLC by $14.4 as at 31 December 2015.

10 Trade and other accounts payable

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Financial liabilities			
Trade accounts payable	521.6	342.3	440.9
Dividends payable	360.5	161.2	0.7
Other accounts payable	16.1	16.0	23.1
	898.2	519.5	464.7
Non-financial liabilities			
Advances received	130.0	62.9	105.4
Taxes payable other than income tax	41.3	39.2	77.3
Accounts payable and accrued liabilities to employees	179.3	104.8	128.5
	350.6	206.9	311.2
	1,248.8	**726.4**	**775.9**

11 Borrowings

Rates	Currency	Maturity	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Bonds					
8% to 11.5%	RUR	2017	168.0	350.4	543.9
4.45% to 4.95%	USD	2018-2023	1,317.9	1,195.9	1,196.1
Loans					
5% and 10%	RUR	2017-2019	-	-	23.1
LIBOR +1.625% to LIBOR +3% and PRIME +0.625%	USD	2017-2019	332.3	583.4	374.9
EURIBOR +0.9% to EURIBOR +2%	EUR	2017-2022	450.5	546.4	620.9
Short-term and long-term finance lease liability and other borrowings			-	-	9.6
			2,268.7	**2,676.1**	**2,768.5**
Less: short-term loans and current maturities of long-term loans			(467.6)	(559.8)	(804.3)
Long-term borrowings			**1,801.1**	**2,116.3**	**1,964.2**

11 Borrowings (continued)

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

	As at 31 December 2016		As at 31 December 2015		As at 31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,307.3	1,324.6	1,315.5	1,300.8	1,444.9	1,278.6

The fair value of short-term borrowings equals their carrying amount. The fair values of long-term borrowings and finance lease liabilities 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.

The payments scheduled for long-term borrowings are as follows:

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
1-2 year	585.9	359.6	580.0
2-5 years	500.9	1,719.3	1,347.4
over 5 years	714.3	37.4	36.8
	1,801.1	**2,116.3**	**1,964.2**

Collateral

As at 31 December 2016, 2015 and 2014, the total amount of collateral was $417.4, $377.5 and $699.6, respectively (Notes 6, 7).

12 Shareholders' equity

(a) Shares

As at 31 December 2016, 2015 and 2014, 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 Stockholders' Meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. As at 31 December 2016, 2015 and 2014, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to $5,023.7, $4,360.9 and $5,409.3, converted into US dollars using exchange rates at 31 December 2016, 2015 and 2014, respectively.

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

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

12 Shareholders' equity (continued)

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

	2016		2015		2014	
	Dividends per share (Russian rubles)	Total amount (mln. US dollars)	Dividends per share (Russian rubles)	Total amount (mln. US dollars)	Dividends per share (Russian rubles)	Total amount (mln. US dollars)
Period of dividends declaration						
	for the 4th quarter of 2015 and for the 1st quarter of 2016		for 2014 and for the 1st quarter of 2015		for 2013	
- June	3.56	319.7	3.20	348.7	0.67	115.0
	for the 2nd quarter of 2016		for the 2nd quarter of 2015		for the 6 months of 2014	
- September	1.08	102.5	0.93	84.1	0.88	133.9
	for the 3rd quarter of 2016		for the 3rd quarter of 2015			
- December	3.63	357.0	1.95	163.9	-	-
		779.2		**596.7**		**248.9**

Dividends payable amounted to $360.5 at 31 December 2016 (Note 10).

(c) Capital management

The Group's objectives when managing capital are to safeguard a financial stability and a target return for shareholders, as well as reduction of capital cost and optimization of its structure. To achieve these objectives the Group may revise investing program, borrow new or repay existing loans, offer share of 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 for the last twelve months less tax divided by capital employed, should exceed cost of capital;
- free cash-flow, which is defined as net cash provided by operating activities less net interest paid less capital expenditures less advances given in investing activities, 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 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Profit for the year attributable to NLMK shareholders (millions of US dollars)	935.1	967.4	772.5
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
Basic and diluted earnings per share attributable to NLMK shareholders (US dollars)	**0.1560**	**0.1614**	**0.1289**

Basic net earnings per share is calculated by dividing profit for the year attributable to NLMK shareholders by the weighted average number of common shares outstanding during the reporting period.

The average shares outstanding for the purposes of basic and diluted earnings per share information was 5,993,227,240 for the years ended 31 December 2016, 2015 and 2014. The Parent Company does not have potentially dilutive financial instruments outstanding.

