



NOVOLIPETSK STEEL

CONSOLIDATED FINANCIAL STATEMENTS

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

**AS AT AND FOR THE YEAR ENDED
31 DECEMBER 2019**

(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	16



Independent Auditor's Report

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

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Novolipetsk Steel and its subsidiaries (together – the “Group”) as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statements of
 - financial position as at 31 December 2019;
 - profit or loss for the year then ended;
 - comprehensive income for the year then ended;
 - changes in equity for the year then ended;
 - cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

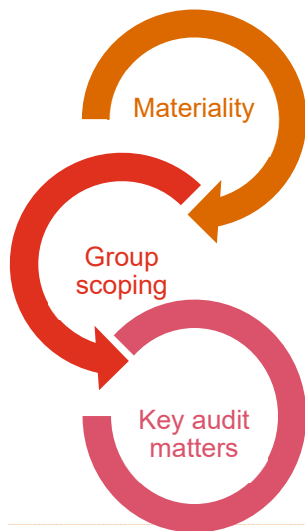
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and 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.

Our audit approach

Overview



- Overall Group materiality: 106 million US Dollars (USD), which represents 1% of the Group's consolidated revenue
- We conducted audit work at 8 reporting units in five countries
- The Group engagement team visited the Group companies in the Russian Federation, United States and the joint venture located in Belgium
- Our audit scope addressed 92% of the Group's revenues and 86% of the Group's consolidated total assets
- Key Audit Matter 1 - Management assessment of the carrying value of goodwill, intangible assets and property, plant and equipment
- Key Audit Matter 2 – Determination of the carrying value of the investment in NBH

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits 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, if any, both individually and in aggregate on the consolidated financial statements as a whole.



Overall Group materiality	USD 106 million (2018: USD 123 million)
How we determined it	1% of the Group's consolidated revenue
Rationale for the materiality benchmark applied	We chose revenue as the benchmark because, in our view, it is the benchmark which objectively best represents the performance of the Group over a period of time while financial results are volatile. We determined overall materiality as 1%, which in our experience is within the range of acceptable quantitative materiality thresholds applied for public companies in the relevant industry.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the 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
<p>1. Management's assessment of the carrying value of goodwill, intangible assets and property, plant and equipment</p> <p><i>Refer to Notes 8 and 9 to the consolidated financial statements</i></p> <p>The Group management performed an analysis of existence of indicators of impairment of the Group's property, plant and equipment (PP&E), intangible assets and goodwill as well as indicators of potential reversal of an impairment loss recognised in prior periods as of 30 September 2019 (30 November 2019 for CGU NLMK-Kaluga) and updated it as of 31 December 2019. This analysis revealed:</p> <ul style="list-style-type: none"> • high volatility on the market of certain finished products and raw materials; • decrease in profitability of the long products segment; • weakening of the pipe market, aggressive price competition in the US steel market and narrowing of spreads on the steel products in the USA; • price reduction for electrical steel. 	<p>We obtained, understood and evaluated management's impairment models. We involved our valuation experts to assist in the evaluation of the methodology, mathematical accuracy and assumptions used in the models.</p> <p>Specific work performed over the impairment test included:</p> <ul style="list-style-type: none"> • comparing the key assumptions used within the impairment models to the historic performance of the respective CGUs, approved estimates, and other supporting calculations; • benchmarking the key assumptions used within the impairment models, including price forecasts for core raw materials and finished products, inflation and discount rates, against external expert valuations, macroeconomic and industry forecasts, which corroborated their validity;



Key audit matter	How our audit addressed the key audit matter
<p>The analysis triggered testing a number of the Group's cash-generating units (CGUs) for impairment. No indicators that an impairment loss recognised in prior periods may no longer exist or may have decreased have been identified.</p> <p>The recoverable amount of PP&E, intangible assets and goodwill for each CGU subject to testing was calculated by management as of 30 September 2019 (30 November 2019 for CGU NLMK-Kaluga) and updated based on the actual performance of these CGUs as of 31 December 2019.</p> <p>Management assessed the recoverable amount being value in use for each such CGU using discounted cash flow models and concluded that no impairment or reversal of previously recognised impairment were required as of 31 December 2019.</p> <p>We focused on this area because of the significant judgmental factors involved in the calculation of recoverable amount of each CGU, and the significant carrying value of the assets in scope of the test.</p>	<ul style="list-style-type: none"> performing a sensitivity analysis over the key assumptions in order to assess their potential impact on impairment results and ranges of possible outcomes of the recoverable amounts; examining management's assessment of the degree to which steel prices and sales volumes would need to reduce and the discount rates would need to increase, in isolation from other changes in assumptions, before an impairment arises on these CGUs; validating the key assumptions used in the impairment models also as of 31 December 2019; assessing compliance with the requirements of IFRS of the related disclosures in the consolidated financial statements.

2. Determination of the carrying value of the investment in NBH

Refer to Note 4 and Note 26 (c) to the Consolidated Financial Statements

NBH is a joint venture between the Group and Societe Wallonne de Gestion et de Participations S.A. (hereinafter – "SOGEPA").

In the fourth quarter of 2019, the Group contributed an additional USD 155 million into the share capital of NBH while SOGEPA contributed USD 39 million.

The Group management considered that the deficit of SOGEPA's share in this contribution should not be expensed immediately, but the investment in NBH as a whole should be tested for impairment as of the date of this additional contribution using a discounted cash flow model.

Management performed an analysis of the business performance, industry outlook and operational plans. High volatility on the markets of finished goods and raw materials triggered

Our audit procedures included:

- 1) agreeing the amount of the Group's additional contribution to equity to supporting documentation;
- 2) testing management's impairment assessment of the investment in NBH. We performed audit procedures over the impairment models, including:
 - comparing the key assumptions used within the impairment models to historic performance and approved forecasts of the three CGUs within NBH;
 - benchmarking the key assumptions used within the impairment models, including price forecasts, inflation and discount rates, against external expert valuations,



Key audit matter	How our audit addressed the key audit matter
<p>impairment testing of investment in the share capital of NBH. As a result of this testing performed by management, additional impairment loss of USD 31 million was recognized as of 31 December 2019.</p> <p>We focused on this area as the amount of contribution made in 2019 and the judgement over impairment of the investment in NBH are significant for the consolidated financial statements taken as a whole.</p>	<p>macroeconomic and industry forecasts, which corroborated their validity;</p> <ul style="list-style-type: none">• performing sensitivity analysis over key assumptions (for example, weighted average cost of capital, sales prices and volumes forecasts);• involving our valuation experts to assess the appropriateness of management's impairment models;• verifying accuracy of the carrying value of the investment in NBH.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group's major production facilities are located in the Russian Federation, the USA and Western Europe and the trading company is based in Switzerland. Based on our continuing assessment, we included in our group audit scope the 8 components located in these regions.

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

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



Other information

Management is responsible for the other information. The other information comprises information included in the Group Annual Report for 2019 and the Issuer's Report for the first quarter of 2020, but does not include the consolidated financial statements and our auditor's report thereon. Both of these reports are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we 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 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.

When we read the Group Annual Report for 2019 and the Issuer's Report for the first quarter of 2020, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 A.S. Ivanov.

11 February 2020
Moscow, Russian Federation

Signed on the original: A.S. Ivanov.

A.S. Ivanov, certified auditor (licence No. № 01-000531), AO PricewaterhouseCoopers Audit

Audited entity: Novolipetsk Steel

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

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

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

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Taxpayer Identification Number 7705051102

Member of Self-regulated organization of auditors Association «Sodruzhestvo»
Principal Registration Number of the Record in the Register of Auditors and Audit Organizations –12006020338

	Note	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
Assets				
Current assets				
Cash and cash equivalents	3	713	1,179	301
Short-term financial investments	5	287	19	1,284
Trade and other accounts receivable	6	1,047	1,326	1,228
Inventories	7	1,634	1,816	1,879
Other current assets		14	10	19
		3,695	4,350	4,711
Non-current assets				
Long-term financial investments	5	5	85	2
Investments in joint ventures	4	223	159	205
Property, plant and equipment	8	6,039	4,798	5,549
Goodwill	9	248	224	265
Other intangible assets	9	162	165	164
Deferred income tax assets	17	101	152	84
Other non-current assets		11	11	16
		6,789	5,594	6,285
Total assets		10,484	9,944	10,996
Liabilities and equity				
Current liabilities				
Trade and other accounts payable	10	1,124	1,122	1,029
Dividends payable		318	525	537
Short-term borrowings	11	468	398	380
Current income tax liability		32	28	53
		1,942	2,073	1,999
Non-current liabilities				
Long-term borrowings	11	2,188	1,677	1,901
Deferred income tax liability	17	405	346	417
Other long-term liabilities		2	14	33
		2,595	2,037	2,351
Total liabilities		4,537	4,110	4,350
Equity attributable to Novolipetsk Steel shareholders				
Common stock	12(a)	221	221	221
Additional paid-in capital		9	10	10
Accumulated other comprehensive loss		(6,140)	(6,782)	(5,631)
Retained earnings		11,840	12,370	12,029
		5,930	5,819	6,629
Non-controlling interests		17	15	17
Total equity		5,947	5,834	6,646
Total liabilities and equity		10,484	9,944	10,996

The consolidated financial statements as set out on pages 11 to 67 were approved by the Group's management and authorised for issue on 11 February 2020.

