



**NOVOLIPETSK STEEL**

**INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT 31 MARCH 2019  
AND FOR THE THREE MONTHS ENDED 31 MARCH 2019  
(UNAUDITED)**

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

To the Shareholders and Board of Directors of Novolipetsk Steel:

### **Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Novolipetsk Steel and its subsidiaries (together – the “Group”) as of 31 March 2019 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and of cash flows for the three-month period then ended and the related notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, “Interim Financial Reporting”. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### **Scope of Review**

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



## Conclusion

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

23 April 2019

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

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

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547

**Novolipetsk Steel**  
**Interim condensed consolidated statement of financial position (unaudited)**  
*(millions of US dollars)*

	Note	As at 31 March 2019	As at 31 December 2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	736	1,179
Short-term financial investments	4	446	19
Trade and other accounts receivable	5	1,279	1,326
Inventories	6	1,602	1,816
Other current assets		8	10
		<b>4,071</b>	<b>4,350</b>
<b>Non-current assets</b>			
Long-term financial investments	4	144	85
Investments in joint ventures	4	160	159
Property, plant and equipment	7	5,219	4,807
Goodwill	8	239	224
Other intangible assets	8	168	156
Deferred income tax assets		161	152
Other non-current assets		12	11
		<b>6,103</b>	<b>5,594</b>
<b>Total assets</b>		<b>10,174</b>	<b>9,944</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade and other accounts payable	9	1,046	1,122
Dividends payable		5	525
Short-term borrowings	10	224	398
Current income tax liability		34	28
		<b>1,309</b>	<b>2,073</b>
<b>Non-current liabilities</b>			
Long-term borrowings	10	1,872	1,677
Deferred income tax liability		370	346
Other long-term liabilities		1	14
		<b>2,243</b>	<b>2,037</b>
<b>Total liabilities</b>		<b>3,552</b>	<b>4,110</b>
<b>Equity attributable to Novolipetsk Steel shareholders</b>			
Common stock		221	221
Additional paid-in capital		9	10
Accumulated other comprehensive loss		(6,376)	(6,782)
Retained earnings		12,752	12,370
		<b>6,606</b>	<b>5,819</b>
<b>Non-controlling interests</b>		<b>16</b>	<b>15</b>
<b>Total equity</b>		<b>6,622</b>	<b>5,834</b>
<b>Total liabilities and equity</b>		<b>10,174</b>	<b>9,944</b>

The interim condensed consolidated financial statements as set out on pages 5 to 23 were approved by the Group's management and authorised for issue on 23 April 2019.

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

	Note	For the three months ended 31 March 2019	For the three months ended 31 March 2018
Revenue	12, 15	2,869	2,794
Cost of sales		(1,988)	(1,815)
<b>Gross profit</b>		<b>881</b>	<b>979</b>
General and administrative expenses		(82)	(86)
Selling expenses		(226)	(211)
Net impairment losses on financial assets		(1)	(1)
Other operating income/(expenses), net		2	(1)
Taxes, other than income tax		(15)	(23)
<b>Operating profit before share of results of joint ventures, impairment of non-current assets and gain on disposals of property, plant and equipment</b>		<b>559</b>	<b>657</b>
Gain on disposals of property, plant and equipment		-	2
Impairment of non-current assets		(5)	-
Share of results of joint ventures		4	(21)
Finance income		4	10
Finance costs		(16)	(19)
Foreign currency exchange (loss)/gain, net	13	(61)	9
Other expenses, net		(20)	(10)
<b>Profit before income tax</b>		<b>465</b>	<b>628</b>
Income tax expense	14	(83)	(124)
<b>Profit for the period</b>		<b>382</b>	<b>504</b>
Profit attributable to:			
<b>Novolipetsk Steel shareholders</b>		<b>382</b>	<b>502</b>
<b>Non-controlling interests</b>		<b>-</b>	<b>2</b>
<b>Earnings per share – basic and diluted:</b>			
Earnings per share attributable to Novolipetsk Steel shareholders (US dollars)	11	0.0637	0.0838

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

	<b>For the three months ended 31 March 2019</b>	<b>For the three months ended 31 March 2018</b>
Profit for the period	382	504
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Cumulative translation adjustment	407	29
<b>Total comprehensive income for the period</b>	<b>789</b>	<b>533</b>
attributable to:		
Novolipetsk Steel shareholders	788	531
Non-controlling interests	1	2