14 Revenue

(a) Revenue by product

	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Pig iron, slabs and billets	1,887.1	2,207.2	2,486.4
Flat products	4,325.2	4,366.4	5,651.1
Long products and metalware	838.1	808.9	1,301.3
Iron-ore and sintering ore	146.7	165.8	311.4
Coke and other chemical products	209.5	228.9	259.8
Scrap	54.8	46.9	74.7
Other products	175.0	184.2	311.0
	7,636.4	**8,008.3**	**10,395.7**

(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 for the years ended 31 December 2016, 2015 and 2014 is as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Russia	3,077.1	3,146.0	4,434.3
North America	1,327.6	1,356.8	2,084.9
European Union	1,373.0	1,603.0	1,819.6
Middle East, including Turkey	628.6	684.1	636.5
Asia and Oceania	316.6	374.4	319.3
Other regions	913.5	844.0	1,101.1
	7,636.4	**8,008.3**	**10,395.7**

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

15 Labour costs

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 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Cost of sales	(602.0)	(608.2)	(858.6)
General and administrative expenses	(194.4)	(153.8)	(231.4)
Selling expenses	(27.8)	(31.3)	(40.4)
	(824.2)	**(793.3)**	**(1,130.4)**

Remuneration to the key management personnel consists of payments to the members of the Management Board and the Board of Directors of the Parent Company. Compensation comprises annual remuneration and a performance bonus contingent on results for the reporting year, in 2016 also include one off payment on long term incentive plan for achievement of the Group's strategic targets in 2014-2016. Liabilities on long term incentive plan are subject to achievement of targeted EBITDA and targeted effect of Strategy 2017.

Total remuneration to the members of the Management Board and the Board of Directors of the Parent Company, who are the key management personnel, including social security costs, amounted to $30.8, $11.3 and $13.6 in 2016, 2015 and 2014, respectively, including $17.8 on long term incentive plan incurred in 2016 for achievement of the Group's strategic targets in 2014-2016 and payable as of the reporting date.

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 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Cost of sales	(63.7)	(65.7)	(122.4)
General and administrative expenses	(2.1)	(4.4)	(7.5)
Selling expenses	(0.3)	(0.4)	(0.6)
Other operating expenses	(3.9)	(5.2)	(7.0)
	(70.0)	**(75.7)**	**(137.5)**

17 Income tax

Income tax charge comprises the following:

	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Current income tax expense	(237.1)	(301.1)	(378.3)
Deferred income tax benefit / (expense)	3.7	(51.8)	15.9
Total income tax expense	**(233.4)**	**(352.9)**	**(362.4)**

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 10% to 35%.

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

	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Profit before income tax	1,172.2	1,321.1	1,136.0
Income tax at applicable tax rate 20%	(234.4)	(264.2)	(227.2)
Change in income tax:			
- tax effect of non-deductible expenses	(32.6)	(63.3)	(20.5)
- non-taxable translation adjustments	(4.5)	17.0	39.4
- effect of different tax rates	(0.3)	31.7	118.3
- unrecognized tax loss carry forward for current year	(2.3)	(82.4)	(99.6)
- utilization of previously unrecognized tax-losses carry-forward	50.7	-	22.6
- change in option and in NBH ownership (Note 4)	-	18.6	(16.3)
- write-off of previously recognized deferred tax assets	(20.7)	(9.8)	(53.0)
- loss on impairment of investment	-	-	(100.5)
- other	10.7	(0.5)	(25.6)
Total income tax expense	**(233.4)**	**(352.9)**	**(362.4)**

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 2016	As at 31 December 2015	As at 31 December 2014
Deferred tax assets			
Trade and other accounts payable	24.4	74.2	100.8
Trade and other accounts receivable	13.7	3.2	15.8
Inventories	-	-	24.5
Net operating loss and credit carry-forwards	65.0	-	14.6
Other	0.1	15.7	13.9
	103.2	**93.1**	**169.6**
Deferred tax liabilities			
Property, plant and equipment	(408.1)	(341.8)	(429.9)
Other intangible assets	(8.1)	(7.9)	(8.5)
Inventories	(11.2)	(12.9)	-
Other non-current liabilities	-	(1.6)	(13.7)
	(427.4)	**(364.2)**	**(452.1)**
Total deferred tax liability, net	**(324.2)**	**(271.1)**	**(282.5)**

The movements in deferred income tax assets and liabilities are presented below:

	2016	2015	2014
As at 1 January	**(271.1)**	**(282.5)**	**(504.6)**
Recognized in consolidated statement of profit or loss	3.7	(51.8)	15.9
Translation adjustment	(56.8)	63.2	206.2
As at 31 December	**(324.2)**	**(271.1)**	**(282.5)**

The amount of net operating losses that can be utilized each year is limited under the Group's different tax jurisdictions. The Group regularly evaluates assumptions underlying its assessment of the realizability of its deferred tax assets and makes adjustments to the extent necessary. In assessing probability that future taxable profit against which the Group can utilize 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.