Novolipetsk Steel
Consolidated statement of profit or loss
(millions of US dollars, unless otherwise stated)



	Note	For the year ended 31 December 2019	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue	14	10,554	12,046	10,065
Cost of sales		(7,303)	(7,680)	(6,798)
Gross profit		3,251	4,366	3,267
General and administrative expenses		(352)	(375)	(364)
Selling expenses		(843)	(886)	(788)
Net impairment losses on financial assets		(1)	(1)	(7)
Other operating income/(expenses), net		13	(4)	3
Taxes other than income tax	16	(66)	(88)	(80)
Operating profit before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment		2,002	3,012	2,031
Loss on disposals of property, plant and equipment		(4)	(7)	(1)
Impairment of non-current assets	8, 9	(30)	(4)	(17)
Share of results of joint ventures	4	(88)	(243)	(90)
Losses on investments, net		-	(2)	(5)
Finance income	18	18	21	29
Finance costs	18	(68)	(70)	(87)
Foreign currency exchange (loss)/gain, net	19	(6)	33	17
Other expenses, net		(30)	(11)	(54)
Profit before income tax		1,794	2,729	1,823
Income tax expense	17	(453)	(486)	(371)
Profit for the year		1,341	2,243	1,452
Profit is attributable to:				
Novolipetsk Steel shareholders		1,339	2,238	1,450
Non-controlling interests		2	5	2
Earnings per share:				
Earnings per share attributable to Novolipetsk Steel shareholders (US dollars)	13	0.2234	0.3734	0.2419
Weighted-average number of 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 2019	For the year ended 31 December 2018	For the year ended 31 December 2017
Profit for the year		1,341	2,243	1,452
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment	2(b)	644	(1,154)	348
Total comprehensive income for the year		1,985	1,089	1,800
attributable to:				
Novolipetsk Steel shareholders		1,981	1,087	1,797
Non-controlling interests		4	2	3

		Attributable to Novolipetsk Steel shareholders					
				Accumulated other comprehensive loss			
Note	Common stock	Additional paid-in capital		Retained earnings	Non-controlling interest	Total equity	
	Balance at 1 January 2017	221	10	(5,978)	12,039	18	6,310
	Profit for the year	-	-	-	1,450	2	1,452
	Cumulative translation adjustment	-	-	347	-	1	348
2(b)							
	Total comprehensive income	-	-	347	1,450	3	1,800
	Acquisition of non-controlling interest	-	-	-	-	(1)	(1)
	Dividends to shareholders	-	-	-	(1,460)	(3)	(1,463)
12(b)							
	Balance at 31 December 2017	221	10	(5,631)	12,029	17	6,646
	Profit for the year	-	-	-	2,238	5	2,243
	Cumulative translation adjustment	-	-	(1,151)	-	(3)	(1,154)
2(b)							
	Total comprehensive income	-	-	(1,151)	2,238	2	1,089
	Acquisition of non-controlling interest	-	-	-	(1)	(3)	(4)
	Dividends to shareholders	-	-	-	(1,896)	(1)	(1,897)
12(b)							
	Balance at 31 December 2018	221	10	(6,782)	12,370	15	5,834
	Profit for the year	-	-	-	1,339	2	1,341
	Cumulative translation adjustment	-	-	642	-	2	644
2(b)							
	Total comprehensive income	-	-	642	1,339	4	1,985
	Disposal of assets to an entity under common control	-	(1)	-	-	-	(1)
	Acquisition of non-controlling interest	-	-	-	-	(2)	(2)
	Dividends to shareholders	-	-	-	(1,869)	-	(1,869)
12(b)							
	Balance at 31 December 2019	221	9	(6,140)	11,840	17	5,947

	Note	For the year ended 31 December 2019	For the year ended 31 December 2018	For the year ended 31 December 2017
Cash flows from operating activities				
Profit for the year		1,341	2,243	1,452
Adjustments to reconcile profit for the year to net cash provided by operating activities:				
Depreciation and amortisation		562	577	624
Loss on disposals of property, plant and equipment		4	7	1
Losses on investments		-	2	5
Finance income	18	(18)	(21)	(29)
Finance costs	18	68	70	87
Share of results of joint ventures	4	88	243	90
Income tax expense	17	453	486	371
Impairment of non-current assets	8, 9	30	4	17
Foreign currency exchange loss/(gain), net	19	6	(33)	(17)
Change in impairment allowance for inventories and credit loss allowance of accounts receivable		5	1	13
Changes in operating assets and liabilities				
Decrease/(increase) in trade and other accounts receivable		314	(258)	(223)
Decrease/(increase) in inventories		284	(187)	(262)
(Increase)/decrease in other operating assets		(1)	7	-
(Decrease)/increase in trade and other accounts payable		(132)	177	105
Cash provided by operations		3,004	3,318	2,234
Income tax paid		(381)	(577)	(335)
Net cash provided by operating activities		2,623	2,741	1,899
Cash flows from investing activities				
Purchases and construction of property, plant and equipment and intangible assets		(1,080)	(680)	(592)
Proceeds from sale of property, plant and equipment		1	3	10
Purchases of investments and loans given		(164)	(91)	(44)
Proceeds from repayment of loans given		115	-	-
Placement of bank deposits		(933)	(305)	(1,264)
Withdrawal of bank deposits		777	1,349	1,105
Interest received		29	22	28
Contribution to share capital of joint venture	4	(155)	-	-
Acquisition of subsidiary, net of cash and cash equivalents acquired		-	(4)	-
Acquisition of non-controlling interest		(1)	(4)	(1)
Net cash (used in)/provided by investing activities		(1,411)	290	(758)
Cash flows from financing activities				
Proceeds from borrowings		1,015	470	988
Repayment of borrowings		(500)	(643)	(1,093)
Payments on leases		(14)	-	-
Interest paid		(49)	(56)	(69)
Dividends paid to Novolipetsk Steel shareholders		(2,120)	(1,888)	(1,283)
Dividends paid to non-controlling interests		-	(2)	(2)
Net cash used in financing activities		(1,668)	(2,119)	(1,459)
Net (decrease)/increase in cash and cash equivalents		(456)	912	(318)
Effect of exchange rate changes on cash and cash equivalents		(10)	(34)	9
Cash and cash equivalents at the beginning of the year	3	1,179	301	610
Cash and cash equivalents at the end of the year	3	713	1,179	301
Supplemental disclosures of cash flow information:				
Non-cash investing activities:				
Conversion of debt to equity	4	-	210	84

1 Background

Novolipetsk Steel (the “Parent Company” or “NLMK”) and its subsidiaries (together – the “Group”) is one of the world’s leading steelmakers with facilities that allow it to operate an integrated steel production cycle. The Parent Company is a public joint stock company in accordance with the Civil Code of the Russian Federation. The Parent Company was originally established as a State owned enterprise in 1934 and was privatised in the form of an open joint stock company on 28 January 1993. On 29 December 2015, the legal form of the Parent Company was changed to public joint stock company due to changes in legislation of the Russian Federation.

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

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

As at 31 December 2019, the Parent Company’s major shareholder with 81.40% (84.03% as at 31 December 2018 and 2017) ownership interest is Fletcher Group Holdings Limited, which is beneficially owned by Mr. Vladimir Lisin.

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

	Activity	Country of incorporation	Share at 31 December 2019	Share at 31 December 2018	Share at 31 December 2017	
Russian flat products						
	LLC VIZ-Steel	Production of steel	Russia	100.00%	100.00%	100.00%
	JSC Altai-Koks	Production of blast furnace coke	Russia	100.00%	100.00%	100.00%
	NLMK Trading S.A. (formerly – Novex Trading (Swiss) S.A.)	Trading	Switzerland	100.00%	100.00%	100.00%
NLMK DanSteel and Plates Distribution Network						
	NLMK DanSteel A/S	Production of steel	Denmark	100.00%	100.00%	100.00%
NLMK USA						
	NLMK Indiana LLC	Production of steel	USA	100.00%	100.00%	100.00%
	NLMK Pennsylvania LLC	Production of steel	USA	100.00%	100.00%	100.00%
Russian long products						
	JSC NLMK-Ural	Production of steel and long products	Russia	92.59%	92.59%	92.59%
	LLC NLMK-Metalware	Production of metalware	Russia	100.00%	100.00%	100.00%
	LLC NLMK-Kaluga	Production of long products	Russia	100.00%	100.00%	100.00%
	LLC Vtorchermet NLMK	Processing of metal	Russia	100.00%	100.00%	100.00%
Mining						
	JSC Stoilensky GOK	Mining, processing and pelletising of iron-ore	Russia	100.00%	100.00%	100.00%

1 Background (continued)

Among joint ventures the major is:

Activity	Country of incorporation	Share at 31 December 2019	Share at 31 December 2018	Share at 31 December 2017
NLMK Belgium Holdings S.A. Holding company*	Belgium	49.00%	49.00%	51.00%

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

2 Basis of preparation of the consolidated financial statements

(a) Basis of preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except as described in the principal accounting policies applied in the preparation of these consolidated financial statements, as set out in Note 25. These policies have been consistently applied to all the periods presented in these consolidated financial statements except for new standards adopted as set out in Note 27. Figures for three reporting periods are presented for users' convenience.

(b) Functional and reporting currency

The functional currency of all of the Group's Russian entities is considered to be the Russian ruble. The functional currency of the majority of the foreign subsidiaries is their local currency. The Group uses US dollars as the presentation currency of these consolidated financial statements. All amounts in the consolidated financial statements are rounded to the nearest million unless otherwise stated.