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

	NLMK shareholders				Non-controlling interest	Total equity
	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings		
<b>Balance at 1 January 2018</b>	<b>221</b>	<b>10</b>	<b>(5,631)</b>	<b>12,029</b>	<b>17</b>	<b>6,646</b>
Profit for the period	-	-	-	502	2	504
Cumulative translation adjustment	-	-	29	-	-	29
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>29</b>	<b>502</b>	<b>2</b>	<b>533</b>
Acquisition of non-controlling interest	-	-	-	(1)	(3)	(4)
<b>Balance at 31 March 2018</b>	<b>221</b>	<b>10</b>	<b>(5,602)</b>	<b>12,530</b>	<b>16</b>	<b>7,175</b>
<b>Balance at 1 January 2019</b>	<b>221</b>	<b>10</b>	<b>(6,782)</b>	<b>12,370</b>	<b>15</b>	<b>5,834</b>
Profit for the period	-	-	-	382	-	382
Cumulative translation adjustment	-	-	406	-	1	407
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>406</b>	<b>382</b>	<b>1</b>	<b>789</b>
Disposal of assets to an entity under common control	-	(1)	-	-	-	(1)
<b>Balance at 31 March 2019</b>	<b>221</b>	<b>9</b>	<b>(6,376)</b>	<b>12,752</b>	<b>16</b>	<b>6,622</b>

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

	Note	For the three months ended 31 March 2019	For the three months ended 31 March 2018
<b>Cash flows from operating activities</b>			
<b>Profit for the period</b>		<b>382</b>	<b>504</b>
<b>Adjustments to reconcile profit for the period to net cash provided by operating activities:</b>			
Depreciation and amortisation		136	155
Gain on disposals of property, plant and equipment		-	(2)
Finance income		(4)	(10)
Finance costs		16	19
Share of results of joint ventures		(4)	21
Income tax expense	14	83	124
Impairment of non-current assets		5	-
Foreign currency exchange loss/(gain), net	13	61	(9)
Change in impairment allowance for inventories and credit loss allowance of accounts receivable		1	-
<b>Changes in operating assets and liabilities</b>			
Decrease/(increase) in trade and other accounts receivable		65	(78)
Decrease in inventories		302	34
Decrease/(increase) in other operating assets		2	(2)
(Decrease)/increase in trade and other accounts payable		(107)	104
<b>Cash provided by operating activities</b>		<b>938</b>	<b>860</b>
Income tax paid		(87)	(123)
<b>Net cash provided by operating activities</b>		<b>851</b>	<b>737</b>
<b>Cash flows from investing activities</b>			
Purchases and construction of property, plant and equipment and intangible assets		(178)	(131)
Proceeds from sale of property, plant and equipment		-	2
Purchases of investments and loans given, net		(61)	-
Placement of bank deposits		(444)	(242)
Withdrawal of bank deposits		3	549
Interest received		16	10
Acquisition of non-controlling interest		-	(3)
<b>Net cash (used in)/provided by investing activities</b>		<b>(664)</b>	<b>185</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		40	308
Repayment of borrowings		(94)	(241)
Payments on leases		(4)	-
Interest paid		(11)	(17)
Dividends paid to Novolipetsk Steel shareholders		(547)	(545)
<b>Net cash used in financing activities</b>		<b>(616)</b>	<b>(495)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(429)</b>	<b>427</b>
Effect of exchange rate changes on cash and cash equivalents		(14)	4
Cash and cash equivalents at the beginning of the year	3	1,179	301
<b>Cash and cash equivalents at the end of the period</b>	3	<b>736</b>	<b>732</b>

## Novolipetsk Steel

### Notes to the interim condensed consolidated financial statements (unaudited)

(millions of US dollars)

#### 1 Background

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

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

#### 2 Basis of preparation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”, should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The functional currency of all of the Group’s Russian entities is considered to be the Russian ruble (“RUR”). The functional currency of the majority of the foreign subsidiaries is their local currency. The Group uses US dollars (“USD”) as presentation currency of these interim condensed consolidated financial statements. For users’ convenience all amounts in the financial statements are rounded to the nearest million, if not stated otherwise.

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

	2019	2018
<b>Russian ruble to US dollar</b>		
For the 1 <sup>st</sup> quarter	66.1271	56.8803
As at 31 March	64.7347	57.2649
As at 31 December		69.4706
<b>Russian ruble to Euro</b>		
For the 1 <sup>st</sup> quarter	75.1715	69.8727
As at 31 March	72.7230	70.5618
As at 31 December		79.4605

**Novolipetsk Steel**
**Notes to the interim condensed consolidated financial statements (unaudited)**
*(millions of US dollars)*
**3 Cash and cash equivalents**

	As at 31 March 2019	As at 31 December 2018
Cash	455	526
Bank deposits	259	627
Other cash equivalents	22	26
	<b>736</b>	<b>1,179</b>

**4 Investments**

	As at 31 March 2019	As at 31 December 2018
<b>Short-term financial investments</b>		
Bank deposits	445	5
Loans to related parties (Note 16(c))	1	14
	<b>446</b>	<b>19</b>
<b>Long-term financial investments</b>		
Loans to related parties (Note 16(c))	144	85
	<b>144</b>	<b>85</b>
	<b>590</b>	<b>104</b>

The carrying amounts of financial investments approximate their fair values.