The table below summarizes not recognized cumulative tax-loss carry forwards, for which no deferred tax assets were recognised, with a breakdown by the expiry dates.

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
From 1 to 5 years	211.4	294.3	310.9
From 5 to 10 years	97.4	376.3	600.4
More than 10 years	828.0	850.9	680.9
No expiration	1,398.4	976.5	1,084.8
	2,535.2	**2,498.0**	**2,677.0**

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 utilized.

17 Income tax (continued)

The Group has not recorded a deferred tax liability in respect of temporary differences of $1,447.5, $908.2 and $1,274.5 for the years ended 31 December 2016, 2015 and 2014, respectively, associated with investments in subsidiaries 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 Russian legislation, the Group's major Russian entities, including NLMK, were integrated in one consolidated tax group for the purpose of assessment and payment of corporate income tax in line with the comprehensive financial result of business operations. The Group's entities that do not constitute the consolidated tax group assess their income taxes individually.

As at 31 December 2016, 2015 and 2014 the Group analysed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Group believes that it is likely that all deductible tax positions stated in the income tax return recognised and valued in accordance with the tax legislation.

18 Finance income and costs

	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Interest income on bank accounts and bank deposits	29.3	44.5	29.5
Other finance income	9.8	7.4	7.0
Total finance income	**39.1**	**51.9**	**36.5**
Interest expense on borrowings	(103.5)	(118.9)	(178.9)
Capitalized interest	32.5	32.2	61.6
Other finance costs	(34.3)	(8.6)	(19.5)
Total finance costs	**(105.3)**	**(95.3)**	**(136.8)**

Other finance costs in 2016 include commission for an early redemption of a part of Russian ruble denominated bonds and Eurobonds carried out by the Parent Company as a part of its debt portfolio optimization.

19 Foreign currency exchange

	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Foreign exchange (loss) / gain on cash and cash equivalents	(84.5)	44.6	251.9
Foreign exchange (loss) / gain on financial investments	(434.3)	542.1	1,249.9
Foreign exchange gain / (loss) on financial instruments	-	1.8	(33.1)
Foreign exchange gain / (loss)on debt financing	393.2	(415.1)	(898.5)
Foreign exchange loss on other assets and liabilities	(3.5)	(63.9)	(82.0)
	(129.1)	**109.5**	**488.2**

20 Operating leases

Starting 2015 the Group leases office with agreement lease term expiring in December 2025. Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Before 1 year	4.6	3.2	-
From 1 to 5 years	19.7	18.2	-
After 5 years	2.2	7.6	-
Total commitments for minimum lease payments	**26.5**	**29.0**	**-**

In 2016 and 2015 total rental expenses relating to operating leases were equal to $3.3 and $1.5, respectively.

21 Segment information

Starting from 2016 reporting the Group changed the composition and the presentation of its reportable segments as a result of a change in reports prepared for the management. Information earlier reported within Foreign rolled products segment is now divided into two segments – NLMK USA and NLMK DanSteel and Plates Distribution Network. Comparative financial information has been adjusted to conform to the presentation of current period amounts.

The Group has six reportable business segments: Mining, Russian flat products, Russian long products, NLMK USA, NLMK DanSteel and Plates Distribution Network, and Investments in associate entity NBH. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above six segments meet the criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

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 year” together with other intercompany elimination adjustments, including elimination of NBH liabilities to the Group companies (Note 23). 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 (Notes 4, 23), recognition of investment in associate (Note 4), recognition of impairment and share of loss arising for NBH and other consolidation adjustments. Equity in net earnings / (losses) of associates are included in the Russian flat products segment.