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

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

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

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

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Russian ruble to US dollar			
For the year ended 31 December	64.7362	62.7078	58.3529
As at 31 December	61.9057	69.4706	57.6002
Russian ruble to Euro			
For the year ended 31 December	72.5021	73.9546	65.9014
As at 31 December	<u>69.3406</u>	<u>79.4605</u>	<u>68.8668</u>

3 Cash and cash equivalents

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>	<u>As at 31 December 2017</u>
Cash	388	526	148
Deposits	296	627	141
Other cash equivalents	<u>29</u>	<u>26</u>	<u>12</u>
	<u>713</u>	<u>1,179</u>	<u>301</u>

4 Investments in joint ventures

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>	<u>As at 31 December 2017</u>
NLMK Belgium Holdings S.A. ("NBH")	213	149	194
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	<u>10</u>	<u>10</u>	<u>11</u>
	<u>223</u>	<u>159</u>	<u>205</u>

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
As at 1 January	<u>159</u>	<u>205</u>	<u>181</u>
Share of net loss	(101)	(120)	(61)
Contribution into share capital	155	210	84
Impairment of investments	(31)	(87)	-
Disposal of 2% stake in NBH	-	(7)	-
Share of change in unrealised profit in inventory	44	(36)	(29)
Share of change in other comprehensive income	(1)	(2)	-
Translation adjustment	<u>(2)</u>	<u>(4)</u>	<u>30</u>
As at 31 December	<u>223</u>	<u>159</u>	<u>205</u>

4 Investments in joint ventures (continued)

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

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
Current assets	767	969	940
Non-current assets	551	562	686
Total assets	1,318	1,531	1,626
Current liabilities	(654)	(684)	(864)
Non-current liabilities	(507)	(673)	(548)
Total liabilities	(1,161)	(1,357)	(1,412)
Equity	157	174	214
	For the year ended 31 December 2019	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue	1,562	1,837	1,539
Net loss	(207)	(242)	(122)

NBH cash and cash equivalents as at 31 December 2019, 2018 and 2017 amounted to \$25, \$1 and \$26, respectively.

NBH financial liabilities excluding trade and other accounts payable as at 31 December 2019, 2018 and 2017 amounted to \$649, \$690 and \$794, respectively, and are included in current and non-current liabilities.

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

	2019	2018	2017
Net assets as at 1 January	33	19	29
Net loss for the year	(202)	(197)	(97)
Contribution into share capital	195	210	84
Acquisition of treasury shares	-	(5)	-
Other comprehensive income	(2)	1	-
Translation adjustment	(1)	5	3
Net assets as at 31 December	23	33	19
PP&E valuation difference	134	141	195
Adjusted net assets as at 31 December	157	174	214
As at 31 December:			
Share in net assets	77	85	109
Excess of fair value of investment in NBH as at the deconsolidation date	100	100	104
Accumulated share of the other investor in contributions into share capital	376	316	218
Accumulated impairment of investments	(349)	(318)	(240)
Share of unrealised profit in inventory	(26)	(70)	(34)
Cumulative translation adjustment	35	36	37
Investments in NBH	213	149	194

The other investor in NBH is SOGEPA, a Belgian state-owned company, controlling the stake of 49.0% as of 31 December 2019, 2018 and 2017.

4 Investments in joint ventures (continued)

In October 2019, the Group and SOGEPA have agreed to jointly support NBH bank financing via shareholder guarantees on a parity basis and to invest in the charter capital of NBH for the execution of the Group's Strategy 2022 investment projects EUR 35 million, EUR 50 million and EUR 15 million in 2019, 2020 and 2021, respectively, each.

In December 2018, the Group converted existing loans to NBH into share capital in the amount of \$210 (in December 2017: \$84).

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

5 Financial investments

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
Short-term financial investments			
Bank deposits (Note 22(c))	157	5	1,057
Loans to related parties (Note 23(c))	128	14	222
Other short-term financial investments	2	-	5
	287	19	1,284
Long-term financial investments			
Loans to related parties (Note 23(c))	5	85	-
Bank deposits (Note 22(c))	-	-	2
	5	85	2
	292	104	1,286

The carrying amounts of financial investments approximate their fair values.

6 Trade and other accounts receivable

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
Financial assets			
Trade accounts receivable	818	1,099	996
Credit loss allowance of trade accounts receivable	(18)	(21)	(23)
Other accounts receivable	33	30	29
Credit loss allowance of other accounts receivable	(23)	(17)	(20)
	810	1,091	982
Non-financial assets			
Advances given to suppliers	70	76	58
Allowance for impairment of advances given to suppliers	(3)	(3)	(3)
VAT and other taxes receivable	168	161	190
Accounts receivable from employees	2	1	1
	237	235	246
	1,047	1,326	1,228

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

6 Trade and other accounts receivable (continued)

As at 31 December 2019, 2018 and 2017, accounts receivable with a carrying value of \$133, \$173 and \$160, respectively, served as collateral for certain borrowings (Note 11).

Movements in the credit loss allowance of financial receivables are as follows:

	2019	2018	2017
As at 1 January	(38)	(43)	(42)
Credit loss allowance recognised	(7)	(8)	(11)
Accounts receivable written-off	2	-	4
Credit loss allowance reversed	5	7	6
Disposal of subsidiary	-	-	3
Translation adjustment	(3)	6	(3)
As at 31 December	(41)	(38)	(43)

7 Inventories

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
Raw materials	927	859	830
Work in process	383	504	603
Finished goods	384	501	514
	1,694	1,864	1,947
Impairment allowance	(60)	(48)	(68)
	1,634	1,816	1,879

Product type "Slabs" is represented by semi-finished products of own production or purchased from third parties, which the Group plans to process further or sell to third parties without processing. Depending on the origin and usage plans, this type of product is distributed between "Raw materials", "Work in process" and "Finished goods" categories as follows:

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
Raw materials	219	97	32
Work in process	141	249	336
Finished goods	42	65	72

As at 31 December 2019, 2018 and 2017 inventories with a carrying value of \$460, \$472 and \$423, respectively, served as collateral for certain borrowings (Note 11).

Cost of raw materials and acquired semi-finished goods in cost of production for the years ended 31 December 2019, 2018 and 2017 amounted to \$4,835, \$5,521 and \$4,676, respectively. Cost of fuel and energy resources in cost of sales for the years ended 31 December 2019, 2018 and 2017 amounted to \$607, \$632 and \$651, respectively.

8 Property, plant and equipment

	Land	Buildings	Land and buildings improvements	Machinery and equipment	Vehicles	Construction in progress	Total
Cost at 1 January 2017	121	1,799	2,113	5,994	266	858	11,151
Accumulated depreciation and impairment	-	(702)	(1,301)	(3,636)	(184)	-	(5,823)
Net book value at 1 January 2017	121	1,097	812	2,358	82	858	5,328
Additions	-	-	-	-	-	585	585
Disposals	-	-	(4)	(1)	-	(6)	(11)
Impairment	-	-	-	-	-	(8)	(8)
Transfers	-	171	110	314	23	(618)	-
Depreciation charge	-	(52)	(76)	(471)	(18)	-	(617)
Translation adjustment	7	58	44	115	4	44	272
Cost at 31 December 2017	128	2,057	2,328	6,533	279	855	12,180
Accumulated depreciation and impairment	-	(783)	(1,442)	(4,218)	(188)	-	(6,631)
Net book value at 31 December 2017	128	1,274	886	2,315	91	855	5,549
Additions	-	-	-	-	-	731	731
Disposals	-	(1)	(1)	(3)	-	(4)	(9)
Impairment	-	-	-	-	-	(4)	(4)
Transfers	5	55	37	201	43	(341)	-
Reclassification to intangible assets (Note 9)	-	-	-	-	-	(24)	(24)
Depreciation charge	-	(47)	(76)	(424)	(16)	-	(563)
Translation adjustment	(23)	(207)	(147)	(321)	(17)	(167)	(882)
Cost at 31 December 2018	110	1,774	1,956	5,701	266	1,050	10,857
Accumulated depreciation and impairment	-	(700)	(1,257)	(3,933)	(165)	(4)	(6,059)
Net book value at 31 December 2018	110	1,074	699	1,768	101	1,046	4,798
Adjustment on adoption of IFRS 16 (Notes 9 and 27)	22	42	2	13	-	-	79
Net book value at 1 January 2019	132	1,116	701	1,781	101	1,046	4,877

8 Property, plant and equipment (continued)

	Land	Buildings	Land and buildings improvements	Machinery and equipment	Vehicles	Construction in progress	Total
Additions	-	6	-	3	-	1,158	1,167
Disposals	(3)	-	(2)	(4)	(1)	-	(10)
Impairment	-	-	-	(4)	-	(4)	(8)
Transfers	1	53	88	657	75	(874)	-
Depreciation charge	-	(56)	(73)	(391)	(25)	-	(545)
Translation adjustment	13	128	85	179	16	137	558
Total property, plant and equipment							
Cost at 31 December 2019	143	2,081	2,263	6,880	370	1,472	13,209
Accumulated depreciation and impairment	-	(834)	(1,464)	(4,659)	(204)	(9)	(7,170)
Net book value at 31 December 2019	143	1,247	799	2,221	166	1,463	6,039
Including:							
Right-of-use assets							
Cost at 31 December 2019	19	53	1	16	1	-	90
Accumulated depreciation and impairment	-	(8)	-	(3)	-	-	(11)
Net book value at 31 December 2019	19	45	1	13	1	-	79

The amount of borrowing costs capitalised is \$59, \$36 and \$37 for the years ended 31 December 2019, 2018 and 2017, respectively. The capitalisation rate was 5.5%, 6.5% and 3.7% in 2019, 2018 and 2017, respectively.