**Investments in joint ventures**

	As at 31 March 2019 Ownership	As at 31 December 2018 Ownership	As at 31 March 2019	As at 31 December 2018
NLMK Belgium Holdings S.A. ("NBH")	49.0%	49.0%	150	149
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.0%	50.0%	10	10
			<b>160</b>	<b>159</b>

Management has analysed the performance of NBH in the three months ended 31 March 2019 and believes that no changes are necessary to the estimate of the recoverable amount of the investment made in the consolidated financial statements as at 31 December 2018.

**Novolipetsk Steel**
**Notes to the interim condensed consolidated financial statements (unaudited)**
*(millions of US dollars)*
**5 Trade and other accounts receivable**

	As at 31 March 2019	As at 31 December 2018
<b>Financial assets</b>		
Trade accounts receivable	1,095	1,099
Credit loss allowance of trade accounts receivable	(22)	(21)
Other accounts receivable	32	30
Credit loss allowance of other accounts receivable	(19)	(17)
	<u>1,086</u>	<u>1,091</u>
<b>Non-financial assets</b>		
Advances given to suppliers	63	76
Allowance for impairment of advances given to suppliers	(3)	(3)
VAT and other taxes receivable	132	161
Accounts receivable from employees	1	1
	<u>193</u>	<u>235</u>
	<u><b>1,279</b></u>	<u><b>1,326</b></u>

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

As at 31 March 2019 and 31 December 2018, accounts receivable with a carrying value of \$222 and \$173, respectively, served as collateral for certain borrowings (Note 10).

**6 Inventories**

	As at 31 March 2019	As at 31 December 2018
Raw materials	772	859
Work in process	459	504
Finished goods	422	501
	<u>1,653</u>	<u>1,864</u>
Impairment allowance	(51)	(48)
	<u><b>1,602</b></u>	<u><b>1,816</b></u>

As at 31 March 2019 and 31 December 2018, inventories with a carrying value of \$436 and \$472, respectively, served as collateral for certain borrowings (Note 10).

**Novolipetsk Steel**
**Notes to the interim condensed consolidated financial statements (unaudited)**
*(millions of US dollars)*
**7 Property, plant and equipment**

	As at 31 March 2019	As at 31 December 2018
Land	140	119
Buildings	1,946	1,774
Land and buildings improvements	2,109	1,956
Machinery and equipment	6,106	5,701
Vehicles	310	266
Construction in progress	1,191	1,050
	11,802	10,866
Accumulated depreciation and impairment	(6,583)	(6,059)
	<b>5,219</b>	<b>4,807</b>

The amount of borrowing costs capitalized was \$10 and \$8 for the three months ended 31 March 2019 and 31 March 2018, respectively. The capitalisation rate was 1.2% and 1.5% for the three months ended 31 March 2019 and 31 March 2018, respectively.

Management estimates the outstanding commitments in connection with equipment supply and construction works amounted to \$843 and \$714 as at 31 March 2019 and 31 December 2018, respectively.

Management has analysed the performance of key cash generating units in the three months ended 31 March 2019 and believes that no changes to the estimates made as at 31 December 2018 regarding impairment of fixed assets and goodwill are required.

As at 31 March 2019, the Group reclassified beneficial contracts with a carrying value of \$9 from category "Other intangible assets" into category "Land" within property, plant and equipment. The reclassification was made for the users' convenience following adoption of IFRS 16 in relation to all lease contracts with a term of more than 12 months (Note 18) and did not result in changes of estimated useful life and depreciation charges. Comparative amounts as at 31 December 2018 were also corrected.