21 Segment information (continued)

Information on segments' profit or loss for the year ended 31 December 2016 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 associate entity NBH	Inter-segmental operations and balances	NBH deconsoli-dation adjust-ments	Total
Revenue from external customers	166.0	4,271.3	1,020.0	1,162.4	324.3	1,176.1	-	(483.7)	7,636.4
Intersegment revenue	431.0	1,315.0	273.4	-	1.3	44.9	(2,020.7)	(44.9)	-
Cost of sales	(218.0)	(3,725.3)	(1,052.0)	(991.3)	(291.9)	(1,163.7)	1,897.3	471.3	(5,073.6)
Gross profit / (loss)	379.0	1,861.0	241.4	171.1	33.7	57.3	(123.4)	(57.3)	2,562.8
Operating profit / (loss)*	275.4	1,048.9	90.9	116.8	(7.2)	(76.8)	(36.3)	76.8	1,488.5
Net finance income / (costs)	12.8	(59.3)	(3.4)	(13.0)	(3.3)	(18.8)	-	18.8	(66.2)
Income tax expense	(48.4)	(203.7)	(4.1)	7.6	0.5	4.8	14.7	(4.8)	(233.4)
Profit / (loss) for the year	190.4	659.4	89.4	110.9	(10.3)	(120.0)	(39.8)	58.8	938.8
Segment assets	1,903.2	7,429.5	1,171.1	741.5	285.0	1,406.4	(1,483.8)	(1,214.0)	10,238.9
Segment liabilities	(312.4)	(3,937.7)	(591.3)	(302.1)	(288.3)	(1,193.7)	1,932.2	765.2	(3,928.1)
Depreciation and amortization	(42.8)	(293.4)	(47.4)	(61.2)	(7.5)	(75.1)	-	75.1	(452.3)
Capital expenditures	(217.5)	(301.1)	(16.2)	(19.1)	(4.7)	(21.4)	-	21.4	(558.6)

** 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*

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 associate entity NBH	Inter-segmental operations and balances	NBH deconsoli-dation adjust-ments	Total
Revenue from external customers	184.2	4,731.7	858.3	1,098.2	343.1	1,221.0	-	(428.2)	8,008.3
Intersegment revenue	405.0	1,344.0	293.0	-	1.2	56.6	(2,043.2)	(56.6)	-
Cost of sales	(225.9)	(4,002.5)	(1,025.1)	(1,192.4)	(320.7)	(1,121.4)	2,063.7	328.6	(5,495.7)
Gross profit / (loss)	363.3	2,073.2	126.2	(94.2)	23.6	156.2	20.5	(156.2)	2,512.6
Operating profit / (loss)*	256.8	1,201.5	(16.1)	(155.3)	(11.1)	(172.2)	112.5	172.2	1,388.3
Net finance income / (costs)	16.1	0.5	(26.2)	(30.0)	(3.8)	(19.5)	-	19.5	(43.4)
Income tax expense	(71.2)	(253.9)	2.0	6.3	1.4	6.5	(37.5)	(6.5)	(352.9)
Profit / (loss) for the year	278.4	1,284.5	(92.5)	(191.6)	(14.4)	(191.3)	(192.8)	87.9	968.2
Segment assets	1,476.6	7,458.6	951.0	743.6	287.6	1,485.4	(2,125.2)	(1,358.2)	8,919.4
Segment liabilities	(326.0)	(3,602.9)	(565.4)	(1,101.2)	(284.0)	(1,281.7)	2,603.8	775.7	(3,781.7)
Depreciation and amortization	(40.6)	(381.7)	(65.4)	(61.9)	(10.4)	(80.2)	-	80.2	(560.0)
Capital expenditures	(281.3)	(265.7)	(24.9)	(19.5)	(3.3)	(38.6)	-	38.6	(594.7)

** 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*

21 Segment information (continued)

Information on segments' profit or loss for the year ended 31 December 2014 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 associate entity NBH	Inter-segmental operations and balances	NBH deconsoli-dation adjust-ments	Total
Revenue from external customers	345.9	5,688.0	1,444.4	1,632.0	381.7	1,462.4	-	(558.7)	10,395.7
Intersegment revenue	721.8	2,105.9	367.6	-	1.5	54.9	(3,196.8)	(54.9)	-
Cost of sales	(347.5)	(5,584.1)	(1,575.8)	(1,527.1)	(371.4)	(1,375.3)	2,920.6	471.6	(7,389.0)
Gross profit / (loss)	720.2	2,209.8	236.2	104.9	11.8	142.0	(276.2)	(142.0)	3,006.7
Operating profit / (loss)*	576.3	878.0	243.4	38.9	(24.2)	(215.9)	(124.5)	215.9	1,587.9
Net finance income / (costs)	30.4	(12.3)	(83.2)	(31.1)	(4.1)	(21.3)	-	21.3	(100.3)
Income tax expense	(193.6)	(222.1)	(19.0)	7.7	19.5	11.1	45.1	(11.1)	(362.4)
Profit / (loss) for the year	765.5	1,336.5	(96.0)	9.7	(70.0)	(243.4)	(653.4)	(275.3)	773.6
Segment assets	1,948.9	8,792.8	1,364.6	1,118.4	356.8	1,857.2	(3,354.1)	(1,735.2)	10,349.4
Segment liabilities	(480.0)	(4,242.7)	(996.0)	(1,284.5)	(337.3)	(1,542.9)	3,758.3	1,032.4	(4,092.7)
Depreciation and amortization	(63.6)	(540.7)	(106.5)	(69.1)	(13.6)	(101.1)	-	101.1	(793.5)
Capital expenditures	(253.9)	(239.7)	(51.2)	(16.0)	(1.8)	(61.2)	-	61.2	(562.6)

** 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*

Geographically, all significant assets, production and administrative facilities of the Group are located in Russia, USA and Europe.