8 Property, plant and equipment (continued)

The Group management made an analysis of impairment indicators of the Group's assets as well as indicators of potential reversal of an impairment loss recognized in prior periods as at 30 September 2019. High volatility accompanied by the sales volumes and prices decline on the market of certain finished products and raw materials triggered impairment assessment of some of the Group's cash generating units (further – "CGUs"), which required the reassessment of the recoverable amounts using the income approach based primarily on Level 3 inputs as at 31 December 2019. Goodwill was also tested for impairment as of the same date. No indicators that an impairment loss recognized in prior periods may no longer exists or may have decreased have been identified. Testing for impairment in the comparative periods was also caused by similar factors and was conducted as of 31 December 2018 and 2017.

For the purpose of the impairment test, the Group management used a forecast of cash flows for five years and normalised cash flows for a post-forecast period.

The table below summarises CGUs and types of assets, subject to determination of the recoverable amount as of 31 December 2019, major assumptions and their sensitivity used in the impairment models. Sales price is estimated using an average annual growth rate, over the 5-year forecast period (31 December 2018: 5-year; 31 December 2017: 6-year) based on current industry trends and including long-term inflation forecasts for each territory. Sales volume is estimated using an average annual growth rate over the same forecast period based on past performance and management's expectations of market development. Discount rate reflects specific risks relating to the relevant segments and the countries in which they operate. Sensitivity in the table below was determined as a percentage of changes of corresponding factors in forecast and post-forecast periods when recoverable values of assets (value in use) become equal to their carrying values (in respect of NLMK Belgium Holdings S.A. - carrying value prior to current year impairment loss). As of 31 December 2019 impairment testing showed that recoverable amount of investment (value in use) in NLMK Belgium Holdings S.A. before impairment recognised was below its carrying amount by \$31.

CGU	Asset type	Discount rate, %	Product types	Average sale price*, \$ per tonne (FCA)	Sensitivity, % of change		
					Sales Price	Sales volume	Discount rate
NLMK Belgium Holdings S.A. Investment		7.5%	Flat products and plate	622	0.3%	2.3%	-0.3 p.p.
NLMK Pennsylvania LLC	Property, plant and equipment	9.8%	Flat products	737	-4.0%	-31.4%	6.4 p.p.
NLMK Indiana LLC	Property, plant and equipment	9.7%	Plate	582	-0.5%	-6.1%	1.3 p.p.
NLMK Indiana LLC	Goodwill	9.7%	Plate	582	-0.4%	-4.4%	0.9 p.p.
JSC Altai-Koks	Property, plant and equipment	12.9%	Coke, chemical products	147	-47.2%	-34.0%	36.6 p.p.
JSC Altai-Koks	Goodwill	12.9%	Coke, chemical products	147	-38.6%	-27.8%	32.6 p.p.
LLC VIZ-Steel	Property, plant and equipment	13.8%	Flat products	1,286	-4.2%	-22.3%	5.8 p.p.
LLC VIZ-Steel	Goodwill	13.8%	Flat products	1,286	-3.5%	-18.7%	4.4 p.p.
LLC NLMK-Kaluga	Property, plant and equipment	13.6%	Long-products and semi-finished goods	421	-0.6%	-3.0%	0.5 p.p.
NLMK DanSteel A/S	Property, plant and equipment	8.1%	Plate	649	-0.1%	-0.3%	0.1 p.p.

* Weighted average prices based on the forecast product mix, averaged for the period from 2020 to 2024.

8 Property, plant and equipment (continued)

The table below summarises CGUs and types of assets, subject to determination of the recoverable amount as of 31 December 2018, major assumptions and their sensitivity used in the impairment models. Prices for steel products in this estimate were determined based on forecasts of investment banks' analysts. Sensitivity in the table below was determined as a percent of changes of corresponding factors in forecast and post-forecast periods when recoverable values of assets (value in use) become equal to their carrying values (in respect of NLMK Belgium Holdings S.A. - carrying value prior to current year impairment loss). As of 31 December 2018 impairment testing showed that recoverable amount of investment (value in use) in NLMK Belgium Holdings S.A. before impairment recognised was below its carrying amount by \$87.

CGU	Asset type	Discount rate, %	Product types	Average sale price*, \$ per tonne (FCA)	Sensitivity, % of change		
					Sales Price	Sales volume	Discount rate
NLMK Belgium Holdings S.A. Investment		7.6%	Flat products and plate	642	0.7%	6.9%	-0.8 p.p.
JSC Altai-Koks	Property, plant and equipment	13.0%	Coke, chemical products	187	-15.4%	-10.6%	13.5 p.p.
JSC Altai-Koks	Goodwill	13.0%	Coke, chemical products	187	-2.4%	-1.6%	1.5 p.p.
NLMK DanSteel A/S	Property, plant and equipment	7.8%	Plate	674	-0.7%	-3.6%	0.8 p.p.

* Weighted average prices based on the forecast product mix, averaged for the period from 2019 to 2023.

The table below summarises CGUs and types of assets, subject to determination of the recoverable amount as of 31 December 2017, major assumptions and their sensitivity used in the impairment models. Prices for steel products in this estimate were determined based on forecasts of investment banks' analysts. Sensitivity in the table below was determined as a percent of changes of corresponding factors in forecast and post-forecast periods when recoverable values of assets (value in use) become equal to their carrying values. As of 31 December 2017 testing showed neither impairment, nor reversal of previously recognised impairment loss.

CGU	Asset type	Discount rate, %	Product types	Average sale price*, \$ per tonne (FCA)	Sensitivity, % of change		
					Sales Price	Sales volume	Discount rate
NLMK Belgium Holdings S.A. Investment		8.8%	Flat products and plate	687	0.0%	0.3%	0.0 p.p.
NLMK Pennsylvania LLC	Property, plant and equipment	11.2%	Flat products	737	-5%	-38%	9 p.p.
JSC Stoilensky GOK	Property, plant and equipment	14.6%	Iron ore and pellets	54	-44%	-61%	35 p.p.
JSC Stoilensky GOK	Goodwill	14.6%	Iron ore and pellets	54	-43%	-63%	33 p.p.
JSC NLMK-Ural	Property, plant and equipment	14.6%	Long products and semi-finished goods	461	-0.1%	-0.4%	0.2 p.p.
LLC NLMK-Kaluga	Property, plant and equipment	14.2%	Long-products and semi-finished goods	467	-0.4%	-4%	0.3 p.p.
NLMK DanSteel A/S	Property, plant and equipment	8.8%	Plate	692	-2%	-10%	2 p.p.

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

9 Intangible assets

	Goodwill	Mineral rights	Industrial intellectual property	Beneficial lease interest	Total
Cost at 1 January 2017	267	333	23	9	632
Accumulated amortisation and impairment	(14)	(215)	(9)	(1)	(239)
Net book value at 1 January 2017	253	118	14	8	393
Additions	-	-	29	-	29
Amortisation charge	-	(7)	(6)	-	(13)
Translation adjustment	12	6	2	-	20
Cost at 31 December 2017	279	351	53	9	692
Accumulated amortisation and impairment	(14)	(234)	(14)	(1)	(263)
Net book value at 31 December 2017	265	117	39	8	429
Additions	-	1	18	-	19
Reclassification from property, plant and equipment (Note 8)	-	24	-	-	24
Amortisation charge	-	(4)	(10)	-	(14)
Translation adjustment	(41)	(21)	(7)	-	(69)
Cost at 31 December 2018	238	296	57	9	600
Accumulated amortisation and impairment	(14)	(179)	(17)	(1)	(211)
Net book value at 31 December 2018	224	117	40	8	389
Adjustment on adoption of IFRS 16 (Note 8)	-	-	-	(8)	(8)
Net book value at 1 January 2019	224	117	40	-	381
Additions	-	1	24	-	25
Impairment	-	(22)	-	-	(22)
Amortisation charge	-	(3)	(14)	-	(17)
Translation adjustment	24	14	5	-	43
Cost at 31 December 2019	262	311	86	-	659
Accumulated amortisation and impairment	(14)	(204)	(31)	-	(249)
Net book value at 31 December 2019	248	107	55	-	410

Mineral rights include a license for iron ore and non-metallic minerals mining of Stoilensky iron-ore deposit in Belgorod Region expiring in 2040, with the carrying value of \$73, \$68 and \$86 as at 31 December 2019, 2018 and 2017, respectively.

In October 2019, the Group decided to stop coal exploration works in the Usinsky mine field area No. 3 and returned an exploration and extraction license expiring in 2031 to the government. As a result, impairment charge of \$22 was recognized which equals the full amount of the exploration asset carrying value.

9 Intangible assets (continued)

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

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

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
Russian flat products	163	146	176
NLMK USA	21	21	21
Russian long products	3	3	3
Mining	61	54	65
	<u>248</u>	<u>224</u>	<u>265</u>

Goodwill impairment testing

The Group tested goodwill for impairment as at 31 December 2019, 2018 and 2017. For the purpose of annual impairment testing of goodwill related to CGU JSC Stoilensky GOK as at 31 December 2019, management decided to use the previous detailed calculation of this CGU recoverable amount as there were no significant changes in the underlying business. The recoverable amount has been determined as value in use of the respective asset. For the purpose of this impairment testing (excluding CGU JSC Stoilensky GOK), the Group used the same assumptions and estimates as for other assets, as disclosed in Note 8. Impairment testing showed no impairment of goodwill as at 31 December 2019, 2018 and 2017.