**8 Intangible assets**

	As at 31 March 2019	As at 31 December 2018
Goodwill	254	238
Mineral rights	318	296
Industrial intellectual property	64	57
	636	591
Accumulated amortization and impairment	(229)	(211)
	<b>407</b>	<b>380</b>

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

**9 Trade and other accounts payable**

	As at 31 March 2019	As at 31 December 2018
<b>Financial liabilities</b>		
Trade accounts payable	537	584
Other accounts payable	140	147
	<u>677</u>	<u>731</u>
<b>Non-financial liabilities</b>		
Accounts payable and accrued liabilities	169	177
Advances received	92	120
Taxes payable other than income tax	108	94
	<u>369</u>	<u>391</u>
	<u><b>1,046</b></u>	<u><b>1,122</b></u>

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

**10 Borrowings**

<b>Rates</b>	<b>Currency</b>	<b>Maturity</b>	As at 31 March 2019	As at 31 December 2018
<b>Bonds</b>				
From 4.00% to 4.95%	USD	2019-2024	1,356	1,354
<b>Loans</b>				
From EURIBOR+0.90% to EURIBOR+1.60%	EUR	2019-2022	511	562
LIBOR+1.50%	USD	2021	146	159
<b>Leases</b>				
From 2.80% to 10.45%		2020-2089	83	-
			<u>2,096</u>	<u>2,075</u>
Less: short-term loans and current maturities of long-term loans, bonds and leases			(224)	(398)
<b>Long-term borrowings</b>			<u><b>1,872</b></u>	<u><b>1,677</b></u>

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

	As at 31 March 2019		As at 31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,200	1,182	1,200	1,150

The fair value of bonds is based on market price and is within level 1 of the fair value hierarchy. The carrying amounts of loans and leases approximate their fair values.

**Novolipetsk Steel**
**Notes to the interim condensed consolidated financial statements (unaudited)**
*(millions of US dollars)*
**10 Borrowings (continued)**
**Collateral**

As at 31 March 2019 and 31 December 2018, the total amount of the Group companies' collateral was \$658 and \$645, respectively (Notes 5 and 6).

**11 Earnings per share**

	For the three months ended 31 March 2019	For the three months ended 31 March 2018
Profit for the period attributable to NLMK shareholders (millions of US dollars)	382	502
Weighted average number of shares	5,993,227,240	5,993,227,240
<b>Basic and diluted earnings per share (US dollars)</b>	<b>0.0637</b>	<b>0.0838</b>

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

**12 Revenue**
**(a) Revenue by type**

	For the three months ended 31 March 2019	For the three months ended 31 March 2018
<b>Revenue from sale of goods</b>		
Flat products	1,575	1,419
Pig iron, slabs and billets	791	840
Long products and metalware	283	302
Coke and other chemical products	74	89
Scrap	21	24
Other products	41	58
<b>Total revenue from sale of goods</b>	<b>2,785</b>	<b>2,732</b>
Revenue from transportation services	84	62
	<b>2,869</b>	<b>2,794</b>

**Novolipetsk Steel**
**Notes to the interim condensed consolidated financial statements (unaudited)**
*(millions of US dollars)*
**12 Revenue (continued)**
**(b) Revenue by geographical area**

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

	<b>For the three months ended 31 March 2019</b>	<b>For the three months ended 31 March 2018</b>
Russia	935	969
North America	561	541
European Union	539	594
Middle East, including Turkey	372	323
Central and South America	127	121
CIS	106	112
Asia and Oceania	106	36
Other regions	123	98
	<b>2,869</b>	<b>2,794</b>

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

**13 Foreign exchange differences**

	<b>For the three months ended 31 March 2019</b>	<b>For the three months ended 31 March 2018</b>
Foreign exchange loss on cash and cash equivalents	(71)	-
Foreign exchange (loss)/gain on financial investments	(104)	3
Foreign exchange gain/(loss) on debt financing	122	(4)
Foreign exchange (loss)/gain on other assets and liabilities	(8)	10
	<b>(61)</b>	<b>9</b>

**14 Income tax**

Income tax expense is recognised based on management's estimate of the effective annual income tax rate expected for the full financial year. The expected effective annual income tax rates used for the three months ended 31 March 2019 and 31 March 2018 are 18% and 19%, respectively. The lower tax rate expected for 2019 was the result of increase in share of profits of foreign subsidiaries for which the Group plan to utilise tax losses carried forward.

**15 Segment information**

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

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

Elimination of intersegmental operations and balances represents elimination of intercompany dividends paid to Russian flat products segment by other segments and presented within "Profit for the period" line together with other intercompany elimination adjustments, including elimination of NBH's liabilities to the Group companies (Note 16). NBH deconsolidation adjustments include elimination of NBH's sales, recognition of the Group's sales to NBH and elimination of unrealised profits (Notes 16), elimination of NBH's assets and liabilities and recognition of the investment in joint venture, recognition of impairment and share of NBH's loss, and other consolidation adjustments.