22 Risks and uncertainties

(a) Operating environment of the Group

The Russian Federation's economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that in practice is not freely convertible in most countries and relatively high inflation. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 24(f)).

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business.

The political and economic turmoil witnessed in the region, including continuing international sanctions against certain Russian companies and individuals have had and may continue to have a negative impact on the Russian economy. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. This operating environment may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict, however, 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 of 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 debt obligations with variable interest rates. To manage this risk the Group analyses interest rate risks on a regular basis. The Group reduces its exposure to this risk by having a balanced portfolio of fixed and variable rate loans.

The interest rate risk profile of the Group is follows:

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Fixed rate instruments			
Financial assets	2,418.3	2,427.7	2,103.5
- cash and cash equivalents (Note 3)	*609.7*	*343.0*	*549.2*
- short-term financial investments (Note 5)	*969.7*	*1,242.6*	*621.3*
- trade and other accounts receivable less allowance (Note 6)	*674.7*	*622.3*	*791.7*
- long-term financial investments (Note 5)	*164.2*	*219.8*	*141.3*
Financial liabilities	(2,384.1)	(2,065.8)	(2,366.9)
- trade, other accounts payable and dividends payable (Note 10)	*(898.2)*	*(519.5)*	*(464.7)*
- short-term borrowings (Note 11)	*(178.6)*	*(230.8)*	*(302.5)*
- long-term borrowings (Note 11)	*(1,307.3)*	*(1,315.5)*	*(1,599.7)*

22 Risks and uncertainties (continued)

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Variable rate instruments			
Financial liabilities	(782.8)	(1,129.8)	(866.3)
- short-term borrowings (Note 11)	*(289.0)*	*(329.0)*	*(501.8)*
- long-term borrowings (Note 11)	*(493.8)*	*(800.8)*	*(364.5)*

A change of 100 basis points in interest rates for variable rate instruments would have insignificantly change profit 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 minimize 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. At the same time standard hedging instruments to manage foreign currency risk might be used.

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 assets and liabilities denominated in a currency other than the functional currency of each entity at 31 December 2016.

	US dollar	Euro
Cash and cash equivalents	413.5	50.1
Trade and other accounts receivable	9.8	249.1
Short-term financial investments	860.7	108.2
Long-term financial investments	-	163.9
Trade and other accounts payable	(57.3)	(90.6)
Short-term borrowings	(51.6)	(116.7)
Long-term borrowings	(1,467.3)	(333.8)
Net foreign currency position	**(292.2)**	**30.2**

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 assets and liabilities denominated in a currency other than the functional currency of each entity at 31 December 2015.

	US dollar	Euro
Cash and cash equivalents	196.4	39.6
Trade and other accounts receivable	2.9	303.6
Short-term financial investments	1,079.9	129.4
Long-term financial investments	-	222.1
Trade and other accounts payable	(42.3)	(95.2)
Short-term borrowings	(19.8)	(145.6)
Long-term borrowings	(1,578.3)	(400.8)
Net foreign currency position	**(361.2)**	**53.1**

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 assets and liabilities denominated in a currency other than the functional currency of each entity at 31 December 2014.

	US dollar	Euro
Cash and cash equivalents	230.4	107.1
Trade and other accounts receivable	7.0	402.1
Short-term financial investments	423.0	164.8
Long-term financial investments	-	141.2
Trade and other accounts payable	(40.7)	(107.2)
Short-term borrowings	(117.7)	(126.9)
Long-term borrowings	(1,178.3)	(494.0)
Net foreign currency position	**(676.3)**	**87.1**

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 2016, 2015 and 2014 would have increased / (decreased) equity by the amounts shown below, however effect on profit for the year would be different, and would amount to $45.3, $87.6 and $196.8, respectively, due to foreign exchange gain from intercompany operations (Note 19).

	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
US dollar	(73.1)	(90.3)	(169.1)
Euro	7.6	13.3	21.8

A weakening of these currencies against the functional currency would have had the equal but opposite effect to the amounts shown above, on the basis that 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 minimizes its risks, related to production distribution, by having a wide range of geographical zones for sales, which allows the Group to respond quickly to negative changes in the situation on one or more sales markets on the basis of an analysis of the existing and prospective sales markets.

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.