10 Trade and other accounts payable

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
Financial liabilities			
Trade accounts payable	558	584	524
Accounts payable for purchases of property, plant and equipment	184	121	76
Other accounts payable	29	26	30
	<u>771</u>	<u>731</u>	<u>630</u>
Non-financial liabilities			
Accounts payable and accrued liabilities to employees	149	177	156
Advances received	103	120	153
Taxes payable other than income tax	101	94	90
	<u>353</u>	<u>391</u>	<u>399</u>
	<u>1,124</u>	<u>1,122</u>	<u>1,029</u>

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

11 Borrowings

Rates*	Currency	Maturity*	As at	As at	As at
			31 December 2019	31 December 2018	31 December 2017
Bonds					
From 4.00% to 4.70%	USD	2023-2026	1,709	1,354	1,501
Loans					
From EURIBOR+0.90% to EURIBOR+1.20%	EUR	2020-2022	784	562	686
LIBOR+1.50%	USD	2021	85	159	94
Leases					
From 2.80% to 10.45%		2020-2089	78	-	-
			2,656	2,075	2,281
Less: short-term loans and current maturities of long-term loans, bonds and leases			(468)	(398)	(380)
Long-term borrowings			2,188	1,677	1,901

* Rates and maturity as of 31 December 2019

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

	As at		As at		As at	
	31 December 2019		31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,700	1,814	1,200	1,150	1,346	1,385

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

The Group has complied with the financial and non-financial covenants of its borrowing facilities during the years ended 31 December 2019, 2018 and 2017.

The long-term borrowings mature as follows:

	As at	As at	As at
	31 December 2019	31 December 2018	31 December 2017
1-2 years	410	133	228
2-5 years	1,245	1,044	473
Over 5 years	533	500	1,200
	2,188	1,677	1,901

Collateral

As at 31 December 2019, 2018 and 2017, the loan facilities were secured by inventories and accounts receivable with the total carrying value of \$593, \$645 and \$583, respectively (Notes 6, 7).

11 Borrowings (continued)

Net debt reconciliation

	Short-term borrowings	Long-term borrowings	Cash and cash equivalents	Short-term bank deposits	Net debt
Balance at 1 January 2017	(468)	(1,801)	610	898	(761)
Cash flows	207	(32)	(315)	135	(5)
Interest accrued	(88)	-	-	23	(65)
Foreign exchange difference	(6)	32	(3)	(54)	(31)
Translation adjustment	(25)	(100)	9	55	(61)
Balance at 31 December 2017	(380)	(1,901)	301	1,057	(923)
Cash flows	55	199	840	(1,055)	39
Interest accrued	(77)	-	-	12	(65)
Foreign exchange difference	(19)	(246)	72	62	(131)
Translation adjustment	23	271	(34)	(71)	189
Balance at 31 December 2018	(398)	(1,677)	1,179	5	(891)
Cash flows	17	(436)	(456)	143	(732)
Interest accrued	(81)	-	-	13	(68)
Foreign exchange difference	23	184	(94)	(17)	96
Recognition on adoption of IFRS 16 (Note 27)	(8)	(71)	-	-	(79)
Leasing recognised	-	(15)	-	-	(15)
Translation adjustment	(21)	(173)	84	13	(97)
Balance at 31 December 2019	(468)	(2,188)	713	157	(1,786)

12 Shareholders' equity

(a) Shares

As at 31 December 2019, 2018 and 2017, the Parent Company's share capital consisted of 5,993,227,240 issued common shares, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at the stockholders' meetings.

(b) Dividends

Dividends are paid on common shares at the recommendation of the Board of Directors and approval at a General Shareholders Meeting, subject to certain limitations as determined by the Russian legislation. Profits available for distribution to the shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. As at 31 December 2019, 2018 and 2017, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to \$4,671, \$4,689 and \$5,728, converted into US dollars using the exchange rates at 31 December 2019, 2018 and 2017, respectively.

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

- if Net Debt/EBITDA for the preceding 12 months is 1.0x or less: dividends are not less than 100% of free cash flow for the respective quarter calculated based on IFRS consolidated financial statements;
- if Net Debt/EBITDA for the preceding 12 months exceeds 1.0x: dividends are not less than 50% of free cash flow for the respective quarter calculated based on IFRS consolidated financial statements.

12 Shareholders' equity (continued)

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

	Declaration period	2019		2018		2017	
		Per share*	Total amount	Per share*	Total amount	Per share*	Total amount
For the 4 th quarter of previous year	April	5.80	543	3.36	326	3.38	358
For the 1 st quarter of current year	June	7.34	674	5.73	556	2.35	249
For the 2 nd quarter of current year	September	3.68	343	5.24	477	3.20	328
For the 3 rd quarter of current year	December	3.22	309	6.04	537	5.13	525
			1,869		1,896		1,460

* Dividends per share are shown in Russian rubles.

(c) Capital management

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

When managing capital, the Group uses the following indicators:

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

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

13 Earnings per share

	For the year ended 31 December 2019	For the year ended 31 December 2018	For the year ended 31 December 2017
Profit for the year attributable to the NLMK shareholders (millions of US dollars)	1,339	2,238	1,450
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
Basic and diluted earnings per share (US dollars)	0.2234	0.3734	0.2419

Basic and diluted net earnings per share is calculated by dividing profit for the year attributable to the NLMK shareholders by the weighted average number of common shares outstanding during the reporting period. NLMK does not have potentially dilutive financial instruments during the years ended 31 December 2019, 2018 and 2017.

14 Revenue

(a) Revenue by type

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Revenue from sale of goods			
Flat products	5,804	6,416	5,566
Pig iron, slabs and billets	2,628	3,477	2,525
Long products and metalware	1,231	1,268	1,059
Coke and other chemical products	295	307	343
Scrap	75	86	75
Iron ore and sintering ore	48	-	-
Other products	178	194	241
Total revenue from sale of goods	10,259	11,748	9,809
Revenue from transportation services	295	298	256
	10,554	12,046	10,065

(b) Revenue by geographical area

The allocation of total revenue by geographical area is based on the location of end customers who purchased the Group's products. The Group's total revenue from external customers by geographical area is as follows:

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Russia	4,337	4,051	3,887
North America	1,948	2,556	1,932
European Union	1,917	2,268	1,730
Middle East, including Turkey	1,169	1,375	1,083
CIS	405	405	432
Central and South America	285	557	425
Asia and Oceania	244	489	277
Other regions	249	345	299
	10,554	12,046	10,065

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

15 Labour costs

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

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Cost of sales	750	720	711
General and administrative expenses	191	230	221
Selling expenses	29	29	28
	<u>970</u>	<u>979</u>	<u>960</u>

Remuneration of the key management personnel that comprises payments to members of the Management Board and the Board of Directors of the Parent Company, is recorded within general and administrative expenses and includes annual compensation and performance bonus contingent on the Group's results for the reporting year.

Total remuneration of the key management personnel, including social security costs amounted to \$17, \$38 and \$24 in 2019, 2018 and 2017, respectively. As at 31 December 2019, 2018 and 2017 accrued liabilities to key management personnel related to the long-term incentive plan amounted to nil, \$25 and \$9, respectively.

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.

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Cost of sales	57	76	70
General and administrative expenses	3	4	3
Other operating expenses	6	8	7
	<u>66</u>	<u>88</u>	<u>80</u>

17 Income tax

Income tax charge comprises the following:

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Current income tax expense	(379)	(574)	(374)
Deferred income tax (expense)/benefit	(74)	88	3
Total income tax expense	<u>(453)</u>	<u>(486)</u>	<u>(371)</u>

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 30%.

17 Income tax (continued)

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

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Profit before income tax	1,794	2,729	1,823
Income tax at rate 20%	(359)	(546)	(365)
Change in income tax:			
- tax effect of non-deductible expenses	(15)	-	(16)
- non-taxable translation adjustments	(1)	7	(2)
- effect of different tax rates	9	27	5
- unrecognized deferred tax asset on investments in joint ventures	(26)	(71)	(21)
- unrecognized tax loss carry forward for the year	(27)	(8)	(3)
- utilisation of previously unrecognised tax loss carry forward	1	56	50
- effect of tax on intercompany dividends	(1)	(6)	-
- impairment of previously recognised deferred tax assets	(34)	(15)	(19)
- recognition of previously unrecognised tax loss carry forward	-	70	-
Total income tax expense	<u>(453)</u>	<u>(486)</u>	<u>(371)</u>

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

	<u>As at 31 December 2019</u>	<u>(Charged)/credited to profit or loss</u>	<u>Translation adjustment</u>	<u>As at 1 January 2019</u>
Deferred tax assets				
Trade and other accounts payable	21	(9)	2	28
Trade and other accounts receivable	11	1	1	9
Inventories	13	(10)	-	23
Tax losses carried forward	45	(42)	-	87
Borrowings	10	10	-	-
	<u>100</u>	<u>(50)</u>	<u>3</u>	<u>147</u>
Deferred tax liabilities				
Property, plant and equipment	(396)	(27)	(38)	(331)
Other intangible assets	(8)	3	(1)	(10)
	<u>(404)</u>	<u>(24)</u>	<u>(39)</u>	<u>(341)</u>
Total deferred tax liability, net	<u>(304)</u>	<u>(74)</u>	<u>(36)</u>	<u>(194)</u>