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

Information on segments' profit or loss for the three months ended 31 March 2019 is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	4	1,624	374	526	139	385	-	(183)	2,869
Intersegment revenue	264	352	41	-	-	11	(657)	(11)	-
Gross profit	175	594	41	24	14	14	13	6	881
Operating profit/(loss)*	163	346	(4)	2	-	(31)	32	51	559
Profit/(loss) for the period	106	239	(10)	3	(1)	(33)	20	58	382
Segment assets	2,185	6,891	1,124	980	382	1,455	(1,615)	(1,228)	10,174
Segment liabilities	(286)	(3,774)	(412)	(322)	(264)	(1,317)	1,977	846	(3,552)
Depreciation and amortization	(27)	(78)	(13)	(15)	(3)	(16)	-	16	(136)

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

Information on segments' profit or loss for the three months ended 31 March 2018 is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	3	1,471	418	431	138	504	-	(171)	2,794
Intersegment revenue	335	698	42	-	-	21	(1,075)	(21)	-
Gross profit	237	705	90	42	8	18	(98)	(23)	979
Operating profit/(loss)*	222	433	44	26	(7)	(28)	(56)	23	657
Profit/(loss) for the period	181	384	31	25	(8)	(32)	(83)	6	504
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	(32)	(90)	(17)	(14)	(2)	(20)	-	20	(155)

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

## 16 Related party transactions

Parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence or joint control over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group carries out operations with related parties on an arm's length basis.

### (a) Sales to and purchases from related parties

	For the three months ended 31 March 2019	For the three months ended 31 March 2018
<b>Sales</b>		
NBH group companies	202	333
<b>Purchases</b>		
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	87	89
NBH group companies	11	21
Other related parties	3	1

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 7.0% and 11.9% of the total sales of the Group for the three months ended 31 March 2019 and 31 March 2018, respectively.

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

	As at 31 March 2019	As at 31 December 2018
<b>Accounts receivable and advances given</b>		
NBH group companies	327	412
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	19	32
<b>Accounts payable</b>		
NBH group companies	31	31
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	10	6

### (c) Financial transactions

As at 31 March 2019 and 31 December 2018, loans issued to NBH group companies amounted to \$145 and \$99, respectively. When issuing loans to the foreign companies of the Group and joint ventures, interest rate is determined using information on similar external deals subject to company's internal credit rating.

### (d) Financial guarantees issued

As at 31 March 2019 and 31 December 2018, guarantees issued by the Group for borrowings received by NBH group companies amounted to \$296 and \$309, respectively, which is the maximum potential amount of future payments, payable on demand of the guarantee. No amount has been accrued in these interim condensed consolidated financial statements for the Group's obligation under these guarantees as the Group assesses the probability of cash outflows related to these guarantees, as low.

## **16 Related party transactions (continued)**

The maturity of the guaranteed obligations is as follows:

	As at 31 March 2019	As at 31 December 2018
Less than 1 year	56	57
Over 2 years	240	252
	<b>296</b>	<b>309</b>

## **17 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.

### **(d) 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.

**17 Commitments and contingencies (continued)****(e) Tax contingencies and provisioning**

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

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

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

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

Tax, customs and currency legislation in Russia and other countries where the Group operates does not provide definitive guidance in certain areas. Management currently estimates that the positions and interpretations that it has taken can probably be sustained. Where management has assessed that, in the event of a challenge by the authorities, there would more likely than not be an outflow of resources, a provision has been made and included in non-financial accounts payable. The impact and probability of any such future challenge cannot be reliably estimated to a high degree of precision, but and therefore given the nature of such matters there remains a risk that the ultimate outflow of resources may be greater than the level of provision established and it may be significant to the financial position and/or the overall operations of the Group.

**(f) 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 March 2019 and 31 December 2018.

**18 Significant accounting policies**

The accounting policies applied in these interim condensed consolidated financial statements are consistent with those of the consolidated financial statements for the year ended 31 December 2018 except for the adoption of amended Standards that are mandatory for financial annual periods beginning on 1 January 2019 and the estimation of income tax expenses using the effective tax rate method (Note 14).

**IFRS 16 "Leases"**

The Group leases land, buildings, land and buildings improvements 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.

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 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 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.

## **18 Significant accounting policies (continued)**

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.

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 5.94%.

A reconciliation of future minimum 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)
<b>Total lease liabilities recognized as at 1 January 2019</b>	<b>79</b>

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

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

## **19 Subsequent events**

On 19 April 2019, the shareholders of the Parent Company approved dividends for the fourth quarter of 2018 of 5.80 Russian rubles per share in the total amount of \$543 at the exchange rate as at 19 April 2019.

On 19 April 2019, the Board of Directors of the Parent Company recommended dividends for the first quarter of 2019 of 7.34 Russian rubles per share in the total amount of \$687 at the exchange rate as at 19 April 2019.