22 Risks and uncertainties (continued)

(c) Credit risk

Credit risk is the risk when 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 trade receivables and advances given to suppliers) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions 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. Such risks are monitored on a revolving basis and are subject to a quarterly, or more frequent, review.

The Group's management 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 2016	As at 31 December 2015	As at 31 December 2014
Cash and cash equivalents (Note 3)	609.7	343.0	549.2
Trade and other accounts receivable (Note 6)	674.7	622.3	791.7
Short-term financial investments (Note 5)	969.7	1,242.6	621.3
Long-term financial investments (Note 5)	164.2	219.8	141.3
Total on-balance sheet exposure	**2,418.3**	**2,427.7**	**2,103.5**
Financial guarantees issued (Note 23(d))	255.1	273.2	611.6
	2,673.4	**2,700.9**	**2,715.1**

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

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Bank balances and term deposits			
AAA-BBB	516.7	244.3	504.9
BB-B	91.0	95.6	38.9
Unrated and cash on hand	2.0	3.1	5.4
	609.7	**343.0**	**549.2**
Short-term and long-term bank deposits			
AAA-BBB	395.8	756.4	549.2
BB-B	502.6	415.3	0.2
	898.4	**1,171.7**	**549.4**

22 Risks and uncertainties (continued)

As at 31 December 2016, trade, other receivables and advances given to suppliers were overdue as indicated below with accruals of corresponding allowance after due dates:

	Trade accounts receivable	Advances given to suppliers	Other accounts receivable
Undue, expected to be received on time	617.5	50.0	234.7
Overdue, including:	75.0	3.7	18.6
- up to 1 month	*39.6*	*1.1*	*0.2*
- from 1 to 3 months	*7.6*	*0.3*	*0.2*
- from 3 to 12 months	*7.1*	*1.2*	*0.2*
- over 12 months	*20.7*	*1.1*	*18.0*
	692.5	53.7	253.3
Allowance	(24.1)	(1.7)	(18.3)
Net of allowance	**668.4**	**52.0**	**235.0**

As at 31 December 2015, trade, other receivables and advances given to suppliers were overdue as indicated below with accruals of corresponding allowance after due dates:

	Trade accounts receivable	Advances given to suppliers	Other accounts receivable
Undue, expected to be received on time	485.8	43.8	269.9
Overdue, including:	127.8	10.2	19.2
- up to 1 month	*84.9*	*3.0*	*1.0*
- from 1 to 3 months	*16.0*	*0.7*	*0.6*
- from 3 to 12 months	*7.8*	*1.3*	*9.8*
- over 12 months	*19.1*	*5.2*	*7.8*
	613.6	54.0	289.1
Allowance	(16.3)	(4.2)	(15.3)
Net of allowance	**597.3**	**49.8**	**273.8**

22 Risks and uncertainties (continued)

As at 31 December 2014, trade, other receivables and advances given to suppliers were overdue as indicated below with accruals of corresponding allowance after due dates:

	Trade accounts receivable	Advances given to suppliers	Other accounts receivable
Undue, expected to be received on time	669.3	49.3	290.9
Overdue, including:	132.7	20.4	18.5
- up to 1 month	*60.1*	*6.8*	*0.9*
- from 1 to 3 months	*31.2*	*3.6*	*0.5*
- from 3 to 12 months	*11.7*	*5.3*	*4.9*
- over 12 months	*29.7*	*4.7*	*12.2*
	802.0	69.7	309.4
Allowance	(28.6)	(9.6)	(20.4)
Net of allowance	**773.4**	**60.1**	**289.0**

As at 31 December 2016, 2015 and 2014 the Group does not have trade and other accounts receivable which was overdue for longer than one month and not impaired.

(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 2016	As at 31 December 2015	As at 31 December 2014
Less than 1 year	535.5	752.5	877.6
From 1 to 2 years	647.5	473.1	719.7
From 2 to 5 years	609.0	1,799.8	1,442.7
Over 5 years	761.6	37.6	8.7
Total borrowings	**2,553.6**	**3,063.0**	**3,048.7**

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

As at 31 December 2016, 2015 and 2014 the Group does not have significant trade and other accounts payable with maturity over one year and its carrying amount approximates its fair value.

(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 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Sales			
NBH group companies	686.5	731.8	985.7
Other related parties	1.8	4.7	7.7
Purchases			
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	329.8	324.9	375.9
Other related parties	51.0	64.4	60.6

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

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Accounts receivable and advances given			
NBH group companies	198.5	220.8	300.9
Other related parties	34.3	27.3	17.5
Accounts payable			
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	3.4	5.8	2.3
Other related parties	16.1	18.9	25.2

(c) Financial transactions

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Loans, issued to NBH group companies (Note 5)	230.0	285.1	209.6
Deposits and current accounts in PJSC Bank ZENIT and PJSC Lipetskcombank (companies under the significant influence of the Group's controlling shareholder)	24.8	24.2	36.5

When issuing loans to the foreign companies of the Group and companies accounted for using the equity method, interest rate is determined using information on similar external deals subject to company's internal credit rating.