17 Income tax (continued)

	As at 31 December 2018	(Charged)/credited to profit or loss	Translation adjustment	As at 1 January 2018
Deferred tax assets				
Trade and other accounts payable	28	11	(4)	21
Trade and other accounts receivable	9	(2)	(3)	14
Inventories	23	6	(6)	23
Tax losses carried forward	87	56	1	30
	147	71	(12)	88
Deferred tax liabilities				
Property, plant and equipment	(331)	20	59	(410)
Other intangible assets	(10)	(3)	4	(11)
	(341)	17	63	(421)
Total deferred tax liability, net	(194)	88	51	(333)
	As at 31 December 2017	(Charged)/credited to profit or loss	Translation adjustment	As at 1 January 2017
Deferred tax assets				
Trade and other accounts payable	21	(5)	2	24
Trade and other accounts receivable	14	(1)	1	14
Inventories	23	22	1	-
Tax losses carried forward	30	(36)	1	65
	88	(20)	5	103
Deferred tax liabilities				
Property, plant and equipment	(410)	15	(17)	(408)
Other intangible assets	(11)	(3)	-	(8)
Inventories	-	11	-	(11)
	(421)	23	(17)	(427)
Total deferred tax liability, net	(333)	3	(12)	(324)

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

17 Income tax (continued)

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

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
From 1 to 5 years	-	-	99
From 5 to 10 years	-	-	115
More than 10 years	256	-	749
No expiration	<u>1,407</u>	<u>1,393</u>	<u>1,486</u>
Total	<u>1,663</u>	<u>1,393</u>	<u>2,449</u>

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

The Group has not recorded a deferred tax liability in respect of temporary differences of \$1,417, \$1,728 and \$1,569 for the years ended 31 December 2019, 2018 and 2017, respectively, associated with investments in subsidiaries and joint ventures as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

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

As at 31 December 2019, 2018 and 2017, the Group analysed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Group believes that all deductible tax positions which form the basis for income tax returns of the Group companies, are recognised and measured in accordance with the applicable tax legislation.

18 Finance income and costs

	For the year ended 31 December 2019	For the year ended 31 December 2018	For the year ended 31 December 2017
Interest income on bank accounts and bank deposits	13	12	23
Other finance income	<u>5</u>	<u>9</u>	<u>6</u>
Total finance income	<u>18</u>	<u>21</u>	<u>29</u>
Interest expense on borrowings	(81)	(77)	(88)
Capitalised interest	33	21	23
Other finance costs	<u>(20)</u>	<u>(14)</u>	<u>(22)</u>
Total finance costs	<u>(68)</u>	<u>(70)</u>	<u>(87)</u>

19 Foreign exchange differences

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Foreign exchange (loss)/gain on cash and cash equivalents	(94)	72	(3)
Foreign exchange (loss)/gain on financial investments	(139)	245	(56)
Foreign exchange gain/(loss) on debt financing	242	(250)	28
Foreign exchange (loss)/gain on other assets and liabilities	<u>(15)</u>	<u>(34)</u>	<u>48</u>
	<u>(6)</u>	<u>33</u>	<u>17</u>

20 Operating leases

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

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>	<u>As at 31 December 2017</u>
Within 1 year	-	15	13
From 1 to 5 years	-	50	46
After 5 years	<u>-</u>	<u>228</u>	<u>238</u>
Total commitments for minimum lease payments	<u>-</u>	<u>293</u>	<u>297</u>

In 2018 and 2017 total rental expenses relating to operating leases were \$17 and \$13, respectively.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases (Note 27).

21 Segment information

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

The Group management determines pricing for intersegmental sales, as if the sales were to third parties. The revenue from external parties is measured in the same way as in the consolidated statement of profit or loss. The Group management evaluates performance of each segment based on segment revenues, gross profit, operating profit before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment, profit for the year and amount of total assets and total liabilities.

Elimination of intersegmental operations and balances represents elimination of intercompany dividends paid to Russian flat products segment by other segments and presented within "Profit for the year" line together with other intercompany elimination adjustments, including elimination of NBH's liabilities to the Group companies (Note 23). NBH deconsolidation adjustments include elimination of NBH's sales, recognition of the Group's sales to NBH and elimination of unrealised profits (Notes 4, 23), elimination of NBH's assets and liabilities and recognition of the investment in joint venture (Note 4), recognition of impairment and share of NBH's loss, and other consolidation adjustments.

21 Segment information (continued)

Information on the segments' profit or loss for the year ended 31 December 2019 and their assets and liabilities as of this date is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Elimination of intersegmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	77	5,897	1,428	1,715	490	1,502	-	(555)	10,554
Intersegment revenue	1,238	1,430	329	-	1	60	(2,998)	(60)	-
Cost of sales	(381)	(5,239)	(1,554)	(1,728)	(435)	(1,568)	2,938	664	(7,303)
Gross profit	934	2,088	203	(13)	56	(6)	(60)	49	3,251
Operating profit/(loss)*	864	1,160	39	(95)	(3)	(197)	(7)	241	2,002
Net finance income/(costs)	15	(55)	-	(8)	(2)	(12)	-	12	(50)
Income tax (expense)/benefit	(161)	(239)	(8)	(31)	(1)	4	(13)	(4)	(453)
Profit/(loss) for the year	661	1,941	15	(128)	(6)	(207)	(1,097)	162	1,341
Segment assets	2,120	7,483	1,160	840	371	1,318	(1,752)	(1,056)	10,484
Segment liabilities	(607)	(4,567)	(437)	(314)	(258)	(1,161)	2,028	779	(4,537)
Depreciation and amortization	(113)	(330)	(50)	(58)	(11)	(63)	-	63	(562)
Capital expenditures	(218)	(854)	(50)	(37)	(33)	(118)	-	118	(1,192)

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

21 Segment information (continued)

Information on the segments' profit or loss for the year ended 31 December 2018 and their assets and liabilities as of this date is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Elimination of intersegmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	22	6,327	1,720	2,134	513	1,772	-	(442)	12,046
Intersegment revenue	1,189	2,416	432	-	1	65	(4,038)	(65)	-
Cost of sales	(381)	(5,672)	(1,779)	(1,863)	(475)	(1,812)	3,856	446	(7,680)
Gross profit	830	3,071	373	271	39	25	(182)	(61)	4,366
Operating profit/(loss)*	771	2,005	161	196	(26)	(162)	(59)	126	3,012
Net finance income/(costs)	19	(49)	(6)	(9)	(4)	(12)	-	12	(49)
Income tax (expense)/benefit	(179)	(355)	(25)	69	(4)	19	8	(19)	(486)
Profit/(loss) for the year	706	1,875	155	255	(34)	(242)	(435)	(37)	2,243
Segment assets	2,081	6,822	1,150	1,019	373	1,531	(1,748)	(1,284)	9,944
Segment liabilities	(412)	(4,262)	(450)	(350)	(251)	(1,357)	2,126	846	(4,110)
Depreciation and amortization	(117)	(334)	(60)	(57)	(9)	(75)	-	75	(577)
Capital expenditures	(137)	(520)	(36)	(20)	(37)	(116)	-	116	(750)

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

21 Segment information (continued)

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

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Elimination of intersegmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	24	5,595	1,391	1,670	415	1,473	-	(503)	10,065
Intersegment revenue	920	2,064	403	-	1	66	(3,388)	(66)	-
Cost of sales	(356)	(5,320)	(1,522)	(1,459)	(372)	(1,495)	3,228	498	(6,798)
Gross profit	588	2,339	272	211	44	44	(160)	(71)	3,267
Operating profit/(loss)*	524	1,357	77	139	(6)	(99)	(33)	72	2,031
Net finance income/(costs)	12	(52)	(5)	(9)	(4)	(17)	-	17	(58)
Income tax (expense)/benefit	(92)	(279)	(13)	4	(21)	15	30	(15)	(371)
Profit/(loss) for the year	403	1,586	56	133	(32)	(122)	(576)	4	1,452
Segment assets	2,041	7,990	1,210	891	339	1,626	(1,728)	(1,373)	10,996
Segment liabilities	(479)	(4,288)	(580)	(367)	(303)	(1,412)	2,179	900	(4,350)
Depreciation and amortization	(118)	(365)	(75)	(58)	(8)	(75)	-	75	(624)
Capital expenditures	(116)	(422)	(22)	(28)	(15)	(27)	-	27	(603)

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

21 Segment information (continued)

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

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
Russian Federation	5,975	4,731	5,512
USA	298	310	350
Denmark	169	145	124
Other	18	12	8
	6,460	5,198	5,994

22 Risks and uncertainties

(a) Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 24(f)).

The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2019. This environment may have a significant impact on the Group's operations and financial position and the future effects of the current economic situation are difficult to predict therefore management's current expectations and estimates could differ from actual results. Management is taking necessary measures to ensure sustainability of the Group's operations.

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

(b) Market risk

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

Interest rate risk

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

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

22 Risks and uncertainties (continued)

The interest rate risk profile of the Group is follows:

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
Fixed rate instruments			
Financial assets			
- cash and cash equivalents (Note 3)	713	1,179	301
- financial investments (Note 5)	292	104	1,286
- trade and other accounts receivable less credit loss allowance (Note 6)	810	1,091	982
	1,815	2,374	2,569
Financial liabilities			
- trade and other accounts payable (Note 10)	(771)	(731)	(630)
- dividends payable	(318)	(525)	(537)
- borrowings (Note 11)	(1,787)	(1,354)	(1,501)
	(2,876)	(2,610)	(2,668)
Variable rate instruments			
Financial liabilities			
- borrowings (Note 11)	(869)	(721)	(780)
	(869)	(721)	(780)

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

Foreign currency risk

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

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

The net foreign currency position presented below is calculated in respect of major currencies by items of consolidated statement of financial position as the difference between financial assets and financial liabilities denominated in a currency other than the functional currency of each entity at 31 December 2019.

	US dollar	Euro	Hong Kong dollar	Swiss franc
Cash and cash equivalents	115	304	1	1
Trade and other accounts receivable	4	349	-	-
Financial investments	-	133	154	-
Trade and other accounts payable	(82)	(324)	-	-
Borrowings	(1,709)	(784)	-	-
Net foreign currency position	(1,672)	(322)	155	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 financial assets and financial liabilities denominated in a currency other than the functional currency of each entity at 31 December 2018.

	US dollar	Euro	Hong Kong dollar	Swiss franc
Cash and cash equivalents	84	480	309	24
Trade and other accounts receivable	1	536	1	-
Financial investments	-	99	-	-
Trade and other accounts payable	(56)	(186)	-	-
Borrowings	(1,355)	(562)	-	-
Net foreign currency position	(1,326)	367	310	24

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

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

Sensitivity analysis

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

A 15 percent strengthening of the following currencies against the functional currency as at 31 December 2019 (25 percent as at 31 December 2018 and 2017) would have increased/(decreased) equity by the amounts shown below, however effect on profit for the year would be different, and would amount to \$226 loss, \$29 loss and \$23 gain, respectively, due to foreign exchange effects from intercompany operations (Note 19).

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
US dollar	(251)	(332)	(117)
Euro	(48)	92	(5)
Hong Kong dollar	23	78	-
Swiss franc	-	6	-

A 15 percent weakening of these currencies against the functional currency as at 31 December 2019 (25 percent as at 31 December 2018 and 2017) would have had an equal but opposite effect to the amounts shown above, provided all other variables remain constant.

22 Risks and uncertainties (continued)

Commodity price risk

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

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

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

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

(c) Credit risk

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

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management.

The Group controls the levels of credit risk it undertakes by assessing the degree of risk for each counterparty or groups of parties. In order to minimise credit risk, management developed and maintains the Group's credit risk grading to categorise exposures according to their degree of risk of default. A default on a financial asset is when the counterparty fails to make contractual payments within 30 days of when they fall due. The Group's credit risk grading framework comprises six categories:

- AAA – investments grade which correspond to international agencies ratings from AAA till BB+;
- A – low risk non-investments grade which correspond to international agencies ratings BB and BB-;
- B – moderate risk non-investments grade which correspond to international agencies ratings B+ and B;
- C – high risk non-investments grade which correspond to international agencies rating B-;
- D – critical risk non-investments grade which correspond to international agencies ratings from CCC till D;
- NR – not rated category used for related parties or secured debts.

The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

- Payment report, including payment ratios and ageing analysis;
- Extent of utilisation of granted limit;
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies.

22 Risks and uncertainties (continued)

The Group monitors all financial assets, loans issued and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month estimated credit loss.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment.

The Group analyses all data collected using statistical models and estimates the remaining lifetime probability of default exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment and interest rates. Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of expected credit loss. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The base case scenario is the most likely outcome. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities. The Group applies probabilities to the forecast scenarios identified and calculate probability-weighted expected credit loss by running each scenario through the relevant expected credit loss model and multiplying it by the appropriate scenario weighting. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

The Group holds collateral to mitigate credit risk associated with trade accounts receivable by reducing expected credit loss in case of default. The main types of collateral are bank coverage and credit insurance. There was no change in the Group's collateral policy during the year.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 3 years.

The measurement of expected credit loss is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis. In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis.

22 Risks and uncertainties (continued)

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 2019	As at 31 December 2018	As at 31 December 2017
Cash and cash equivalents (Note 3)	713	1,179	301
Trade and other accounts receivable (Note 6)	810	1,091	982
Financial investments (Note 5)	292	104	1,286
Total on-balance sheet exposure	1,815	2,374	2,569
Financial guarantees issued (Note 23(d))	331	309	304
	2,146	2,683	2,873

Credit risk related to investment in the charter capital of NBH is disclosed in Note 4.

Analysis of trade accounts receivable, net of credit loss allowance, by credit quality, based on internal credit ratings is as follows:

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
AAA	28	19	40
A	53	25	41
B	49	41	95
C	39	18	21
D	1	2	5
NR, including:			
- NBH Group companies	249	411	288
- Credit insurance (AA international agencies' credit ratings)	254	284	214
- Bank coverage (A- and above international agencies' credit ratings)	55	202	137
- Not covered	72	76	132
	800	1,078	973

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

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
Bank balances and term deposits			
AAA-BBB	706	1,173	199
BB-B	5	4	99
Unrated and cash on hand	2	2	3
	713	1,179	301
Short-term and long-term bank deposits			
AAA-BBB	157	5	724
BB-B	-	-	335
	157	5	1,059

22 Risks and uncertainties (continued)

As at 31 December 2019, ageing of trade and other receivables is as follows:

	Trade and other receivables		
	Gross amount	Credit loss allowance	Net of allowance
Not past due	773	(15)	758
Past due, including:			
- up to 1 month	42	-	42
- from 1 to 3 months	6	-	6
- from 3 to 12 months	5	(1)	4
- over 12 months	25	(25)	-
Total	851	(41)	810

As at 31 December 2018, ageing of trade and other receivables is as follows:

	Trade and other receivables		
	Gross amount	Credit loss allowance	Net of allowance
Not past due	995	(10)	985
Past due, including:			
- up to 1 month	93	-	93
- from 1 to 3 months	6	-	6
- from 3 to 12 months	8	(2)	6
- over 12 months	27	(26)	1
Total	1,129	(38)	1,091

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

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

22 Risks and uncertainties (continued)

(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 and leases by their remaining corresponding contractual maturity. The amounts disclosed in the maturity table are the undiscounted cash outflows.

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
Less than 1 year	545	296	348
From 1 to 2 years	491	193	298
From 2 to 5 years	1,432	1,342	735
Over 5 years	708	520	1,255
Total borrowings	3,176	2,351	2,636

Liquidity risk related to investment in the charter capital of NBH and financial guarantees issued, is disclosed in Notes 4 and 23(d), respectively.

As at 31 December 2019, 2018 and 2017, 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 an arm's length basis.

23 Related party transactions (continued)

(a) Sales to and purchases from related parties

	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Sales			
NBH group companies	947	1,330	970
Companies of Freight One Group and other transport companies under the common control of beneficial owner	2	2	1
Other related parties	<u>6</u>	<u>1</u>	<u>1</u>
Purchases			
Companies of Freight One Group and other transport companies under the common control of beneficial owner	384	410	335
NBH group companies	60	65	66
Other related parties	<u>18</u>	<u>5</u>	<u>4</u>

NBH group companies together are the major customer of the Group. Sales to NBH group are performed by the Russian flat products segment and represent 9.0%, 11.0% and 9.6% of the total sales of the Group for the years ended 31 December 2019, 2018 and 2017, respectively.

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

	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>	<u>As at 31 December 2017</u>
Accounts receivable and advances given			
NBH group companies	249	412	289
Companies of Freight One Group and other transport companies under the common control of beneficial owner	<u>26</u>	<u>32</u>	<u>26</u>
Accounts payable			
NBH group companies	28	31	25
Companies of Freight One Group and other transport companies under the common control of beneficial owner	<u>5</u>	<u>6</u>	<u>5</u>

(c) Financial transactions

As at 31 December 2019, 2018 and 2017, loans issued to NBH group companies amounted to \$133, \$99 and \$222 and maturing 31 December 2020, 31 December 2020 and 31 December 2018, respectively (Note 5). When issuing loans to the foreign companies of the Group and joint ventures, interest rate is determined using information on similar external deals subject to the company's internal credit rating.

(d) Financial guarantees issued

As at 31 December 2019, 2018 and 2017, guarantees issued by the Group for borrowings received by NBH group companies amounted to \$331, \$309 and \$304, respectively, which is the maximum potential amount of future payments, payable on demand of the guarantee. No amount has been accrued in these consolidated financial statements for the Group's obligation under these guarantees as the Group assesses the probability of cash outflows related to these guarantees, as low.

23 Related party transactions (continued)

The maturity of the guaranteed obligations is as follows:

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
Less than 1 year	130	57	105
From 1 to 2 years	-	-	199
Over 2 years	201	252	-
	<u>331</u>	<u>309</u>	<u>304</u>

(e) Investments transactions

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

24 Commitments and contingencies

(a) Anti-dumping investigations

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

(b) Litigation

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

(c) Environmental matters

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

24 Commitments and contingencies (continued)

(d) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to \$1,157, \$714 and \$629 as at 31 December 2019, 2018 and 2017, respectively.

(e) Social commitments

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

(f) Tax contingencies

Management believes that the tax policy of the Group complies with the legislation of the Russian Federation on taxes and related fees.

At the same time, the legislation on taxes and related fees in the Russian Federation is characterised by dynamic development, as well as the possibility of wide discretion by the tax administration on many issues of taxation, which can lead to different interpretations of individual legal norms by taxpayers and regulatory authorities.