Interest income from deposits and current accounts in PJSC Bank ZENIT and PJSC Lipetskcombank for the years ended 31 December 2016, 2015 and 2014 amounted to $1.2, $2.4 and $3.5, respectively.

(d) Financial guarantees issued

As at 31 December 2016, 2015 and 2014 guarantees issued by the Group for borrowings of NBH group companies' amounted to $255.1, $273.2 and $611.6, 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 probability of cash outflows, related to these guarantees, as low.

23 Related party transactions (continued)

The maturity of the guaranteed obligations is as follows:

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Less than 1 year	69.4	82.0	528.9
From 1 to 2 years	5.3	14.3	61.8
Over 2 years	180.4	176.9	20.9
	255.1	**273.2**	**611.6**

(e) Contributions to non-governmental pension fund and charity fund

Total contributions to a non-governmental pension fund and charity fund in 2016, 2015 and 2014 amounted to $5.9, $6.5 and $9.1, respectively. The Group has no long-term commitments to provide funding, guarantees or other support to the abovementioned funds.

(f) 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 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 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.

24 Commitments and contingencies

(a) Anti-dumping investigations

The Group’s export trading activities are subject from time to time to compliance reviews of importers’ regulatory authorities. The Group’s export sales were considered 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 as a result of anti-dumping investigations has been made in the accompanying 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’s management believes that any ultimate 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 accompanying consolidated financial statements.

Initiated in December 2012 by the non-controlling shareholder of OJSC Maxi-Group court proceeding at ICA Court regarding the loss of assets in connection with a share-purchase agreement ended in January 2014. Arbitrators stated that ICA Court lacks jurisdiction to adjudicate the claim of Maxi-Group’s non-controlling shareholder against the Parent Company and terminated examinations.

No further appeal is possible in this claim.

24 Commitments and contingencies (continued)

In the third quarter of 2014 the Group received $104.0, in November 2015 – $17 and in January 2016 – $11, in course of bankruptcy proceedings which were the result of execution of the decision taken by Russian court in 2012. These amounts are included in "(Losses) / gains on investments" line in the consolidated statement of profit or loss.

Recently there are still certain court proceedings initiated by the non-controlling shareholder of OJSC Maxi-Group going on in European courts and related to the claim filed to ICA Court in January 2010. In 2014 courts in France and England decided to execute a decision of ICA Court (which was cancelled in Russia) on the territory of these states. In December 2014 the Parent Company claimed the appeal on a decision of French court and in November 2015 – the appeal on a decision of English court. In June 2016 a French court decided to execute a decision of ICA Court on the territory of France. In September 2016 Amsterdam Court of Appeal dismissed the case on execution of a decision of ICA Court on the territory of Netherlands. The Group's management considers the probability of cash outflow in connection with these court proceedings is low and accordingly, no accruals in relation to these claims were made in these consolidated financial statements.

(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 recognized immediately. Potential liabilities, which might arise as a result of 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 $473.4, $564.7 and $620.8 as at 31 December 2016, 2015 and 2014, respectively.

(e) Social commitments

The Group makes contributions to mandatory and voluntary social programs. The Group's social assets, 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's management expects that the Group will continue to fund certain social programs through 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 of tax 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 decisions about the review were 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.

24 Commitments and contingencies (continued)

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 profits tax, because they do not have a permanent establishment in Russia. This interpretation of 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.

(g) Major terms of loan agreements

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilized, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that 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 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 are in compliance with all debt covenants as at each reporting date.

25 Significant accounting policies

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

(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.

25 Significant accounting policies (continued)

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.

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.

Associates and other companies accounted for using the equity method of accounting

Associates and other companies accounted for using the equity method of accounting are entities over which the Group has significant influence, but not control or joint control over financial or operating policies.

Investments in associates and other companies accounted for using the equity method of accounting are initially recognised at cost (fair value of the consideration transferred).

The Group also uses the equity method of accounting to account for an agreement under which the parties exercising joint control of the arrangement are entitled to the net assets of the company accounted for using the equity method of accounting. 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.

Dividends received from associates and other companies accounted for using the equity method of accounting reduce the carrying value of the investment in associates and other companies accounted for using the equity method of accounting. The Group's share of profits or losses of associates and other companies accounted for using the equity method of accounting after acquisition is recorded in the consolidated statement of profit or loss for the year as share of financial result of associates and other companies accounted for using the equity method of accounting. 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 associates and other companies accounted for using the equity method of accounting are recognised in profit or loss within the share of financial results of the associates and other companies accounted for using the equity method of accounting, or consolidated statement of changes in equity depending on the substance of the change.