Therefore, the risk of expenses cannot be excluded if the tax policy applied by the Group is contested in any part. As a general rule, risk may arise in respect of three calendar years preceding the year in which the decision to conduct the review is made. The amount and probability of risk cannot be estimated with a sufficient degree of reliability, however, they may turn out to be significant from the point of view of the financial situation and/or economic activity of the Group as a whole.

(g) Major terms of loan agreements

Certain of the loan agreements contain covenants that impose restrictions on the purposes for which the loans may be utilised, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganisations procedures or bankruptcy of the borrowers, and also require that the borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses in relation to performance of the borrowers, including cross-default provisions, as well as to legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfill contractual obligations. The Group companies were in compliance with all debt covenants as at 31 December 2019, 2018 and 2017.

25 Significant accounting policies

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

(a) Basis of consolidation

Subsidiaries

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

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

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

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

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

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

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

25 Significant accounting policies (continued)

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

Joint ventures

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

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

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

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

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses arising from transactions between the Group and its joint ventures are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

In the consolidated statement of financial position, the Group's share in the joint venture is presented at the carrying amount inclusive of goodwill at the acquisition date and the Group's share of post-acquisition profits and losses net of impairment loss.

Disposals of subsidiaries and joint ventures

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

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

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

(b) Cash and cash equivalents

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

25 Significant accounting policies (continued)

(c) Value added tax (VAT)

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

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

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

(d) Inventories

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

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

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

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

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

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

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

Measurement at recognition

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

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

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

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

25 Significant accounting policies (continued)

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

Subsequent measurement

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

Subsequent expenditures

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

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

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

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

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

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

Borrowing costs

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

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

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

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

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

Mineral rights

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

25 Significant accounting policies (continued)

Right-of-use assets

The Group leases various land, buildings, equipment and transport. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets arising from a lease are initially measured on a present value basis and accounted within Property, plant and equipment.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

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. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. 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 – 70 years
Machinery and equipment	2 – 30 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 (h) "Impairment of non-current assets".

25 Significant accounting policies (continued)

(f) Leases

Applicable for the reporting periods starting 1 January 2019

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Group, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Applicable for the reporting periods earlier 1 January 2019

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.

25 Significant accounting policies (continued)

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.

(g) Goodwill and intangible assets

Goodwill is the difference between:

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

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

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

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

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

Impairment of goodwill

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

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

Disposal of goodwill

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

Intangible assets

Intangible assets are initially recognised at cost.

The cost of a separately acquired intangible asset comprises:

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

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

25 Significant accounting policies (continued)

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.

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

- | | |
|------------------------------------|-------------|
| • Mineral rights | 20-36 years |
| • Industrial intellectual property | 1-10 years |

(h) 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 and if their carrying amount impairment indicators are identified.

Recoverable value measurement

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

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

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

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

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.

25 Significant accounting policies (continued)

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.

(i) 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 impairment losses on financial assets in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no legal right to recover cash.

(j) 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 deferred 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.

(k) 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.

25 Significant accounting policies (continued)

(l) Revenue recognition

Revenue from sales of goods and provision of services

Revenue is recognised at a transaction price that represents an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring those goods or services. Revenue from sale of goods and services is recognised when a performance obligation is satisfied, i.e. when control over the goods or services underlying the particular performance obligation is transferred to the customer. If the Group agrees to transport goods to a specified location (typically under contracts based on certain Incoterms types), revenue is split into two performance obligations – sale of goods and rendering of transportation services. Revenue from sale of goods is recognised at a point of time, when control over the goods is transferred to the customer, normally when the goods are shipped and the risks, rewards and legal title are passed. Revenue from rendering of transportation services is recognised over time as the transportation service is provided to the customer. This is determined based on the actual days of transportation relative to the average expected days of transportation. The transaction price is allocated to the rendering of transportation services on an average transportation price per ton basis. Costs related to the rendering of transportation services are included in selling expenses.

Revenue is recorded net of discounts, provisions, value added tax and export duties, and refunds, and after excluding intra-group sales turnover.

No element of financing is deemed present as the sales are made with an average credit term of 60 days, which is consistent with market practice.

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.

(m) 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 NBH, comprising production of hot rolled, cold rolled coils and galvanised and pre-painted 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 consist with the principles outlined in significant accounting policies.

25 Significant accounting policies (continued)

(n) Financial instruments

Financial assets

The Group's financial assets include cash and cash equivalents, trade and other accounts receivable and short-term financial instruments which are measured at amortised cost.

Debt instruments have the following categories based on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest:

- debt instruments the payments on which represent solely payments of principal and interest and that are intended to collect payments are classified as those to be measured subsequently at amortised cost;
- debt instruments the payments on which represent solely payments of principal and interest and that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets are classified as those to be measured subsequently at fair value through other comprehensive income; and
- other financial assets are measured subsequently at fair value through profit or loss.

The Group does not have equity financial instruments.

To assess the expected credit loss on financial assets measured subsequently at amortised cost the Group uses the expected credit losses model in accordance with a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. The Group assesses expected credit losses using lifetime expected credit losses for cash and cash equivalents, trade and other accounts receivable and short-term financial investments since their terms are less than 12 months.

Initial recognition of financial assets

Financial investments measured subsequently at fair value 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.

Write-off

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a de-recognition event. Indicators that there is no reasonable expectation of recovery include expiration of statute of limitation.

De-recognition

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

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

25 Significant accounting policies (continued)

Modification

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset, significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a significant increase in credit risk has occurred. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit impaired financial assets), and recognises a modification gain or loss in profit or loss.

Financial liabilities

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

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, except for the change of the fair value attributable to the change of own credit risk, which is recognized in other comprehensive income.

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.

25 Significant accounting policies (continued)

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 guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9 *Financial Instruments*; or
- the amount initially recognized, where applicable, less the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations by the third party. Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

26 Critical accounting estimates and judgements

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

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

(a) Tax legislation and potential tax gains and losses

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

The recognised deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the statement of financial position (Note 17). Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

(b) Estimation of 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).

26 Critical accounting estimates and judgements (continued)

(c) Impairment analysis of property, plant and equipment, goodwill and investments in joint ventures

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).

27 New or revised standards and interpretations

The following new standards and interpretations became effective from 1 January 2019:

IFRS 16 "Leases"

The Group leases land, buildings, land and buildings improvements, machinery and equipment. A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. The Group assesses the lease term as the non-cancellable period of the lease plus periods covered by lessee's options either to extend or to terminate if the lessee is reasonably certain to exercise the extension option or not exercise the termination option. Lease contracts are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

In accordance with the transition provisions in IFRS 16, the Group has elected the modified retrospective method without restatement of comparatives with the effect of transition to be recognised as at 1 January 2019.

In accordance with the core principles of the standard, the Group has amended the accounting policy for the recognition, measurement, presentation and disclosure of leases in the financial statements.

Starting 1 January 2019, the Group has implemented a single lessee accounting model using the practical expedient permitted by the standard for treating operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases. In respect of leases previously classified as operating leases the lease liability is measured as remaining lease payments comprised of fixed payments discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The lease liability is initially recognised at the commencement day and measured at an amount equal to the present value of the lease payments during the lease term that are not yet paid. The right-of-use asset is initially recognised at the commencement day and measured at initial cost, consisting of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date.

The right-of-use asset is subsequently measured at initial cost, less accumulated depreciation and any accumulated impairment losses.

The lease liability is subsequently measured using the effective interest rate method. It remeasures the carrying amount to reflect any re-assessment, lease modification, or revised in-substance fixed lease payments. A re-assessment of the lease liability takes place if the cash flows change based on the original terms and conditions of the lease. A lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. Any remeasurement of the lease liability based on situations described above results in a corresponding adjustment to the right-of-use asset. Any change that is triggered by a clause that is already part of the original lease contract, including changes due to a market rent review clause or the exercise of an extension option, is a re-assessment and not a modification. The effective date of the modification is the date on which the parties agree to the modification of the lease.

The Group calculates depreciation of the right-of-use asset on a straight-line basis over the shorter of the lease term and the useful life of the right-of-use asset. Depreciation of right-of-use assets is presented separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income.

27 New or revised standards and interpretations (continued)

As at 1 January 2019, the Group recognised lease liabilities in the amount of \$79 in relation to leases which classified as operating leases as of 31 December 2018 under the principles of IAS 17 Leases. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 is 5.9%.

A reconciliation of future minimum operating lease payments to recognized lease liabilities is as follows:

Total future minimum lease payments for operating leases as at 31 December 2018	293
Future lease payments change on renegotiated lease contracts from 1 January 2019	(50)
Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	9
Future lease payments for leases with a term of less than 12 months	(2)
Effect of discounting to present value	(171)
Total lease liabilities recognized as at 1 January 2019	79

A breakdown of leases recognised as the right-of-use asset is as follows:

	<u>As at 1 January 2019</u>
Land	22
Buildings	42
Land and buildings improvements	2
Machinery and equipment	13
Total leases recognized as a right-of-use asset	79

The following amended standards became effective from 1 January 2019, but did not have a material impact on the Group:

- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on 7 June 2017);
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (issued on 12 October 2017);
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (issued on 12 October 2017);
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017);
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued on 7 February 2018).

27 New or revised standards and interpretations (continued)

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early adopted and are not expected to have any material impact on the Group financial statements when adopted:

- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB);
- IFRS 17 *Insurance Contracts* (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021);
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 3 *Definition of a business* (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020);
- Amendments to IAS 1 and IAS 8 *Definition of materiality* (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest rate benchmark reform* (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).