However, when the Group's share of losses in an associate and other companies accounted for using the equity method of accounting equals or exceeds its interest in the associate or company accounted for using the equity method of accounting, 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 associate or other companies accounted for using the equity method of accounting.

25 Significant accounting policies (continued)

Unrealised gains on transactions between the Group and its associates and other companies accounted for using the equity method of accounting are eliminated to the extent of the Group's interest in these entities. Unrealised losses arising from transactions between the Group and its associates and other companies accounted for using the equity method of accounting 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 associate or other companies accounted for using the equity method of accounting 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, associates or other companies accounted for using the equity method of accounting

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 an associate, company accounted for using the equity method of accounting, 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 an associate is reduced but significant influence 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.

(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.

25 Significant accounting policies (continued)

(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.

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.

25 Significant accounting policies (continued)

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 (j) "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 associates and other equity-accounted entities 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.

25 Significant accounting policies (continued)

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”.

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.

(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.

25 Significant accounting policies (continued)

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.

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.

25 Significant accounting policies (continued)

(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.

(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.

25 Significant accounting policies (continued)

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.

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.

25 Significant accounting policies (continued)

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”.

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 associate entity NBH, comprising production of hot rolled, cold rolled coils and galvanized 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.

25 Significant accounting policies (continued)

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.

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.

25 Significant accounting policies (continued)

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.

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.

25 Significant accounting policies (continued)

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.

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.

25 Significant accounting policies (continued)

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.

(r) Related parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence over the other party in making financial and operational decisions or exercise a joint control over it. In considering each possible related-party relationship, attention is directed to the substance of the relationship, not merely the legal form.

26 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount 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 negatively or positively, 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 amount of assets and liabilities within the next financial year are reported below.

(a) Consolidation of subsidiaries

Management judgement is involved in the assessment of control and the consolidation of subsidiaries in the Group's consolidated financial statements.

(b) 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, interest 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.

(c) 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).

(d) Fair value estimation for acquisitions

In accounting for business combinations, the purchase price paid to acquire a business is allocated to its assets and liabilities based on the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition. The excess of the purchase price over the fair value of the tangible and identifiable intangible assets acquired, net of liabilities, is recorded as goodwill. A significant amount of judgement is involved in estimating the individual fair values of property, plant and equipment and identifiable intangible assets.

26 Critical accounting estimates and judgements (continued)

The estimates used in determining fair values are based on assumptions believed to be reasonable but which are inherently uncertain. Accordingly, actual results may differ from the projected results used to determine fair value.

(e) 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).

Accounting for provisions

Accounting for impairment includes provisions against capital construction projects, financial assets and other non-current assets (at least annually).

(f) Accrual of accounts receivable impairment provision

The impairment provision for accounts receivable is based on the management's assessment of the collectability and recoverable amount of specific customer accounts, being the present value of expected cash flows. If there is deterioration in a major customer's creditworthiness or actual defaults are higher or lower than estimates, the actual results could differ from these estimates.

(g) 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 control and the consolidation or accounting using equity method of accounting of certain entities in the Group's consolidated financial statements. As at 31 December 2016, 2015 and 2014 the Group owned 51.0%, 51.0% and 79.5% of shares in NBH, respectively, however, management had concluded that in the light of giving certain governance rights to the party owing the residual interest in this company, the Group does not control this company, thus the Group's investment in NBH should be 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 2017 or later, and which the Group has not early adopted:

- IFRS 9 "Financial Instruments: Classification and Measurement" (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).

27 New or revised standards and interpretations (continued)

- 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.

▪ 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.

27 New or revised standards and interpretations (continued)

- IFRS 16, Leases (issued in 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 income statement. 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.
- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 financial statements.

The following other new pronouncements are not expected to have any material impact on the Group 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).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- 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).

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

The following amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group.

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

28 Subsequent events

In February 2017 the Group refinanced the revolving facility agreement of NLMK USA. The total available amount under the facility is $250 with a maturity of four years. The loan is backed with NLMK USA receivables and inventory and guarantee from the Parent Company.

In February 2017 the Group paid out a loan of $200.0 and received a new 4 year loan of EUR 250.0 million guaranteed by the Parent Company in course of credit portfolio optimization.

The Group’s management has performed an evaluation of subsequent events and did not find any, except mentioned above, through the period from 1 January 2017 to 2 March 2017, which is the date when these consolidated financial statements are approved by management.